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Review

- The Composite rose in the quarter in line with its benchmark
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Performance (as of March 31, 2004)

	Last Quarter	Last 12 Months	3 Years <sup>1</sup>	5 Years <sup>1</sup>	10 Years <sup>1</sup>	Since Inception <sup>2</sup>	Volatility <sup>3</sup>
Global Equity (gross)	3.1%	43.9%	3.0%	5.4%	7.9%	10.4%	13.9%
Global Equity (net)	3.0%	43.5%	2.5%	4.7%	7.2%	9.5%	13.8%
MSCI ACW <sup>4</sup>	3.0%	46.0%	2.6%	-0.2%	7.4%	6.7%	14.5%
MSCI World	2.7%	44.6%	1.9%	-0.6%	7.8%	6.8%	14.5%

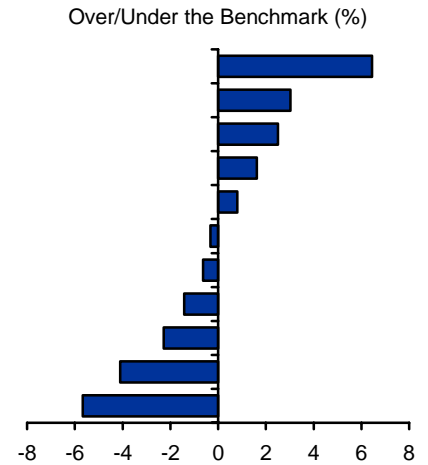
<sup>1</sup>Annualized Returns, <sup>2</sup>Inception Date: November 30, 1989; <sup>3</sup>Annual Standard Deviation <sup>4</sup>The Benchmark Index  
Past performance in not indicative of future results.

Outlook

- Surprisingly positive data continues to emanate from Japan
- The opportunities—and risks—posed by outsourcing
- The bet on the concentrated growth segment of digital technology

Current Portfolio Structure

Sector	HL Global	MSCI ACW
Info Technology	19.5%	13.0%
Cons Discretionary	14.9%	11.8%
Consumer Staples	11.6%	9.1%
Cash	1.6%	--
Materials	6.2%	5.4%
Energy	7.1%	7.4%
Industrials	9.1%	9.7%
Utilities	2.3%	3.7%
Telecom Services	3.1%	5.4%
Health Care	6.6%	10.7%
Financials	18.2%	23.8%



Portfolio Activity

Purchases		Sales	
ABB	JSR	BBVA Bancomer	Munich Re
Bankinter	Reliance Industries	Fanuc	Wrigley
Coca-Cola Femsa ADR	Sony		
Erste Bank	Swiss Re		

All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. A complete list of holdings appears on page 9 of this report.

**Best returns came from Japan and emerging markets.**

## Review

In the first quarter of 2004 the Composite rose in value by 3.1%, in line with the return of its benchmark, the MSCI All Country World Index, which rose 3.0%. Standardized performance appears on the front and back covers of this report.

Having started the year by continuing the surge seen in the fourth quarter, equities spent a good deal of the quarter on the defensive, managing to eke out reasonable gains only after giving up all the early advance in a mid-quarter correction. The best returns came from Japan, which rose 15% in dollar terms, and from emerging markets, which rose, collectively, by almost 10%. The Eurozone was the laggard, actually falling a fraction in the quarter, while countries on the periphery of Europe generally performed well, with Ireland rising by 6%, Sweden by 7%, and Denmark by 7%. Central and Eastern European countries performed particularly well, with Russia rising by 30%, and Hungary by 24%. Korea and Taiwan were strong, but China stocks accessible to foreigners declined. Mexico shook off its doldrums to rise 20%. The US market lagged the non-US performance, rising by a meager 1% in the quarter, with both the Dow Jones Industrial Average and the NASDAQ composite actually posting losses. Table 1 shows the quarterly and trailing one year returns in USD and local currencies for a selection of markets.

<b>Table 1. Market Performance (% Total Return)</b>				
<b>Market</b>	Trailing 12 Months		1Q 2004	
	<b>USD</b>	<b>Local</b>	<b>USD</b>	<b>Local</b>
Canada	57.8	41.5	7.1	4.9
Germany	79.7	59.6	-4.4	-1.9
Japan	69.8	49.0	15.2	11.8
United Kingdom	47.2	26.6	1.8	-0.8
United States	35.1	35.1	1.4	1.4
Europe EMU	59.7	41.8	-0.4	2.3
Europe ex-EMU	50.4	32.2	2.1	1.2
Pacific ex-Japan	55.1	31.7	6.3	5.3
Emerging Markets	82.4	67.5	9.6	7.3

Source: Wilshire Atlas

**Utilities, Financials, and Consumer Staples were the best performing sectors.**

From a sector standpoint, Utilities (+6%), Financials (+5%) and Consumer Staples (+5%) each provided strong performance. Weak economic reports in Europe and poor US jobs growth sparked a rally in bond markets in the US and Europe to back near record low yields, which favored stocks in these interest-sensitive sectors. Health Care, normally also a beneficiary of falling interest rates, was one of the worst sectors, falling in the quarter, as continued worries over patent expiries, generic competition, and health care policy risk kept investors nervous about pharmaceutical shares. Additionally, technology software, hotel/restaurants, real estate, and consumer durables provided strong industry group returns. Table 2 shows the quarterly and trailing one year returns for the MSCI Global Industry Classification Standard ('GICS') sectors.

Style (as in 'growth' versus 'value') played a limited role in performance in the quarter, but size played a substantial one. Small and mid-cap stock returns outpaced the main capitalization-weighted index by about 500 basis points in the US and most European markets, and by 1000 basis points in Japan.

Sector allocations are subject to change and should not be considered a recommendation to buy or sell any security in that sector. Small-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

**Stock selection was a net negative factor on relative returns.**

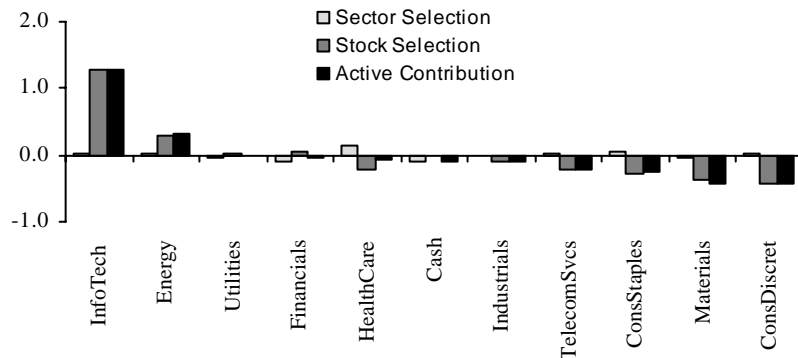
Table 2. Sector Performance (%Total Return)		
Sector	Trailing 12 Months	
	USD	1Q 2004
Consumer Discretionary	51.1	3.4
Consumer Staples	33.4	4.8
Energy	39.5	3.7
Financials	58.0	5.1
Health Care	21.2	-0.3
Industrials	50.9	2.8
Information Technology	54.5	1.9
Materials	60.9	0.6
Telecommunication Services	42.4	2.0
Utilities	43.1	6.4

Source: Wilshire Atlas

## Portfolio Attribution

The global portfolio achieved no benefits from its main industry tilts in the quarter, as its largest overweights in media, semiconductors, and capital goods subtracted a small amount of value—offset by value gained elsewhere, while the large underweight in banks neither hurt nor helped. The negative impact of our large overweight in semiconductors was redeemed in the stock column, since there is a large bias towards Japanese and Asian companies within the group, whose stocks were stronger than their US and European counterparts. Stock selection within basic materials, and media was also poor, offset to some extent by good selection within the Energy sector.

**Graph 1. GICS Sector Value Added Relative to MSCI ACW Index (%) 1Q 2004**



Source: Wilshire Atlas

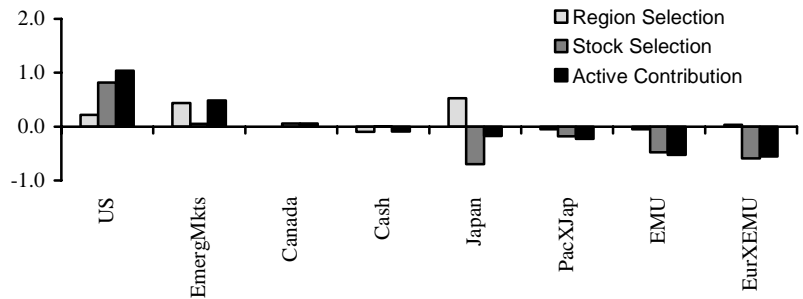
**Geographically, generally good regional weights were outweighed by stock selection.**

Our bias against the US in favor of emerging markets and Japan was additive, but whereas technology holdings from Asia were better than technology holdings in the US, there were better stocks to have owned in Japan in the quarter, namely pure domestic value stocks, an unlikely fishing ground for us given our investment philosophy based in growth and financial soundness, among other qualities. Many of these, e.g. the banks, retailers, REITs and small companies, are still coming back from valuations that implied a significant risk of bankruptcy. Thus our 'stock selection' in Japan offset the benefit of our combined US-to-Japan tilt.

*The correction in commodity-related and Chinese stocks is but a wobble in an uptrend.*

*Positive signs from Japan on restructuring, capital expenditures, reduced loan losses and strong consumer spending.*

**Graph 2. Region Value Added Relative to MSCI ACW Index (%)  
1Q 2004**



Source: Wilshire Atlas

## Outlook

We remain cautious, as we were at year end, about how much expectation for strong economic growth had been built into stock prices, given the imbalances in the global economy. Within that context, it is worth noting developments in the short-term indicators in China and in Japan. Whereas the fourth quarter witnessed rampant speculation on the size, strength and duration of growing Chinese demand for all manner of raw materials to supply its investment boom, this quarter has seen increasing efforts by the government to tamp down the financing for that growth in order to keep inflation from getting out of hand. This has led to corrections in the prices of global commodity-related as well as Chinese stocks. In our view, this is but a wobble in a long-term uptrend for China, but the issue remains whether China has become so large a factor in aggregate global demand, and securities and commodity prices have discounted so much future growth, that even a wobble can have large repercussions. Energy demand in China has outstripped the existing infrastructure's ability to meet it, causing shortages and dislocations internally. We bought this quarter a holding in **ABB**, the world's largest producer of energy transmission and distribution equipment, whose sales in China grew by 45% last year.

On the other hand, we continue to witness a steady drumbeat of data and anecdotes from Japan that is surprisingly positive in terms of restructuring, increasing capital expenditure, declining loan losses, and stronger consumer spending. We have grown increasingly positive about Japan over the past year or two, even as we have worried that the growth phase might be meager in its magnitude or duration. In spite of these worries, the upward trend for corporate profitability seems clear to us. The winners among Japanese companies are not just separating themselves from the laggards, they are beginning to lift the whole economy, and even turning round to swallow the losers—or at least the pieces of them that they find attractive, as illustrated this quarter by Kao's attempt to scoop up the profitable cosmetics division of heavily indebted Kanebo at the invitation of that company's creditors. Merger and acquisition activity has been rising for three straight years in Japan, and shows no sign of abating, while restructuring funds are increasingly active with growing amounts of capital. This suggests that managements are more confident, sensing improving overall health and profitability. According to data assembled by Goldman Sachs, the debt-to-equity ratio of the Japanese corporate sector has fallen by a third in the past five years, and now stands below that of either the US or Germany. Importantly, prices of goods have stopped falling in Japan—not least because prices elsewhere, notably in China, have begun to rise, thus ending imported deflation. Japanese real estate prices, which had retraced to levels seen before the

Bold indicates companies held in the portfolio. The percentage of each position appears on page 9 of this report. Although these holdings, as well as others mentioned in this report, were viewed favorably at the end of the reporting period, all holdings are subject to review and adjustment in accordance with our investment strategy and may vary in the future; and are not recommendations to buy or sell any security.

**The political debate over outsourcing, pro and con.**

previous bull market (that is, to 1980 levels), have also stopped falling, and in certain central locations may even be rising—a precursor, perhaps, to modest positive inflation in the overall economy which would do so much to stimulate consumer and investor behavior. Any sustained improvement in the Japanese economy would be a tonic for the rest of the global economy.

As the US electoral campaign heats up and the US recovery appears slow to create new jobs, we note that the topic of outsourcing has unleashed a torrent of rhetoric on the merits of using both the tax regime as well as legislative and administrative means to ‘protect’ US jobs. Potentially, this political debate poses a risk to the growth of international trade in goods and services, at least to and from the US, and hence to the economies of developing countries, which to a large but declining extent still depend on exports for growth. Never mind that technology is displacing far more American workers than all the foreign usurpers. In our view, there is no doubt that, in the long term, manufacturing and many service jobs will continue to migrate from high-cost countries to low-cost ones, enabling workers in those countries to enter the global labor force, and increase their consumption due to rising incomes. The response of the developed world will be varied, and it is that variety that throws up both investment opportunity and investment risk. The opportunities arise from the companies who are poised to exploit the shift, through technology or by being the provider of the capital goods that enables the shift to progress; the risk arises from the political responses that may be triggered, with the risk of protectionism through trade barriers or negative incentives for companies wishing to improve their efficiency and profits through outsourcing or moving operations. We watch those developments with care.

### **Current Portfolio Structure**

The portfolio retains its skew towards emerging markets, despite our discomfort at having now been joined by ‘the herd’ in this regard, with the investment fashion fully endorsing our long-held belief in the faster growth (and lower costs) afforded by companies domiciled or doing business in developing countries. The most significant portion of our exposure relates to companies operating in the Materials and Energy sectors. One concomitant feature of increasing reluctance of prosperous countries to tolerate the operation and especially the expansion of basic (‘dirty’) industry, transmitted through increasing regulation and political hurdles (including protests), is that countries more eager for the economic benefits of industrial development and less concerned with the environmental costs provide more favorable homes for such industries. As first-world capacity depreciates without renewal, the competitive positions of the second- and third-world operators are improved still further, especially if they have invested in current technology and attain scale. Portfolio holdings **Sasol** and **Reliance Industries** are beneficiaries of these conditions.

We have continuously held significant weightings in consumer staples industries, such as food retailing, food, beverage, and consumer products companies. Without belaboring their low valuations relative to their highly predictable earnings growth, we can’t help but recount that these companies are among the most diversified geographically of all the companies in our portfolio, and are among the companies most heavily geared to the growth (because of their sustained investment) in developing countries, which tend to have the highest population and income growth rates. More than 30% of **Nestlé’s** sales are in emerging markets and this segment is growing much faster than its other businesses.

**Heineken**, capping years of investment with this quarter’s closing of the acquisition of Austrian brewer **BBAG** with its central and eastern European beer brands and distribution,

**The Emerging Markets skew relates to Materials and Energy stocks.**

***Volume growth will continue to lag demand growth for oil and gas.***

***Consumer Electronics: new product cycle favors Japanese.***

now gets 30% of its profit coming from less-developed countries. **Coca-Cola** earns more than 80% of its profits from outside the US, including from its second largest bottler, Mexican affiliate **Coca-Cola Femsa**, which we added to the portfolio this quarter.

These entrenched positions are the result of years of painstaking and heavy investment, and are not reproducible at anything approaching the values implied by the current share prices of these companies. But even that ignores the ability of these companies to find or create growth products in their developed home markets. Consider the bottled water market, which Nestlé greatly expanded after it acquired Perrier in the late 1980s, following Danone, and joined by Coke in the 1990s. In the US, ‘single serving’ or bottled water has grown from less than 2% of the beverage market in 1992 to 12% last year, a seven-fold increase over eleven years (or a 24% compound growth rate). We remain overweight companies in the sector, happy that their out-of-fashion status has made them so reasonably priced.

The portfolio retains a significant exposure to the Energy sector, consistent with our long-held thesis that the major oil companies are not just having difficulties replacing the reserves they deplete, but more importantly are having difficulty just meeting their own production targets. This quarter saw Royal Dutch/Shell announce a 20% write down of their petroleum reserves, followed by a similar move by El Paso Corporation in the US. This followed last year’s admissions by BP that they could not meet their own 4% volume growth targets for the second year running. Major international oil companies reinvested only 60% of their 2003 cash flows back into exploration and production, significantly below their long-run averages, according to one industry analyst, with independent companies even further off their norms. The implication is that production volume growth will continue to lag demand growth for oil and gas, with positive medium-term implications for the trend price of oil and gas, especially with Asian demand continuing to grow rapidly. We remain positively positioned for this scenario, with holdings in oil service (**Schlumberger**), in the largest North American producers of gas (**Encana**), and in producers of energy from new or unusual sources (Sasol, converting coal in South Africa, or stranded gas in Qatar, into diesel fuel). As noted above, China’s energy demands are growing faster than they can be supplied, which is causing it to retreat from its position as one of the world’s largest exporters of coal. This is an additional boost to holdings outside the energy sector that have significant exposure to coal—namely, **Rio Tinto** and **Mitsubishi Corp.**

We see renewed growth prospects within the consumer electronics industry, due to a new product cycle unfolding in digital home electronics and advanced cell phones that favors leading Asian consumer electronics companies. This is in contrast to the previous product cycle, led by personal computers and early cell phones, which favored US and European companies (due to their lead in operating systems, microprocessors, and switching gear). Rapid adoption of flat screen and high-definition televisions, digital recording devices, and, ultimately, home entertainment ‘servers’ is driving this growth. We have long been respectful of the competitive pressures within this industry, and expect little to change in terms of its poor competitive structure, where there traditionally have been low barriers to entry. Within this context, leading consumer electronics companies are now focused on exploiting their proprietary semiconductor know-how internally. Their vertically integrated approach allows them to develop rapidly innovative new products, including a wide variety of devices that deliver video and music, along with voice and data, as well as talk to each other. **Sharp**, for example, which has a long history of innovative product design, was the original inventor of liquid crystal display (LCD) technology, and is now the world’s largest producer of LCD-based (flat) television and computer screens, and is the

**A large exposure to a concentrated growth segment where technology, low cost production, and design are key.**

leading supplier of display modules for advanced cell phones. The company has implemented a multi-year restructuring program, streamlining its product offering, cutting costs and focusing on its free cash flow. Since it has a debt-free balance sheet, these improvements should accrue to shareholders through higher dividend growth. **Sony**, bought back in the portfolio this quarter, should also be able to exploit its strong brand as these trends play out, with its dominant position in video gaming devices, broad and deep position in home and mobile entertainment electronics, and sustained investment in both content and interoperability. It has the added stimulus of a large restructuring program ongoing to help drive profitability higher.

Given our distrust of the competitive structure of the consumer electronics original equipment industry, it should not be a surprise that we have instead found beneficiaries of the growth trends we see among the suppliers to that industry. In addition to **Samsung's** direct exposure to consumer durable purchases through its flat screen (TFT-LCD) television and monitor business, it also holds an important position in flash memory, the low-cost data storage semiconductor technology that underpins the increasing familiarity of hand-held electronic devices, from music players to cell phones to digital cameras. **Rohm**, the Japanese maker of purpose-built chip components, or ASICs, plays a key role in enabling increasing quality in digital devices that need to produce sound—which requires conversion to an analog signal from the digital output—a role that expands across many of the fastest growing sub-categories of consumer devices. At **TSMC**, personal computer-related chips account for only about half of sales, while the rest are spread across the range of rapidly growing segments including wireless telecom logic chips, broadband applications, digital video recorders and digital cameras. One of its largest customers is Nvidia, designer of the chips that drive many of the most complex video game graphics, including Microsoft's Xbox. Another holding is portfolio company **Analog Devices**, which is the world's largest maker of analog semiconductors that play such a key role in many of these new consumer devices, as well as in industrial products, such as medical imaging devices. In addition, we bought JSR this quarter, formerly Japan Synthetic Rubber, but we are attracted by its dominant position in the chemical film coatings that all makers of flat screen televisions employ to achieve better picture quality and allow a wider viewing angle. Standing back and taking a broader look, then, the portfolio has a very large exposure (about one sixth of the portfolio) to a concentrated growth segment of the global economy: the rapid uptake by consumers of digital gadgetry, which has been made possible by the confluence of new and cheaper technology with the availability of much faster data transmission via fixed and wireless broadband. The fact that the preponderance of our holdings are based in Asia, both inside and outside Japan, is related to our assessment of which companies have the competitive advantages of technological lead, lowest cost production, and consumer product design savvy, rather than to any top-down, regional assessment.

As noted above, we hold an optimistic view of Japan's efforts to resume growth and end its deflation, and consequently continue to hold close to the largest weightings of Japanese companies in our 15-year history as a firm. A portion of these holdings are aimed at capturing some of the benefits of the ongoing restructuring of Japan, such as Sony mentioned above, where margins are forecast to rise dramatically as underperforming business segments are either revamped or shut down, but also through **Keyence**, whose extremely broad customer base for industrial electronic sensors ensures that it will benefit from any upturn in confidence and business spending in Japan. Another avenue is through our holding of **Nomura Securities**, which, as Japan's largest broker with investment banking ambitions, is the largest asset manager, the largest

***Eight holdings were purchased, four were sold.***

***Participating in India's rapid economic growth.***

manager of private equity investment funds, and the largest Japanese advisor on merger and acquisition transactions.

## **Portfolio Activity**

We bought:

**ABB**, a multinational engineering conglomerate. ABB has emerged from the difficulties it faced over the past three years (weak balance sheet, diffuse lines of business, and asbestos litigation) with a stronger, clearer business model, new management, and a recapitalized balance sheet. The company has pared its core businesses down to just two where it still holds high global market shares in two areas of long-term growth: industrial automation and electric power distribution. In spite of past financial difficulties, management never allowed the products or customer service of the core operating businesses to deteriorate, and are now pursuing growth opportunities with renewed focus.

**Sony**, a global leader in digital audio/visual electronics and entertainment media. We believe Sony's cost cutting plan coupled with its decision to unify the computer games and consumer electronics businesses and to aggressively invest in its next generation semiconductor technology platform will drive a resurgence in the company's profitability. Management's plan is to extend the strategy that made the PlayStation business successful—essentially the in-house development of innovative product sets incorporating proprietary semiconductors and key components—to the historically low-margin consumer electronics business.

**Erste Bank**, Austria's oldest savings bank, the money center institution for Austria's savings bank system, and now its largest retail banking group. Financial services are growing very rapidly in Eastern Europe as the economies finally have begun to emerge from the decade of restructuring that followed the fall of Communism, aided by the transplanting of factories from the high-wage West to the low-wage, lightly-regulated East. The accession of a number of Eastern Bloc countries into the EEU, and soon to the Euro monetary union, has triggered a secular decline in both inflation and local interest rates. Lower interest rates have stimulated the growth of borrowing and of investment alternatives to ordinary savings accounts. Erste is ideally positioned to participate in this growth, while controlling risks with good management skills from an established banking market.

**Reliance Industries**, India's largest private-sector industrial conglomerate. Reliance provides an attractive way to participate in India's rapid economic growth. The company is the market leader in India in oil refining and is by far the country's largest petrochemical products producer. India's economic growth is being driven by both domestic market deregulation as well as rapid industrialization, as the country opens up to the global economy. Reliance's businesses are well suited to capitalize on key growth trends such as rising per capita consumption of motor fuels and other energy, petrochemicals and plastics, and telecom services. Management has an excellent track record of building world-scale assets, while growing profits and maintaining a solid balance sheet.

**JSR**, originally Japan's leading manufacturer of synthetic rubber, is now a world leader in the application of polymer technology for the production of photo-chemicals and organic synthesis chemicals. JSR has also emerged as a world leader in the supply of various films for the display industry and has a robust pipeline of new materials in development. Customers, who face rapid product cycles, count on JSR to stay ahead of the technology curve to supply them with next generation intermediate chemicals and films that enable more efficient semiconductor production and cleaner, sharper image display in large screen TVs. The

company has aggressively restructured its commodity chemicals business, and we believe JSR can outgrow its industry and its competitors.

**Bankinter**, a Spanish bank providing high-quality financial services based on a cutting edge technological platform. Bankinter has transformed itself from a well-run small bank into a 'new economy' financial services platform. The 'e-commerce' cost base results in higher fixed, but lower marginal costs, which afford economies of scale. The bank should be able to add more customers, and more transactions per customer, without adding commensurately to costs. Bankinter has already adopted a low margin business model, which has helped it to gain share rapidly; at some inflection point, it will grow more slowly, but margins will remain stable while its competitors' margins shrink.

**Swiss Re**, the world's second largest reinsurance company. We swapped our holding of Munich Reinsurance for this company, in the belief that Swiss Re's stronger balance sheet, better management track record, and purer focus on reinsurance, would become more highly prized by investors as the focus shifts away from recovery to more normalized conditions. The global reinsurance market, in our view, remains attractive and the strongest players, including Swiss Re, are well placed to increase the share of industry profits as the industry adjusts to the exit from the market by financially weakened participants.

**Coca-Cola Femsa**, the largest soft drink bottler in both Mexico and Argentina. The company's management has an excellent record of executing its strategies, and the distribution synergies to be extracted from the Panamco merger are large. Coke Femsa dominates its territories; and its efficient distribution network, the product's returnable presentation and the *Coke* brand serve as significant competitive entry barriers; we have become convinced that the threats of the large retailer bargaining power and downmarket rivals has been more than fully discounted

In addition, we added to our holding of **Nestlé**.

We sold:

**BBVA Bancomer**, whose parent, BBVA of Spain, bid for the shares in the company it did not already own. With the ensuing sharp rise in the share price, near to the offer price, and in the absence of the possibility of any higher bid, we sold.

**Fanuc**, a very high-quality robot and automation equipment leader, whose shares are currently valued as such. We swapped the holding into ABB, a fallen star that appears to be successfully restructuring, as discussed above.

**Wrigley**, the chewing gum company, whose superb long-term track record of growing earnings and dividends, and strong balance sheet we greatly admire. We sold this long-time portfolio holding purely on valuation grounds after strong price appreciation in a sector full of unloved alternatives.

**Munich Re**, sold to buy shares of Swiss Re as noted above.

In addition, we reduced our holding of **Air Liquide**, **Canon**, **Colgate Palmolive**, **Denway Motors**, and **Samsung Electronics**.

**Sales made on  
valuation grounds.**

## Global Equity Holdings as of March 31, 2004

Sector			Weight (%)	Description
Consumer Discretionary	Bayerische Motoren Werke	Germany	0.9	Manufacturer of luxury automobiles & motorcycles
	Comcast	United States	1.2	Cable operator
	Denway Motors	China	1.4	Automobile & bus producer
	Pearson	United Kingdom	1.9	Education & publishing company
	Sharp	Japan	1.1	Consumer & industrial electronics manufacturer
	Sony	Japan	1.1	Electronics & entertainment media company
	Television Francaise	France	3.0	Dominant French television channel
	TJX Companies	United States	1.0	Off-priced name brand stores
	Viacom	United States	1.9	Media & entertainment group
	WPP Group	United Kingdom	1.5	Advertising & marketing services company
Consumer Staples	Coca-Cola	United States	1.4	Soft drinks company
	Coca-Cola Femsa	Mexico	1.1	Soft drink bottler
	Colgate-Palmolive	United States	1.1	Consumer products company
	Estee Lauder	United States	1.2	Manufacturer & marketer of skin care, makeup & fragrances
	Heineken	Netherlands	2.6	International brewing company
	L'Oreal	France	2.8	Personal care products manufacturer
	Nestlé	Switzerland	2.9	Global food company
	Wal-Mart de Mexico	Mexico	2.5	Consumer goods & food retailer
Energy	EnCana	Canada	2.5	Producer of natural gas
	Exxon Mobil	United States	1.0	Global oil company
	Reliance Inds	India	0.9	Industrial conglomerate
	Sasol	South Africa	1.5	Refined petroleum products producer
	Schlumberger	France	1.2	Oil services company
Financials	Allied Capital	United States	1.1	Financial institution providing small business loans
	American Int'l Group	United States	2.4	Insurance holding company
	Bangkok Bank	Thailand	1.3	Commercial bank
	Bankinter	Spain	1.0	Small Spanish bank
	Berkshire Hathaway	United States	2.1	Auto insurer & general reinsurer
	Deutsche Bank	Germany	2.7	Universal bank
	Erste Bank	Austria	1.2	Savings & retail bank
	JPMorgan Chase	United States	2.0	Money center bank
	Kookmin Bank	South Korea	1.0	Retail-oriented bank
	Nomura Holdings	Japan	1.4	Brokerage firm
	Standard Chartered	United Kingdom	1.1	Multinational commercial bank
	Swiss Re	Switzerland	0.9	Large reinsurer
Health Care	Abbott Labs	United States	1.1	Health care products & pharmaceuticals producer
	Johnson & Johnson	United States	0.7	Consumer health care & pharmaceutical company
	Medco Health Solutions	United States	0.9	Pharmaceutical benefits manager
	Merck	United States	1.5	Pharmaceutical company
	Novartis	Switzerland	1.3	Multinational life sciences company
	Qiagen	Netherlands	1.0	Laboratory equipment supplier
Industrials	ABB	Switzerland	1.4	Engineering conglomerate
	Caterpillar	United States	2.6	Producer of earthmoving equipment
	Emerson Electric	United States	1.5	Global industrial & electronics controls company
	Mitsubishi Corp.	Japan	3.6	Trading company
Information Technology	Analog Devices	United States	2.3	Analog mixed-signal computer chip maker
	BEA Systems	United States	0.8	Internet software developer
	Canon	Japan	1.1	Maker of image & information equipment
	Dassault Systemes	France	2.4	CAD/CAM software designer
	Hirose Electric	Japan	1.2	Manufacturer of electrical connectors & components
	Keyence	Japan	2.3	Detection & measuring control equipment maker
	Qualcomm	United States	2.1	CDMA wireless communications technology firm
	Rohm	Japan	2.1	Custom chip producer
	Samsung Electronics	South Korea	3.5	Electronic equipment maker
	Taiwan Semiconductor	Taiwan	1.5	Dedicated IC foundry
Materials	Air Liquide	France	1.0	Industrial gas company
	Air Products & Chemicals	United States	1.0	Industrial gases company
	JSR	Japan	1.0	Specialty chemicals manufacturer
	Praxair	United States	1.0	Industrial gas company
	Rio Tinto	United Kingdom	2.1	Diversified mining company
Telecom Services	Vodafone	United Kingdom	3.1	Telecommunication services provider
Utilities	Kinder Morgan	United States	2.3	Natural gas transportation & logistics company

Specific securities, portfolio holdings and sector/region weights are subject to review and adjustment in accordance with our investment strategy, may vary in the future, and should not be considered recommendations to buy or sell any security.

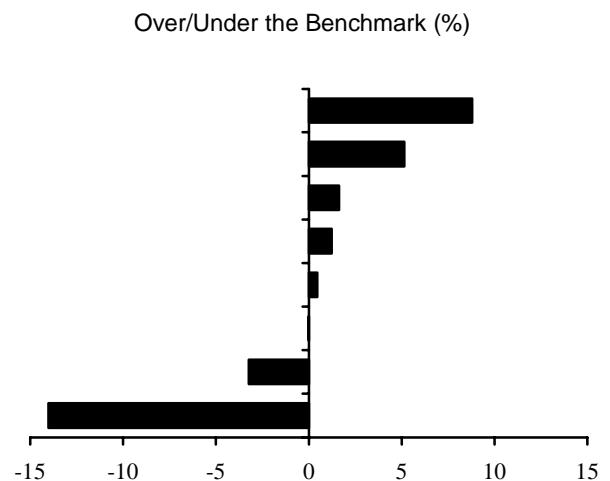
### Ten Best Stocks by Absolute Return

HOLDING	GICS SECTOR	REGION	RETURN	AVERAGE WEIGHT
Samsung Electronics	Information Technology	Emerging Markets	33.5%	2.9%
BBVA Bancomer	Financials	Emerging Markets	25.8%	0.5%
Qualcomm	Information Technology	United States	23.3%	2.2%
Schlumberger	Energy	Europe EMU	17.0%	1.2%
Erste Bank	Financials	Europe EMU	15.8%	1.0%
Keyence	Information Technology	Japan	15.7%	2.0%
JP MorganChase	Financials	United States	15.3%	1.9%
Sharp	Consumer Discretionary	Japan	13.7%	1.0%
Estee Lauder	Consumer Staples	United States	12.9%	1.1%
Mitsubishi Corp	Industrials	Japan	11.9%	3.2%

All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. The portfolio is actively managed; therefore holdings may not be current.

### Active Regional Exposure

REGION	HL Global Equity	MSCI ACW Index
Emerging Markets	13.7%	4.9%
Japan	14.8%	9.7%
Cash	1.6%	--
Europe EMU	14.7%	13.5%
Europe non-EMU	15.1%	14.6%
Canada	2.5%	2.5%
Pacific ex-Japan	--	3.2%
United States	37.6%	51.6%



### Portfolio Characteristics

Characteristic	HL Global	ACW	Characteristic	HL Global	ACW
Avg Wtd Market Cap (\$B)	\$42.6	\$65.8	Alpha	0.43	0.00
Price/Earnings (Trailing)	26.1x	22.1x	Beta	1.03	1.00
Price/Cash Flow	14.8x	13.1x	R-Squared	0.92	1.00
Price/Book	2.7x	2.5x	Sharpe Ratio	0.05	-0.04
Dividend Yield	1.5%	2.1%	Standard Deviation	5.00	4.66
Return on Equity	15.3%	18.2%	Correlation	0.96	1.00
Number Holdings	62	2204	Turnover (5-Year Average)	44%	---

Source: Wilshire Atlas

*Average Weighted Market Capitalization* is the product of a security's price and the number of shares outstanding. *Price/Earnings* is the ratio of a firm's closing stock price and its trailing 12 months' earnings per share. *Price/Cash Flow* is the ratio of a firm's closing stock price and its fiscal year end cash flow per share. *Price/Book* is the ratio of a firm's closing stock price and its fiscal year end book value per share. *Dividend Yield* is indicated dividend rate divided by current price, expressed as a percent. *Return on Equity* is the net income divided by total common equity outstanding, expressed as a percent.

*Alpha* is a measure of risk-adjusted return. *Beta* is a measure of the portfolio's sensitivity to the market. *R-Squared* is a measure of how well a portfolio tracks the market. *Sharpe Ratio* is the return over the risk free rate per unit of risk. *Standard Deviation* is the statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. *Correlation* is the statistical measure of the degree to which the movements of two variables are related. *Turnover* is the ratio calculated by dividing the lesser of purchases or sales by average capital, expressed as a percent.

## Global Equity Performance Summary 2004 First Quarter Report

	HL GLBL EQ (Gross)	HL GLBL EQ (Net)	MSCI ACW <sup>1</sup>	MSCI WORLD	Internal Dispersion <sup>2</sup>	Number of Accounts	Composite Assets (\$M)	Firm Assets (\$M)	% Firm Assets
2004	3.1%	3.0%	3.0%	2.7%	NA	†	119	1369	9
2003	32.5%	32.0%	34.6%	33.8%	†	†	127	1357	9
2002	-19.4%	-19.8%	-19.0%	-19.5%	0.6	6	118	1082	11
2001	-14.9%	-15.5%	-15.9%	-16.5%	0.4	7	152	1154	13
2000	1.3%	0.1%	-13.9%	-12.9%	†	†	108	1392	8
1999	38.9%	38.2%	26.8%	25.3%	†	†	96	1423	7
1998	2.3%	1.6%	22.0%	24.8%	0.5	11	179	1372	13
1997	11.0%	10.1%	15.0%	16.2%	0.6	15	251	1521	17
1996	17.3%	16.3%	13.2%	14.0%	0.2	13	188	1247	15
1995	19.0%	18.0%	19.5%	21.3%	0.6	13	147	635	23
1994	0.0%	-0.9%	5.0%	5.6%	0.4	17	113	369	31

<sup>1</sup>Benchmark Index; <sup>2</sup>Asset-weighted standard deviation (gross of fees); † Five or fewer accounts

Global Equity Composite contains fully discretionary U.S. dollar-based global equity accounts and for comparison purposes is measured against the MSCI All Country World Index (gross dividends). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg; prior to July 1, 1997 it was Reuters.

The MSCI All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 49 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 developed market countries. You cannot invest directly in this Index.

Harding, Loevner Management, L.P. has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the US and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report. Ashland Partners & Company, LLP has verified firmwide compliance since October 31, 1989, one quarter in arrears.

Harding, Loevner Management, L.P. is an independent registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this composite. Composite performance is presented gross of foreign withholding taxes. **Past performance is not indicative of future results.**

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

Balanced portfolio segments are not included, nor is this composite a sub sector of a larger portfolio. Leverage is not used in this composite.

The Global Equity Composite was created on November 30, 1989.

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