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**Review**

- The Composite outperformed its benchmark in the quarter.
- Higher risk assets generally outperformed lower risk assets.
- Good stock selection drove relative returns.

**Composite Performance (as of March 31, 2006)**

	Last Quarter	Last 12 Months	3 Years <sup>1</sup>	5 Years <sup>1</sup>	10 Years <sup>1</sup>	Since Inception <sup>1,2</sup>	Volatility <sup>3</sup>
Global Equity (gross)	8.8%	26.9%	24.7%	8.1%	8.2%	11.0%	13.5%
Global Equity (net)	8.8%	26.5%	24.2%	7.5%	7.5%	10.2%	13.4%
MSCI ACW <sup>4</sup>	7.1%	20.3%	25.0%	7.6%	7.7%	7.8%	14.1%
MSCI World	6.7%	18.6%	23.9%	6.9%	7.7%	7.7%	14.0%

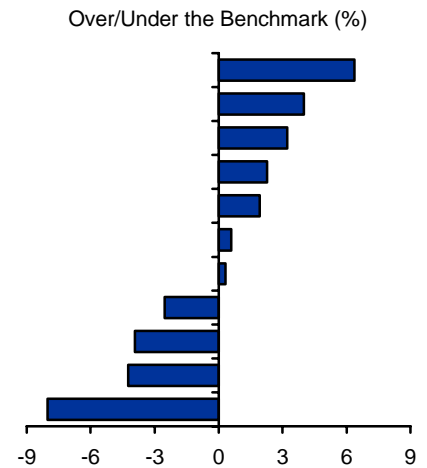
<sup>1</sup>Annualized Returns, <sup>2</sup>Inception Date: November 30, 1989; <sup>3</sup>Annual Standard Deviation <sup>4</sup>The Benchmark Index  
Please read the above performance in conjunction with the footnotes on the back page of this report.

**Outlook**

- High M&A activity indicative of risk appetite.
- The fallacy behind the actions of pension trustees.
- Japan's 15-year financial implosion has ended.

**Current Portfolio Sector Exposure<sup>1</sup>**

Sector	HL Global	MSCI ACW
Health Care	15.8%	9.4%
Info Technology	15.5%	11.5%
Materials	9.6%	6.4%
Energy	11.8%	9.5%
Industrials	12.5%	10.6%
Consumer Staples	8.3%	7.7%
Cash	0.3%	--
Telecom Services	2.1%	4.6%
Utilities	--	3.9%
Cons Discretionary	6.9%	11.2%
Financials	17.2%	25.2%



**Composite Activity**

Purchases	Sector	Sales	Sector
Alcon	Health Care	Estee Lauder	Cons Staples
Yokogawa Electric	Info Technology	Taiwan Semiconductor	Info Technology
		Tyco	Info Technology

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 8 of this report.

<sup>1</sup>The current portfolio sector exposure is shown as supplemental information only and complements the Global Equity Composite presentation which is located on the front and back covers of this report.

***Strong equity returns  
in the face of rising  
interest rates . . .***

***. . . indicative of  
returning confidence  
and risk appetite.***

## **Market Review**

In the first quarter of 2006 the Composite rose in value by 8.8%, ahead of the return of its benchmark, the MSCI All Country World Index, which rose 7.1%.

Investors faced the usual array of cross currents in the quarter, specifically the overall backdrop of solid economic growth around the world and a resurgence of corporate merger activity weighing against the prospect and reality of higher interest rates—a pattern repeated across national boundaries. In Europe, markets rose as the prospect of German economic recovery outweighed the headlines of labor protests in France, and the (French) President of the European Central Bank announcing a second interest rate increase. In Japan, the announcement of the end of the zero interest rate policy by the Bank of Japan was rightly taken as a natural consequence of the apparent end to falling consumer prices there (based on two months of year-over-year rises) and strengthening economic growth. In the US, equity markets ignored the Federal Reserve logging two further increases in interest rates during the quarter, the first under new chairman Bernanke, and the US yield curve becoming fully inverted in February until rising bond yields flattened it out again in March. Such strong equity returns in the face of rising global interest rates presumes investors who are either highly optimistic about policy makers' ability to dampen inflation risks without damaging underlying economic growth, or else simply don't care about the risks at all.

Generally speaking, higher risk asset classes outperformed lower risk ones, a sign of high risk tolerance among investors. Not only did small cap stocks outperform large cap, and volatile emerging market stocks outperform staid US and other developed markets, but high yield bonds outperformed the lowest risk bonds, inflation-indexed Treasuries. Emerging market bond spreads over Treasuries set new lows, even as political turmoil beset political leaders in Brazil, Thailand, Ukraine, and the Philippines.

Emerging markets led the way once again, returning 12% in the quarter, despite a mid-quarter wobble reacting to the various interest rate increases. Also once again, the US market was a poor performer, rising just 4% and posting its tenth quarter out of the last twelve as a laggard to non-US markets, flagging in the face of the two interest rate hikes. European markets rose strongly as confidence and risk appetite appeared to return both to consumers, in the form of stronger consumer spending, and to company managements and private equity investors, with a number of merger and acquisition announcements. Japan, along with much of Asia, was a middling performer, rising just 7% despite heavy volumes reflecting active investors.

<b>Market Performance (% Total Return)</b>				
<b>Market</b>	<b>Trailing 12 Months</b>		<b>1Q 2006</b>	
	<b>USD</b>	<b>Local</b>	<b>USD</b>	<b>Local</b>
Canada	34.9	30.1	8.5	8.4
Germany	28.4	37.9	13.9	11.0
Japan	36.9	51.1	6.8	6.8
United Kingdom	20.3	25.2	8.3	7.2
United States	12.4	12.4	4.2	4.2
Europe EMU	23.4	32.5	13.0	10.1
Europe ex-EMU	18.9	29.6	8.8	7.6
Pacific ex-Japan	21.9	28.6	6.7	8.7
Emerging Markets	48.0	43.8	12.1	9.0

Source: Wilshire Atlas, MSCI

Currency movements enhanced the Dollar-based returns in European markets, with the Euro rising more than two percent and the British Pound and Swiss Franc rising nearly one percent. Elsewhere, the Japanese Yen was little changed, but other Asian and emerging market currencies also strengthened against the dollar. A number of EM currencies suffered volatile trading during the height of interest rate worries in the quarter and a (temporary) reassessment of risk among leveraged currency and fixed income investors.

Cyclical sectors and the industrial portions of the market were the better performers in the quarter, with Materials the best sector, up 13%, Capital Goods the best industry group within the Industrial sector, up nearly 10%, Real Estate the best industry group with Financials, up 13%, and Autos the best group within the Consumer Discretionary sector, up 10%. Energy also rebounded from its 4Q decline, rising 10%. On the other hand, less cyclical groups tended to lag, notably Food Retailers (within the Staples sector), up just 3%, and Software, up 2%. The Consumer Staples and Health Care sectors both trailed the market average return by more than 300 basis points.

<b>Sector Performance of the MSCI All Country World Index (%Total Return in USD)</b>		
	<b>Trailing 12 Months</b>	<b>1Q 2006</b>
Consumer Discretionary	12.5	6.0
Consumer Staples	9.9	3.6
Energy	28.9	9.9
Financials	26.4	8.2
Health Care	13.9	3.2
Industrials	22.4	9.3
Information Technology	19.3	4.6
Materials	33.0	12.8
Telecom Services	5.8	5.8
Utilities	19.9	6.6

Source: Wilshire Atlas, MSCI

**The Euro and Emerging Markets currencies strengthened against the Dollar.**

**Less cyclical sectors lagged.**

**Stock selection the primary determinant of quarterly returns.**

**Risk appetite strong among company managements.**

Investment style once again surfaced as a noticeable headwind for growth investors and a tailwind for value investors in most markets, as measured by the MSCI World Growth (+6%) and Value (+7%) sub-indices. Stocks in Germany, along with Canada and Australia (where resource-related stocks may increasingly be classified in the growth half of the index), were notable exceptions to this pattern. Small cap stocks outperformed large-cap indices in all geographies.

## Portfolio Attribution

Good returns were driven by good stock selection, which were positive in seven of the ten industrial sectors, with little net effect coming from sector allocation relative to the benchmark. Insurance (**AIG**) and health care equipment (**Medtronic**, **Alcon**) holdings detracted from relative performance, in a combination of bad sector/bad stocks that was more than made up for by good stock selection elsewhere in the portfolio. **Sumitomo Realty and Development** was the single biggest contributor to performance for the second quarter in a row, while **Caterpillar** and **Emerson** were standout contributors within Capital Goods (along with **Schlumberger**, which we think of as capex within Energy, and **Cisco Systems**, driven by capex within Telecom Services.)

From a geographic perspective, our underweight stance against the US added slightly to performance, but our US holdings returned twice the 4% return of the MSCI US Index, in a significant boost to relative returns. This result of good US stock selection in the context of a low US weighting is a result repeated more broadly in performance attribution over the past five years: it is our view that our global mandate makes us better investors within the US, as we have been better able to see some of the secular forces emanating from abroad that affect US industries and companies. Emerging Markets, as noted, provided good returns in the quarter, and companies from those countries remain well represented in the portfolio, but our stocks lagged the EM benchmark, so as a whole didn't add to relative performance in the quarter

## Outlook

The appetite for risk taking is as strong among company managements as it is among investors. This quarter saw a revival of merger and acquisition activity around the world—indeed, the Economist magazine called it a ‘frenzy,’ noting data showing that deals averaged \$10 billion a day, the highest since the dot.com era. In Europe, the old British Oxygen Company agreed to be acquired by German rival Linde, with the combined company overtaking **L’Air Liquide** as the world’s largest industrial gas company. French banking giant Banque Nationale de Paris (BNP) crossed the Alps into Italy to scoop up Banca Nazionale del Lavoro (BNL), after the European regulators scotched last year’s Italian attempt to keep things cozily in the family.

Bold indicates companies held in the portfolio during the quarter. The percentage of currently held positions appears on page 8 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.

Meanwhile, Vodafone sold off its Japanese operations to domestic investment holding company Softbank, and Kookmin Bank took back Korea Exchange Bank from foreign hands, buying a controlling stake from Lone Star, a private equity group. In the US, telecom equipment supplier Lucent agreed to be acquired by French rival Alcatel, a strategic response to continued consolidation among the telecom service companies themselves, not least the ATT/SBC announced merger with BellSouth in order to simplify control of Cingular Wireless. There was even an offer made by an Australian company for the London Stock Exchange (like the NYSE now, a public company)—and NASDAQ has emerged as a friendly suitor.

Such confidence among managements is the delayed result of the return to profitability, with the attendant free cash flow, in the corporate sector after the lengthy recession that followed the tech bust, combined with the large net cash position that companies already have accumulated in repairing their balance sheets from excess and recession. As such, it is unlikely to abate as a positive force for markets very soon, but it is important to recognize that this profitability is what the rising equity prices since early 2003 have been discounting. That management confidence should presage both increasing capital expenditure and further acquisition activity, although it should not be construed as a leading indicator of *future* overall market direction.

Another factor affecting markets is the behavior of the trustees of institutional asset pools, notably pension funds. These have increasingly reacted to regulatory and accounting pressures by swapping traditional equities and fixed income for ‘riskless’ long-dated inflation indexed bonds in order to match the extended duration of their pension liabilities—with no regard for price, or more accurately, for expected return. It is in the UK where this trend has gone the furthest, with pension fund ‘duration management’ pushing yields on indexed gilts with a 50-year maturity to as low as 0.50% before inflation in this quarter. While matching the duration of liabilities with assets does eliminate the duration mismatch that helped create the large shortfall during the equity bear market, there is something askew between the expected nominal returns on these bonds and those available from equities at current prices, given that UK equities yield 3.5% but have a long history of high-single-digit growth. Trustees, in order to make up the projected return shortfall relative to wage or benefits growth, have joined the broad investment fashion of handing assets to private equity and hedge fund managers, two forms of ‘alternative’ investing that promise higher returns in exchange for the risks of illiquidity and opacity (which allows them to avoid marking the investments to market on a daily basis) and leverage (which exacerbates any changes in value that do occur)—but often defended on the theory that the returns are not correlated highly with market returns, and thus adding to overall portfolio returns through diversification.

The fallacy of this investment strategy is exposed by recognizing that the managers of the private equity pools need to invest the cash they have been

**Management confidence should presage capital expenditures and acquisitions.**

**Pension trustees seeking to reduce risk are ignoring impact on return.**

***The exchange of one set of risks for another.***

handed, and are actively competing with corporate buyers for acquisitions, raising the price at which these companies leave the public markets. Pension trustees as a group are selling publicly traded equities to raise the funds that cause private equity managers to pay higher prices for the equities the trustees just sold, in the form of control premiums to take public companies private. We wonder whether the non-correlation arguments accurately reflect either the fact that alternative asset managers tend to own recently publicly traded securities (or those soon to be so once again, as the successful private equity investors find their ‘exit’), or that they utilize leverage to generate their returns, leverage that is not generally allowed to pension funds, but that can still be the source of exacerbated volatility nonetheless. Our view is that trustees and plan sponsors have merely exchanged one set of risks for another, and that returns to neither end of this ‘barbell’ (the indexed bonds or the alternative assets) will match the returns to the big traditional asset class in the middle—stocks of large public companies.

***The strength of EM currencies reflects the maturity of their capital markets.***

Leveraged investors, to deliver the promised returns, apparently are having to venture into corners of the capital markets they have little experience in, such as emerging market fixed income and currencies. This quarter, their fingerprints were clear, as a credit rating downgrade of Iceland’s sovereign debt led not just to a 10% decline in the Krona, but a simultaneous decline in the currencies of Brazil, Mexico, Turkey, Hungary, and Indonesia—along with New Zealand. The only thing those economies have in common is the active presence in their capital markets of foreign investors participating in “carry trades,” in which they borrow in low interest rate currencies (e.g., the Japanese Yen) in order to invest or lend in high interest rate currencies, protected from the currency risk entailed only by a hair trigger on the exit trade. What is most interesting from our standpoint as long-term observers and investors in EM companies is the maturity of some of those capital markets in their response to this event. Brazil, for example, took this opportunity to flex its newly developed financial muscle, by announcing that it would use its now large currency reserves (accumulated by sustained export performance) to buy back its ‘Brady Bonds’, the US Dollar-denominated debt it issued in its massive restructuring in the 1980s. Its currency, despite the speculative wobble, managed a 9% gain in the quarter. This episode provides reassuring evidence of our long-held conviction that a significant number of developing economies, along with their capital markets, are far better developed and more stable than at any point in our investment careers, providing fertile investment opportunities for long-term growth investors also concerned with risk.

## **Current Portfolio Structure**

The lagging relative performance of US equities over the last four or five years has noticeably altered the weights in the MSCI All Country World Equity Index, as the US weighting has fallen from more than 54% to just above 46% now, with the 800 basis points lost being gained by emerging

markets, Japan, and resource rich Australia and Canada. Our large and sustained underweight has gradually shrunk, as we have incrementally added to an underperforming market, and as the benchmark has ground lower and lower over that time, with the result that the portfolio holds more than 85% of the Index's suggested US weighting. As we strived to own large holdings in Emerging and Japanese companies in recent years, one side effect is that we have closed the gap between our US weight and that of the Index less quickly than we had anticipated. At the same time, the very strong performance of emerging markets over a number of years has caused EM weights in the Index to rise, although we have consistently maintained a much higher weighting. Our allocation has varied from 5% to our (self-imposed) 15% maximum risk tolerance limit. We now find that our very positive long-term view is shared by many others, as evidenced by the record inflows into emerging market funds over the past few quarters. Accordingly, we are curbing our enthusiasm for these companies, and took profits on a number of our successful investment this quarter, partially selling holdings in **Kookmin Bank**, **America Movil** and **Orascom Telecom**, and the entire remaining holding in **Taiwan Semiconductor**. The portfolio's EM exposure remains above its (now larger) benchmark's weight, at just over one tenth of the portfolio.

**We are curbing our enthusiasm for some EM stocks.**

We continue to add to our significant holdings in Health Care, as share prices have continued to lag behind those of other sectors, believing that the stable growth and strong profitability of companies in the sector should be much more highly prized than they have been in the recent, cyclically robust environment—even if takes private equity LBOs or M&A activity to recognize the value that the public market currently ignores. Higher interest rates and a flat/inverted yield curve are much closer to slowing the cyclical tailwinds and the risk appetites that prevail, and earnings growth and stability will command their more traditional premium once they do. This quarter, we added a new holding in **Alcon**, the Swiss/American global eye care company, which boasts dominant positions in both optical pharmaceuticals as well as optical surgery implements—both areas of demographically-driven long-term growth, and added to our holding in **Abbott Labs**.

**The effects of higher interest rates will be felt more by consumers.**

However, the effects of higher interest rates will likely be felt more by consumers (and financial speculators) than by companies. Companies in most geographies reacted to the recession earlier this decade (or the Asian debt crisis before that) by paring debt levels and restructuring operations, so that corporate balance sheets are rich in cash now that profitability has returned and been sustained. Individuals, especially the US/UK ones on whom much of the global consumer goods industry is dependent, have not done much to repair their balance sheets in the aggregate, while the billions of consumers in developing economies have not altered sufficiently their thrifty habits to make up any shortfall caused by a more circumspect Western consumer. For that reason, we maintain significant holdings of Capital Goods companies such as **Caterpillar** (reduced in the quarter) and **Emerson Electric** in the US

*The 15-year implosion  
of Japanese financial  
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has ended.*

and new Japanese holding **Yokogawa Electric**, but very modest ones in most of the Consumer Discretionary industries. We continually search for companies that meet our quality criteria that are exposed to the more likely source of consumer expenditure growth—the EM or Asian consumer—such as **LVMH**, the branded luxury goods producer, or **Coca-Cola**, **Nestlé**, **Colgate** and **L’Oreal**, i.e., beverage, food, and personal products companies with large operations in emerging economies. Another avenue has been through mobile telecom service providers in emerging consumers, such as **America Movil** in Latin America and **Orascom Telecom** in Northern Africa and the Middle East.

Finally, roughly one third our holdings in Financials companies are directly or indirectly operating in emerging markets (**Kookmin Bank** in Korea, **Standard Chartered** across Asia, the Middle East and Africa, **AIG** in Asia and Latin America, **Erste Bank** in Central Europe—via significant subsidiaries). This is not only another avenue through which to gain access to the secular growth of financial services use by emerging market consumers, but expresses our conviction that capital markets, including their currencies, in many developing economies are far less risky than past experiences would indicate, along with the belief that consumers in developed economies cannot go on expanding their use of financial services, especially their borrowing, at anything approaching the rates of the past twenty years. Another third is providing financial services to the corporate sector more than to the consumer sector, notably in the reinsurance industry, served by **Berkshire Hathaway**, **Swiss Re**, and **AIG**. And another third is occupied by two Japanese holdings, **Sumitomo Realty** and **Nomura Securities**, in the belief that the fifteen-year implosion of financial and real estate assets in the country has ended, and that the companies who restructured early and have retained commanding positions will deliver sustained and surprising earnings growth as the economy and investor confidence sustain their gathering momentum. There remains, however, a substantial gap between our total Financials holdings, less than a fifth of the portfolio, and the weight in global index, more than a quarter of the whole, which we will maintain as long as monetary policy makers are reacting to sustained growth and risks of inflation with more stringent monetary policies—historically a period of heightened risks for financial earnings.

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Li & Fung	Hong Kong	2.1	Trading company
	LVMH	France	1.1	Luxury goods group
	Pearson	United Kingdom	1.3	Education & publishing company
	TJX Companies	United States	1.2	Off-priced name brand stores
	Viacom	United States	1.2	Media & entertainment group
Consumer Staples	Coca-Cola	United States	0.9	Soft drinks company
	Colgate-Palmolive	United States	2.2	Consumer products company
	L'Oreal	France	2.1	Personal care products manufacturer
	Nestlé	Switzerland	1.7	Global food company
	Wal-Mart de Mexico	Mexico	1.5	Consumer goods & food retailer
Energy	EnCana	Canada	3.2	Producer of natural gas
	Exxon Mobil	United States	1.1	Global oil company
	Kinder Morgan	United States	2.6	Natural gas transportation & logistics company
	Sasol	South Africa	1.6	Refined petroleum products producer
	Schlumberger	France	3.4	Oil services company
Financials	American Int'l Group	United States	3.0	Insurance holding company
	Bankinter	Spain	1.3	Small commercial bank
	Berkshire Hathaway	United States	0.8	Auto insurer & general reinsurer
	Erste Bank	Austria	1.0	Savings & retail bank
	Kookmin Bank	South Korea	1.1	Retail-oriented bank
	Nomura Holdings	Japan	1.3	Brokerage firm
	Standard Chartered	United Kingdom	2.3	Multinational commercial bank
	Sumitomo Realty & Dev	Japan	4.6	Real estate developer
	Swiss Re	Switzerland	1.1	Reinsurer
	Wells Fargo	United States	0.8	Super regional bank
Health Care	Abbott Labs	United States	1.9	Health care products & pharmaceuticals producer
	Alcon	Switzerland	1.4	Eye care company
	Medco Health Solutions	United States	2.1	Pharmaceutical benefits manager
	Medtronic	United States	1.6	Medical devices company
	Novartis	Switzerland	1.3	Multinational life sciences company
	Qiagen	Netherlands	2.1	Laboratory equipment supplier
	Roche	Switzerland	1.1	Pharmaceutical company
	Sanofi-Aventis	France	2.0	Pharmaceutical company
	Synthes	Switzerland	0.9	Medical device company
Teva Pharmaceutical	Israel	1.5	Pharmaceutical company	
Industrials	3M Co.	United States	1.4	Industrial technology firm
	Caterpillar	United States	2.9	Producer of earthmoving equipment
	China Merchants	China	2.5	Global port operator
	Emerson Electric	United States	3.0	Global industrial & electronics controls company
	General Electric	United States	1.1	Diversified products & services company
	Mitsubishi Corp.	Japan	1.6	Trading company
Information Technology	ADP	United States	0.8	Payroll and tax-filing processor
	Analog Devices	United States	2.3	Analog mixed-signal computer chip maker
	Cisco Sytems	United States	2.7	Internet networking company
	Dassault Systemes	France	1.5	CAD/CAM software designer
	Hirose Electric	Japan	1.2	Manufacturer of electrical connectors & components
	Keyence	Japan	2.5	Detection & measuring control equipment maker
	Qualcomm	United States	2.0	CDMA wireless communications technology firm
	Samsung Electronics	South Korea	1.3	Electronic equipment maker
Yokogawa Electric	Japan	1.4	Industrial process control equipment company	
Materials	Air Liquide	France	1.2	Industrial gas company
	Air Products & Chemicals	United States	1.1	Industrial gas company
	JSR	Japan	2.9	Specialty chemicals manufacturer
	Praxair	United States	1.2	Industrial gas company
	Rio Tinto	United Kingdom	3.3	Diversified mining company
Telecom Services	America Movil	Mexico	1.2	Cellular service provider
	Orascom Telecom	United States	0.9	Cellular services provider

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## Contributors to Returns

Largest Holdings	GICS Sector	Region	Return	Average Wt.	Contribution
Sumitomo Rlty & Dev	Financials	Japan	27.3%	4.1%	1.12%
Caterpillar Inc.	Industrials	United States	24.8%	3.3%	0.81%
EnCana	Energy	Canada	3.7%	3.2%	0.12%
Schlumberger	Energy	Europe EMU	30.6%	3.2%	0.90%
American Intl Group	Financials	United States	(2.9%)	3.2%	(0.10%)
Largest Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
Sumitomo Rlty & Dev	Financials	Japan	27.3%	4.1%	1.12%
Schlumberger	Energy	Europe EMU	30.6%	3.2%	0.90%
Caterpillar Inc.	Industrials	United States	24.8%	3.3%	0.81%
China Merchant	Industrials	Emerging Markets	32.8%	1.9%	0.56%
Cisco Systems	Info Technology	United States	26.6%	2.2%	0.53%
Largest Detractors	GICS Sector	Region	Return	Average Wt.	Contribution
Medtronic	Health Care	United States	(11.7%)	1.8%	(0.23%)
Alcon*	Health Care	Europe ex-EMU	(7.8%)	0.5%	(0.14%)
Viacom	Cons Discretionary	United States	(8.8%)	1.0%	(0.12%)
American Intl Group	Financials	United States	(2.9%)	3.2%	(0.10%)
Tyco International*	Industrials	United States	(9.1%)	0.2%	(0.10%)

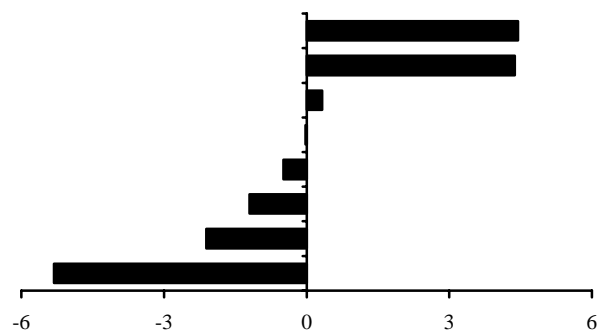
All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. The portfolio is actively managed; therefore holdings may not be current.

\*Security owned for partial period; return shown is for the actual period owned in the portfolio.

## Current Portfolio Regional Exposure

	HL Global Equity	MSCI ACW Index
Emerging Markets	11.6%	7.2%
Japan	15.4%	11.0%
Cash	0.3%	--
Canada	3.2%	3.2%
Europe ex-EMU	14.3%	14.8%
Pacific ex-Japan	2.1%	3.3%
Europe EMU	12.1%	14.2%
United States	41.0%	46.3%

Over/Under the Benchmark (%)



## Portfolio Characteristics

Characteristics	HL Global	MSCI ACW	Characteristics (3 Years)	HL Global	MSCI ACW
Avg Wtd Market Cap (\$B)	\$52.2	\$66.3	Alpha	(0.73)	0.00
Price/Earnings (Trailing)	23.6x	18.1x	Beta	1.05	1.00
Price/Cash Flow	17.4x	12.3x	R-Squared	0.91	1.00
Price/Book	4.1x	2.8x	Sharpe Ratio	0.58	0.64
Dividend Yield	1.4%	2.1%	Standard Deviation	10.52	9.47
Return on Equity	21.3%	21.0%	Correlation	0.95	1.00
Number Holdings	57	2621	Turnover (Average)	35.9%	---

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.

The above portfolio attribution, region weights and statistics are shown as supplemental information only and complement the Global Equity Composite presentation which is located on the front and back covers of this report.

## Global Equity Composite Performance Summary 2006 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)
2006 <sup>3</sup>	8.8%	8.8%	7.1%	6.7%	NA <sup>4</sup>	†	93	3426
2005	17.2%	16.8%	11.4%	10.0%	†	†	85	2562
2004	9.0%	8.5%	15.8%	15.3%	†	†	82	1524
2003	32.5%	32.0%	34.6%	33.8%	†	†	127	1357
2002	(19.4%)	(19.8%)	(19.0%)	(19.5%)	0.6	6	118	1082
2001	(14.9%)	(15.5%)	(15.9%)	(16.5%)	0.4	7	152	1154
2000	1.3%	0.1%	(13.9%)	(12.9%)	†	†	108	1392
1999	38.9%	38.2%	26.8%	25.3%	†	†	96	1423
1998	2.3%	1.6%	22.0%	24.8%	0.5	11	179	1372
1997	11.0%	10.1%	15.0%	16.2%	0.6	15	251	1521
1996	17.3%	16.3%	13.2%	14.0%	0.2	13	188	1247

<sup>1</sup>Benchmark Index; <sup>2</sup>Asset-weighted standard deviation (gross of fees) <sup>3</sup>The 2006 returns reflect the partial period January 1, 2006 through March 31, 2006;

<sup>4</sup>NA used for internal dispersion less than a 12 month period. †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. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

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 Global Investment Performance Standards (GIPS®). 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. Composite performance is presented gross of foreign withholding taxes. Past performance is not indicative of future results. Additional information regarding the policies for calculating and reporting returns is available upon request.

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. The standard fee schedule generally applied to separate global equity accounts is 1.00% annually of the market value of assets up to \$20 million; 0.50% of amounts from \$20 million to \$100 million; negotiable for amounts over \$100 million. 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.

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

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