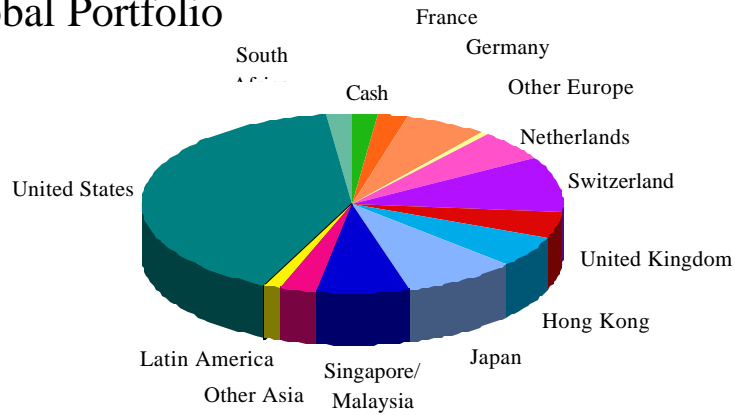


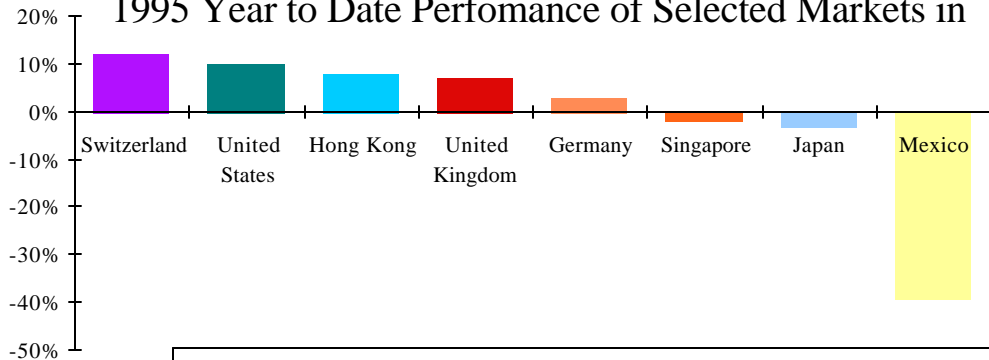
Harding, Loevner Management
Global / International
Investing
1995 First Quarter Report

The following material is excerpted from reports to equity clients of Harding, Loevner Management.

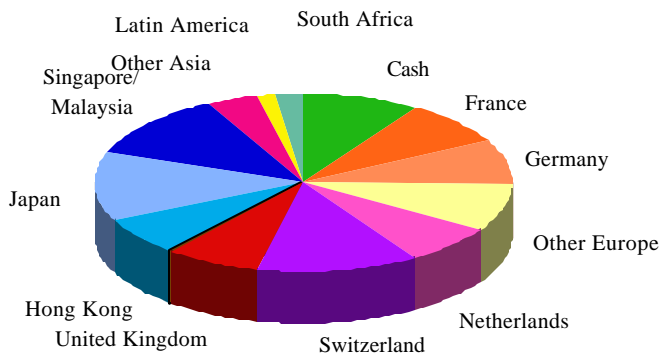
Global Portfolio



1995 Year to Date Performance of Selected Markets in



International Portfolio



Overview of Portfolios

Harding, Loevner Management offers clients a choice of equity programs: *global equity*, which includes US-based companies, and *international equity*, which excludes US-based companies. Within each equity program, carefully selected companies are combined in portfolios that are broadly diversified by industry and by geography. The following table provides a 'snapshot' at March 31, 1995, of two representative portfolios:

	Global	International
<i>Number of companies</i>	48	40
<i>Number of countries</i>	15	15
<i>% in cash</i>	2	9
<i>current yield</i>	2.4	2.4
<i>geographic allocation (%):</i>		
<i>US</i>	41	N/A
<i>Europe</i>	29	52
<i>Japan</i>	9	13
<i>Other Asia</i>	16	23
<i>Emerging Markets</i>	10	14

Performance

	Compound Annual Returns (%) for periods ending 3/31/95			
	1 year	3 years	5 years	Since Inception
HLM Global Equity Portfolio	5.8	12.5	11.9	13.6
FT World Index	8.8	11.8	8.1	5.2
S & P 500 Index	15.6	10.6	11.4	10.5
Global Fund Index (Lipper)	0.1	9.7	8.2	7.5
HLM International Equity Portfolio	0.3	16.1	11.2	11.4
FT World ex-US Index	5.1	12.7	6.3	2.5
MSCI World ex-US Index	6.3	13.2	6.6	3.1
International Fund Index (Lipper)	-2.3	9.6	6.2	5.5

Note: The HLM performance data refer to its global and international equity composites, which are dollar-weighted averages of *all* HLM-managed global and international equity accounts, respectively. Inception date for global composite, 11/30/89; international composite, 9/30/89. HLM composite performance is presented before management and custody fees. See attached composite performance summaries for details.

HLM's global portfolios rose in value by 3.3%, on average, in the quarter, while international (non-US) portfolios fell by 1.9%. Two features underlay the World's performance: a strong rise in the US market

(+9.8%), and the dramatic enhancement of returns in US dollars from overseas markets resulting from the devaluation of the dollar.

Returns in local currency terms in most major markets, with the exception of the US, were flat to negative, most notably in the stockmarkets of the 'hard currency' leaders, Germany (-9.2%) and Japan (-15.8%). Dollar depreciation enhanced the earnings prospects and share prices of the globally-oriented US companies in the global portfolio, but had the opposite effect on similarly-oriented companies outside the US.

Quarterly Review

This past quarter marked the first anniversary of the US central bank's initial monetary tightening in this economic cycle. The repercussions of this seminal event continue to work changes in the global financial landscape. Leveraged speculators (read, 'hedge funds,' 'Orange County') were the first casualties of the newly unforgiving environment, followed by leveraged sovereignties ('Mexico').

The extent, and suddenness, of the decline in the Peso and in the prices of Mexican stocks and bonds have been an alarm bell, awakening investors, and reminding them that stretching for high returns, whether in emerging markets or in derivative instruments, carries high risk. The apparently unstoppable success of Mexico's economic transformation had induced even the most conservative US investors to commit a share of their assets to Mexican stocks, and to emerging markets generally, far in excess of previous experience. The knock-on effect of the Mexican crisis on other emerging markets, not limited to Latin America, is the result of urgent reassessment of those risks, and of their own risk tolerance, by those investors.

Rattled investors, of all nationalities, are fleeing from the exotic, back toward the familiar. Familiar, for American investors, are Treasury bonds and blue chip stocks. For European and Japanese investors it is short-maturity assets in their reference currency— Deutschmark or Yen, respectively. Since foreigners (especially foreign central banks) own a great many dollars, the consequence has been downward pressure on the dollar.

In the short run, dollar depreciation may seem harmless enough: US inflation is quiescent, despite rising prices for manufactured imports, and growth in corporate earnings is apparently enhanced when the overseas profits of US multinational companies are translated back into cheaper dollars. The costs of dollar depreciation are real and substantial, however. The costs are paid over time in the form of a reduced standard of living for Americans. Imported goods are more expensive, and the economy grows more slowly because real interest rates are higher than they would otherwise be— as a defense against 'imported' inflation, and as a consequence of foreigners' increased reluctance to entrust their savings to financial assets in an unreliable currency. There is some offsetting effect of increased export competitiveness, but the advantage gained is transitory, and matters little unless Americans are prepared to forego consumption to free their output for sale abroad.

In a painful illustration of the Law of Unintended Consequences, the US Treasury's attempt to rescue the Mexican economy exacerbated, rather than quelled, spreading financial anxiety. If, as Secretary Rubin declared, financial civilization hung in the balance, then the thread from which it hung— an Executive barrel-scraping exercise devoid of Congressional or popular support— was indeed slender. The bailout also created fears that a precedent was being set—that the developed world (read, 'US') is prepared to underwrite the damaging effects of poor economic management, and over-reliance on foreign capital in the developing world, thus making excessive consumption more likely. That it was done with US dollars, at a time when the Federal Reserve Board has indicated that the period of domestic monetary austerity is ending, and interest rates falling, led to resumption of the decline of the US dollar in international markets.

It is only a resumption, and not a fresh 'currency crisis'; the dollar has been in long-term decline, with only a brief respite in the mid-1980s, since it came off the gold standard in 1971. Twin deficits, in the trade account, and in the Government's own ledgers, reflect inadequate aggregate savings. Too much Government spending and inadequate household savings have been possible so long as savers in the rest of the world have been prepared to accumulate dollars. The dollar's inability to maintain its purchasing power threatens that 'reserve' status. Despite the posturing of politicians from both sides of the spectrum, there is little evidence that the necessary, but painful solutions to decades of poor fiscal policy will be inflicted on voters.

The effect has been a flight to hard currencies, notably to the Japanese Yen, and to the Deutschmark. Stocks in Japan, and Germany have been weak, as investors despair at the loss of competitiveness by exporters, and at the potential slowdown in the recovery of corporate earnings that may follow the rises in those countries' currencies. The weak currency countries, however, were not spared— with the conspicuous exception of the US.

'Soft landing' became the self-congratulatory cry in the US, as growth rates appeared to settle down to a comfortable level, raising estimates of the likelihood of continued profits growth without inflation. Earnings forecasts and price multiples were revised upwards, leading to a surge in stock prices. So, it looked very much like a bull market viewed from the US, though viewed in local currency terms from Frankfurt, the DJIA barely moved, and from Tokyo, it fell sharply.

A world in which a soft landing can be achieved, however, is a world in which companies' abilities to generate growth through higher prices is limited, by customer resistance and, above all, by competition. In such an environment, growth in corporate earnings is hard to achieve and can only be *consistently* achieved by the very best companies, whose costs are well controlled, and whose services or products are highly valued by customers. These are the kinds of companies we aim to own. While stockmarkets have been weak, it has been pleasing that the earnings performance of the companies in the portfolio has been strong. Companies such as **Dover**, **Crown Cork**, and **Randstad** are continuing their long-term growth, while those such as **Brown Boveri** or **Linde** have demonstrated their commitment to taking on the challenge of new markets and being successful.

Portfolio Policy

Our investment policy has always been based upon an attraction to the highest quality companies (and facilitated by a willingness to pay the premium prices their shares command). We define high quality companies as those with strong balance sheets, proven management, superior track records, and continued favourable growth prospects. It is not coincidental that the best companies are often to be found within the best-managed economies, where currency stability, absence of inflation, and adequate domestic savings combine to create a business environment in which long-term planning and high levels of investment in human and physical capital are feasible, and worthwhile. Thus, our portfolio has tended to be concentrated in companies located in 'hard currency' countries, emphasising, for example, those in the Deutschmark bloc—Germany, the Netherlands, Switzerland and France. Likewise, among companies in smaller or emerging markets, we tend to favour those in countries that obtain most, or all, of the capital they need to finance their growth from domestic savings: Singapore over Mexico, say.

The weakness in financial markets has provided us with an opportunity to increase even further the quality of the portfolio. Funds raised from the sale of Latin American holdings **YPF** and **Pan American Beverages** were used to buy stocks such as UK commercial services company **Rentokil** and, in the international portfolios, Dutch publisher **Wolters Kluwer**. Until recently, we felt that shares of these fine companies were

simply too expensive. Common to both is their record of consistent, above average, growth in earnings and the prospect of that growth continuing.

In a world where risk capital is scarcer, the strongest financial institutions should be able to earn high returns on their shareholders' funds. To international portfolios, we have added two: **DBS**, holding company for the Development Bank of Singapore, and **Munich Re**, the world's largest reinsurance company.

The turmoil in the first quarter has not been confined to countries where economic management is weak. Where it is sound, it has not been accompanied by a deterioration in prospects. Lower prices imply opportunity, and higher prospective returns for investors.

Portfolio

We have attached to this report a full list of the portfolios' holdings and a brief description of their business activities. More details of any or all of the companies held are available upon request.

Transactions— International Portfolios

In the first quarter, for international portfolios, we bought shares in six new companies:

- **DBS Bank**, which is partly owned by the Singapore government and has the highly conservative management and exceptional balance sheet that could be expected of a Singaporean 'blue chip'. The bank should enjoy relatively low funding costs and strong demand for capital both within Singapore, and in the rest of Southeast Asia, where DBS' presence is rapidly expanding. The share price has corrected to valuation levels seldom seen in the last ten years.
- **Munich Re**, which is the world's largest reinsurance company and is, like DBS, exceptionally well capitalised. We foresee steadily rising demand and higher prices for reinsurance, as more primary insurers seek to place limits on their exposure to storms, floods and earthquakes in the wake of the past natural disaster-prone half-decade. Munich Re is well placed to benefit from this trend, yet its shares trade at a significant discount to their asset backing as a consequence of opaque accounting and lack of management concern about the share price in years past. That store of 'hidden value' is likely to be unlocked as the company becomes more shareholder oriented.

The above are examples of financial services companies, with strong balance sheets, who will be able to generate higher returns on capital, in coming years. The following companies are growth companies, whose shares have historically been very highly valued by the stock market, but where recent stockmarket weakness has provided us with an opportunity to invest:

- **Rentokil** is an external provider of facilities-related services to corporations, such as pest control, waste disposal, interior foliage maintenance, security, and water and ventilation purification. Rentokil has a reputation for outstanding management and a record of consistent fast growth. It is debt free and generates strong free cash flows. Those flows enable Rentokil to make acquisitions to augment its portfolio of businesses. The quality of service offered, efficiency, scope of geographic coverage and fragmented competition permit Rentokil to show strong revenue growth and high profit margins.
- **Wolters Kluwer** is one of the largest publishers of legal, taxation, and medical reference information and has a strong market position for business information. The company is renowned for its strong

management and conservative finances. Cash flow generation over the next few years will enable the company to achieve its ambitious 15% p.a. growth target through further acquisition of niche participants in the publishing business. The company's strategy is well defined, the characteristics of its target companies well identified. This is a premier European growth company, deserving of its premium price in the stock market.

We also bought a position in a French holding company:

- **Gaz et Eaux** is an investment trust which holds strategic stakes in major listed companies linked to the Lazard Group, including **Pearson**, the UK media company that publishes the *Financial Times* and *The Economist*, and **Sidel**, a successful French packaging company. **Gaz et Eaux** also actively seeks minority stakes in smaller European growth companies. The shares trade at a large discount to the value of the underlying holdings.

We repurchased at lower prices a long-time former holding that was sold last year:

- **Hong Kong and China Gas** is a fast-growth company with the earnings quality of a monopoly utility. It is Hong Kong's only supplier of towngas, a naphtha-based fuel used in place of natural gas. The company has grown its sales, earnings and dividends rapidly over the last ten years, primarily by expanding its piped distribution network and displacing bottled propane gas and traditional kerosene in the residential market. Future steady growth is expected as the company continues to expand its residential service and also turns its attention to the industrial market in Hong Kong and southern China. We sold shares in this company a year ago, but recent weakness in the Hong Kong stock market has provided a good chance to reinvest at significantly lower prices.

The Mexican crisis led to unjustified weakness in many markets around the world. We took advantage of that to add to holdings in Hong Kong port operator **Hutchison Whampoa** and to Argentinean brewer **Quilmes**. The only outright sale was of the Mexican soft drink bottler and distributor, **Pan American Beverages**. While we are enthusiastic about the company's operations in Brazil, we concluded that Brazilian earnings growth could not offset prospective deterioration in Mexican earnings.

We reduced holdings in companies where share price appreciation had led to the holdings becoming too large a proportion of the portfolio: **Randstad**, the Dutch employment agency; and **Coflexip**, the French oil service company.

Transactions— Global Portfolios

To global portfolios we added new positions in **Hong Kong and China Gas** and **Rentokil**, and increased existing positions in **Quilmes** and **Hutchison Whampoa**.

Pan American Beverages was sold outright. Holdings in **Johnson Electric**, the Hong Kong-based manufacturer of micro motors, and **Randstadt** were pared following price appreciation.

HARDING, LOEVNER MANAGEMENT
Global Equity Performance Summary 3/31/95

	Calendar Year Returns					
	1995 3 mos.	1994	1993	1992	1991	1990
HLM Global Equity Composite	3.3	-0.1	24.2	9.1	31.6	3.6
<i>Financial Times World Index</i>	3.9	5.9	22.6	-5.1	19.6	-17.0
<i>Morgan Stanley Capital International World Index</i>	4.8	5.6	23.1	-4.7	18.7	-16.4
<i>S&P 500</i>	9.8	1.3	10.1	7.7	30.2	-3.1
<i>Lipper Global Fund Index</i>	-0.2	-2.2	32.8	0.1	20.3	-9.1

	Average Annual Returns for periods ending 3/31/95			
	1 year	3 years	5 years	Since Inception*
HLM Global Equity Composite	5.8	12.5	11.9	13.6
<i>Financial Times World Index</i>	8.8	11.8	8.1	5.2
<i>Morgan Stanley Capital International World Index</i>	9.9	12.2	8.5	5.5
<i>S&P 500</i>	15.6	10.6	11.4	10.5
<i>Lipper Global Fund Index</i>	0.1	9.7	8.2	7.5

* Inception date: 11/30/89

Notes:

1. Returns shown are time-weighted total returns, and include reinvestment of dividends.
2. Returns from all cash reserve and equivalents, bonds and/or convertible securities used in place of equities are included in performance calculations.
3. Composite calculations have been weighted by account size.
4. Figures include all global equity accounts under discretionary management from their inception dates, including accounts no longer in existence.
5. No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
6. No selective periods of performance have been utilized.
7. Results are presented after brokerage commissions but before management and custodial fees. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce annual returns for global composite by approximately 1%.
8. Lipper Index performance is after fees and expenses.

Account summary information:

1. Number of accounts included in composite: 1989: 1; 1990: 4; 1991: 7; 1992: 14; 1993: 17; 1994: 17; 1995: 11.
2. Total market value at year-end of accounts included in composite ('000): 1989: \$1,564; 1990: \$15,311; 1991: \$36,637; 1992: \$64,513; 1993: \$93,197; 1994: \$112,683; 1995: \$113,391.

HARDING, LOEVNER MANAGEMENT
International (Non-US) Equity Performance Summary 3/31/95

	Calendar Year Returns					
	1995 3 mos.	1994	1993	1992	1991	1990
HLM International (non-US) Equity Composite	-1.8	2.5	46.3	9.9	21.9	-12.9
<i>Financial Times World ex.-US Index</i>	0.9	8.4	32.1	-13.1	13.3	-23.1
<i>Morgan Stanley Capital International World Ex-US Index</i>	2.0	7.6	32.6	-11.9	12.4	-22.8
<i>Lipper International Fund Index</i>	-2.5	-0.9	39.2	-4.3	13.2	-12.4

	Average Annual Returns for periods ending 3/31/95			
	1 year	3 years	5 years	Since Inception*
HLM International (non-US) Equity Composite	0.5	16.2	11.2	11.4
<i>Financial Times World ex.-US Index</i>	5.1	12.7	6.3	2.5
<i>Morgan Stanley Capital International World Ex-US Index</i>	6.3	13.2	6.6	3.1
<i>Lipper International Fund Index</i>	-2.3	9.6	6.2	5.5

* Inception date: 9/30/89

Notes:

- Returns shown are time-weighted total returns, and include reinvestment of dividends.
- Returns from all cash reserve and equivalents, bonds and/or convertible securities used in place of equities are included in performance calculations.
- Composite calculations have been weighted by account size.
- Figures include all international equity accounts under discretionary management from their inception dates, including accounts no longer in existence.
- No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- No selective periods of performance have been utilized.
- Results are presented after brokerage commissions but before management and custodial fees. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce annual returns for international composite by approximately 1%.
- Lipper Index performance is after fees and expenses.

Account summary information:

- Number of accounts included in composite: 1989: 1; 1990: 2; 1991: 3; 1992: 4; 1993: 5; 1994: 14, 1995: 20.
- Total market value at year-end of accounts included in composite ('000): 1989: \$10,899; 1990: \$10,599; 1991: \$6,770; 1992: \$12,061; 1993: \$23,003; 1994: \$110,370; 1995: \$160,493.