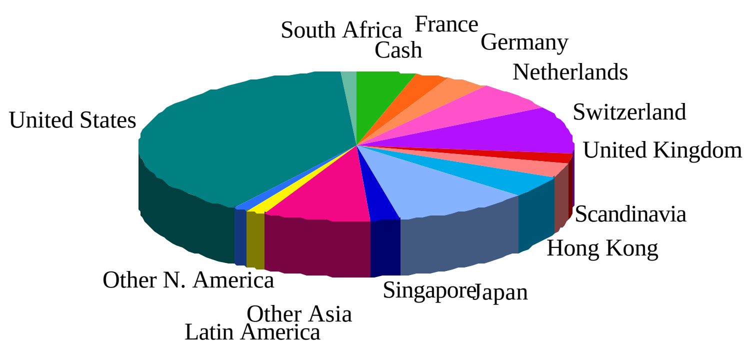
Harding, Loevner Management
Global and International Equity Investing

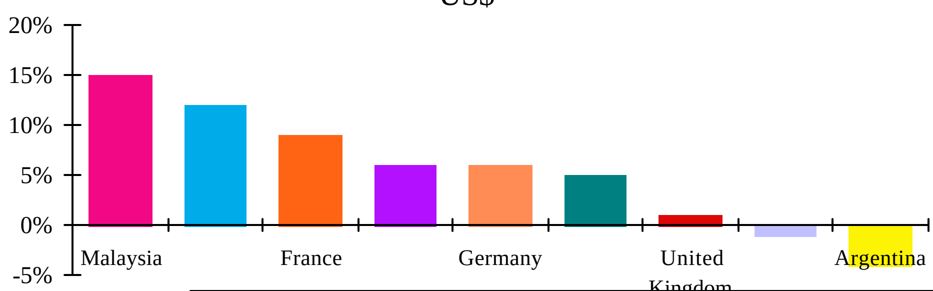
1996 First Quarter Report

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

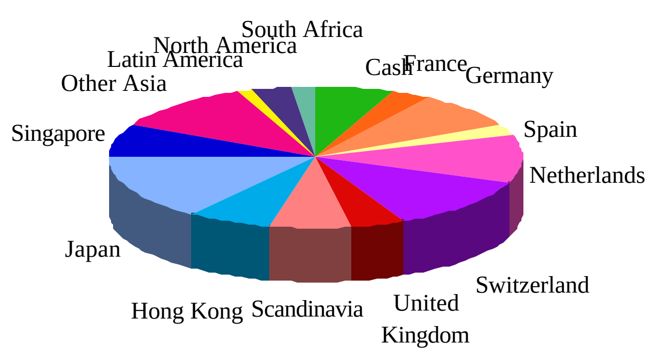
Global Portfolio



First Quarter 1996 Performance of Selected Markets in US$



International Portfolio



Overview of Equity 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, 1996, of two representative portfolios:

Portfolio Characteristics	**HLM Global Portfolio**	**HLM International Portfolio**
Number of companies	46	44
Number of countries	18	19
current yield	2.1%	2.0%
Geographic Allocation (%)		
US	39	--
Europe	26	48
Japan	10	15
South East Asia	16	25
Other	4	6
Cash (US$)	5	6
	100	100

Performance

The good performance experienced at the end of last year carried over into early 1996. Global portfolios returned 7.6% in the first quarter of the year, better than both passive, and active indices; the FT World Index rose by 4.0%, and the Lipper Global Index rose by 5.6%. International portfolios returned 7.1%, versus 3.0% for the FT World ex-US and 4.4% for the Lipper International Fund Index.

		Compound Annual Returns (%) for periods ending 3/31/96			
	1996 YTD	1 year	3 years	5 years	Inception
HLM Global Equity Portfolio	**7.6**	**24.0**	**14.8**	**15.2**	**15.2**
FT World Index	4.0	19.7	14.0	10.7	7.4
S & P 500 Index	5.4	32.0	15.7	14.7	13.7
Global Fund Index (Lipper)	5.6	20.7	13.6	11.5	9.5
HLM International Equity Portfolio	**7.1**	**23.3**	**17.9**	**17.0**	**13.2**
FT World ex-US Index	3.0	12.7	13.1	8.3	4.1
MSCI World ex-US Index	3.1	13.0	13.7	6.7	4.6
International Fund Index (Lipper)	4.4	17.0	13.2	9.6	7.2

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.

The biggest surprise to most New Year pundits was the continued strength in US equities. Even a sharp increase in long-term interest rates did not cool the ardour of mutual fund investors, who poured money into equity and fixed income funds at record rates. Among the beneficiaries of this trend were global and international funds, whose inflows contributed to the worldwide rise in markets. Currency markets were stable, and, as usual, the portfolio benefited from that stability.

Usually, when investment returns are so strong, we can point to some overarching theme that benefited our stocks. Not so this time. Looking at the list of stocks that performed well, we see Swiss inspection services company, **Société Generale de Surveillance** (up 19.5%, in local currency), **Dover**, a diversified US industrial conglomerate, (up 24.1%), and South East Asian food manufacturer, **Nestlé Malaysia** (up 21%). These companies are diverse in terms of geography and industry. They have little in common other than that they meet our investment criteria.

Investment Strategy

The portfolio is dominated by high-quality, well-managed companies that are leaders in their area of expertise or in the geographical markets in which they operate. More specifically, we seek companies that:

- are *growing*, across economic cycles, at rates faster than their local economies, and faster than their competitors.
- are *well financed*; balance sheets should be strong enough to sustain growth, without excessive financial risk.
- have a *high value added product or service* and a market position that is defensible against competition.
- are *well managed*; managers should have a record of successful implementation of strategy, and be able to communicate clearly their future strategy. Executives' main objective should be to create and preserve shareholders' wealth.

If we successfully identify such paragons of corporate excellence, our portfolio companies will be leaders in important trends which influence both financial markets and the global economy. In the first quarter, as mentioned, no particular geographic or industrial theme dominated stock market returns, but there were many examples of corporate excellence that were rewarded with higher stock prices:

> **Deutsche Bank** has a long-term strategy that will enable it to expand beyond an increasingly competitive domestic market. If it is to achieve its global ambitions, it will need access to global capital, in competition with the best of its peer group. This will require higher levels of profitability, and improved returns to shareholders. To achieve those goals, the company must reveal hidden balance sheet strength by adopting international accounting standards, and incentivise its management to utilise fully the competitive advantages of a AAA credit rating. In Germany, this constitutes a revolution in the relationship between corporate owners and managers.
>
> **Wrigley**, whose domestic business is slow growing, and mature. To increase returns to shareholders, the company has sought, and found large, fast growing markets. New factories in Poland, India, and China will generate many years of continued earnings growth.
>
> **Wolters Kluwer** dominates the legal and technical publishing business in Europe, and has grown consistently through using its huge free cash flows to acquire smaller companies in niche markets. Acquisition of CCH in the US has accelerated the trend to electronic publishing and established Wolters Kluwer as a global company with a strong position in the largest and most innovative market in the world.

Bayer is one of the world's largest and best chemical companies with a global spread of businesses that includes specialty chemicals, pharmaceuticals and consumer products. Bayer has been a traditional German chemical company, with all that that implies for conservative accounting, low profitability, poor shareholder returns, dismal investor relations, and, consequently, lowly valued shares. In recent years, the company has transformed itself, and is now at the forefront of the adoption in Germany of modern financial management practice. Management is determined to see the stockmarket value of the corporation reflect the strength and quality of its worldwide businesses. Share price performance is improving, because of reduced equity dilution, a new, realistic dividend policy, professional investor relations, IAS accounting standards and a willingness to shut down, restructure or divest unprofitable divisions. Bayer has implemented a worldwide policy of best financial practices, to measure return on capital employed, to offer management incentives based on profits and share ownership, and clearly to define global financial goals. These expressions of a newly-competitive corporate culture constitute a revolution in Finanzplatz Germany that, if successfully implemented, will lead to dramatically higher returns to shareholders.

Primagaz distributes bottled gas in Europe. This is a slow, but steady business with little operating risk. The company has pursued plans to generate higher returns for shareholders through expansion in faster growth markets in Eastern Europe. Progress has been such that more than 50% of revenues now come from developing economies in the expanded Europe.

Randstad dominates a local business in Holland—the provision of temporary office workers. It has been able to use its expertise in a very competitive business to grow outside of its domestic market. Winning the contract to be the provider for this year's Olympic Games in Atlanta was old news, but nonetheless sparked a rise of 38% in the share price. Even more importantly, changes to archaic and restrictive German labour laws have greatly expanded growth prospects for temporary help in that large and underdeveloped market.

Bayer's and Deutsche Bank's restructuring, Primagaz's and Wrigley's seeking growth in emerging economies, and Randstad's and Wolters Kluwer's taking excellent businesses into the global market are but a few examples of companies showing the leadership necessary to grow businesses in a brutally competitive environment.

Review and Outlook

It was a profoundly quiet quarter despite the superficial clamour. Market participants, from Wall Street to Jakarta, agonised about the daily economic releases from various US government departments. They eventually decided that economic recovery would be followed by higher interest rates, and that holdings of long bonds were no longer attractive, even if they were financed by Japanese yen borrowings at negative real interest rates.

Amazingly, the sharp, and global, fall in bond prices failed to rattle the equity markets for more than a day or two. The equity markets' equanimity in the face of these falls was more than a recognition that US statistics are unreliable—unreliability only partly caused by the combination of bad weather and widespread government shut downs—but more a recognition that a little growth is a good thing. The modest, but sustainable, rate of growth that the US is enjoying does not foreshadow higher inflation, tight monetary policy and a general collapse in financial assets.

One reason for optimism is that the power of politicians to destroy otherwise healthy economies has diminished in the last decade. The last three months' political headlines have been dire throughout the world. In Japan, the bailout of the financially (and morally) bankrupt housing loan companies—the *jusen*—has led to widespread discontent with the Government, to an extent that has rarely been seen in that country; elsewhere in Asia, American aircraft carriers were sent to the Straits of Taiwan; in Europe, the strains of compliance with the constraints imposed by the Maastricht Treaty has led to popular discontent with the short-term side effects, notably higher unemployment; in the UK, John Major's already unpopular government has received yet another body blow in the form of revelations that thousands of voters may have been infected with ‘mad cow disease’; in the US, a Republican primary battle has, perhaps temporarily, put the Budget battle on the back burner.

It has become clear that these political issues do not matter much to financial markets. What matters is that monetary policy is in the hands of sensible people in the Federal Reserve, the Bundesbank, and the Bank of Japan. They are all committed to non-inflationary, stable economic growth. We have had a bull market in financial assets at a time when an extraordinary combination of low interest rates, low inflation and rising corporate profitability has been achieved in the US, and is now being unfurled in Europe. Widespread acceptance that market forces, not governments, should set prices has been reflected in the acceptance of capitalism in almost every corner of the world. The result has been an unleashing of competition, improvements in corporate productivity, and a lowering of inflationary pressures, because companies that raise prices lose market share.

Companies have improved productivity through embracing ever cheaper and more powerful technology, but also through ‘rationalisation’, or, more bluntly, through firing workers. This whole process is undoubtedly more advanced in the US, where the combination of flexible labour laws, a strong shareholder lobby, and an entrepreneurial culture have led to massive restructuring, but also to one of the developed world’s lowest rates of unemployment. Crude statistics that show a decline in real incomes in the work force in the last three decades are misleading—they refer only to manufacturing wages at a time when the service sector has grown enormously in importance. Nor do they take account of increases in employee benefits, such as pension and health insurance. Nevertheless, there is no doubt that the low rate of unemployment does not accurately reflect the national mood, which is one of insecurity and lack of confidence in the future. This lack of optimism has beneficial effects on the economy: savings rates are improving, consumption remains subdued, and economic growth is not accompanied by quick upturns in inflationary pressure. All this bodes well for an extended period of modest economic growth, and for a very healthy backdrop for equity prices.

We have dwelled upon the environment in the US because it is increasingly seen as a model for the rest of the world. It is only now becoming accepted in Europe that labour market rigidities, rooted in both legislation and cultural factors, imply that the rate of unemployment will be permanently higher than that in the United States. As a result, some of those rigidities are weakening. In Germany, pressure from tight money and a strong currency have led to the laying off of 15% of the manufacturing labour force. There is still a question whether the political will to carry through the required liberalisation can be sustained in the face of already very high rates of unemployment.

In Asia, there has been a remarkable confluence of freely available capital, a flexible, and cheap, labour force and resulting economic growth that has startled the world. That growth, however, has only been possible by gaining access to previously protected markets, in the West, and in the rest of Asia. Again, the economic cycle has been extended, by their provision of the production capacity without which global growth would have been followed by inflation.

Not all participants in the economy benefit, however, from the triumph of capitalism. Those who suffer are those whose labour can be substituted by lower cost workers, and those who do not have skills that can be transferred to different industries. There is a possibility that the negative aspects of this new age of efficiency will result in a backlash against ‘greedy corporations’ and their officers. There is already some evidence that this is happening in the United Kingdom (where a Labour Government by this time next year seems assured), as well as in the United States. Ironically, the UK has one of the lowest unemployment rates in Europe, and has had the most success in attracting foreign investment into its manufacturing sector. In the US, such backlash has been manifest as growing support for protectionist policies and populist Presidential candidates.

1995 corporate profit results from portfolio companies have been good. Last year, stock prices in the portfolio grew in line with earnings and dividends, in a difficult year for global economic growth. The strength, length, and nature of this business cycle makes companies that can grow their earnings consistently over such long periods of time more attractive, and their high prices justified.

Transactions

We bought three new stocks, and added to one in global portfolios. New holdings were:

- **Wrigley**, the largest producer of chewing gum in the world. A program of capacity expansion, particularly in overseas markets, served to constrain its earnings and reduce its premium valuation in 1995, providing a good buying opportunity. Its attractions are a globally-recognized product, impressive history of steady growth, conservative finances, and stable cash flows from mature markets facilitating expansion into higher-growth international economies.

- **Investor**, which provides an inexpensive way to invest in some of Sweden's finest blue chip industrials (e.g., Scania, Astra, Asea, Atlas Copco, Ericsson) at a discount of over 30% to their market values. Investor, and many of its subsidiaries, are run by the Wallenberg family of Sweden, which has a long history of industrial acumen. The recent flotation of Scania, the world's most profitable manufacturer of heavy trucks, has highlighted the value in the shares.

- **PCI Bank**, the third largest commercial bank in the Philippines with a strategic focus on middle-market industrial companies. Management is highly conservative, with many executives trained at large US global banks in Asia. PCI's conservative lending attitude results in low past-due loan ratios, high return on assets and strong lending margins. After a long slumber, the level of industrial investment in the Philippine economy is finally catching up to its Asian neighbors. PCI's niche as lender to the manufacturing sector should allow it to show impressive growth.

To international portfolios we added a number of smaller companies:

- **Hornbach**, a leading German Do-It-Yourself (DIY) retailer specializing in the superstore format. The company has targeted two strong themes: German consumers' emerging interest in the DIY superstore concept as well as the massive demand in East Germany for repair and new construction. During three years of a difficult retailing environment, the company still managed to grow sales and earnings. We had owned shares in the company in previous years, during euphoria over German reunification, and had sold, at a gain, on price grounds. The current bleak retailing environment has provided us with a good opportunity to take a position in the company again.

- **Acer Computer International**, the Singapore-based distribution arm of Acer Computer Inc. of Taiwan. It acts as the sales, marketing and service agent for Acer as well as for other makers of PCs and peripheral equipment, in an exclusive franchise area including China, South East Asia, Latin America and parts of Eastern Europe. These markets are characterized by fast economic growth, low PC penetration rates and strong appetites for computers as a means to enhance productivity and educational skills. Despite the recent slowing of PC demand in the West, Acer's growth prospects are stronger than ever, underpinned by an experienced management team, strong brand recognition and growing demand for computers.

- **Courts**, a leading retailer of household and electrical furniture in Singapore. The company is a prime beneficiary of two strong themes in Singapore: rising per capita income and the desire of the Singapore government to increase the home ownership level. This graduation of home owners from government to privately-owned housing is expanding the company's market and underpinning its long-term growth prospects.

- **Chen Hsong**, the world's largest manufacturer of plastic injection molding machines, with major market shares in Hong Kong, China and Taiwan. The company's machines are used in a wide range of light industrial applications from Walkman and TV monitor cases to toys and plastic components. The company enjoys long-term secular demand from the industrialization of China (and elsewhere in Asia), as well as from efforts on the part of manufacturers to produce more components in their home country. Despite nearly three years of restrictive economic policies and import restraints in China, Chen Hsong still managed to grow sales and earnings. In that time, the stock price has fallen, reflecting the increased risks from new, expanded capacity, and joint ventures in China. We think those risks are acceptable, in light of the high prospective returns.

We also added PCI Bank and Bayer, discussed above, to international portfolios.

In both global and international portfolios, we increased our investment in electric micromotor maker **Johnson Electric,** whose aggressive investment schedule is now completed. Returns on those investments will renew earnings growth for this high quality industrial company.

In global portfolios, we sold shares in:

- **Parker Drilling** whose niche business, the provision of hostile environment oil drilling rigs, remained a commodity business where Parker was unable to generate adequate profits, despite increased demand from the major oil companies.

- **JP Morgan**, where the market refused to give credit for stability of trading profits in a friendly environment. Should the interest rate environment become *un*friendly, it is unlikely that the shares will perform well.

To fund the holding in Bayer, we sold the position in German industrial gases and materials handling company, **Linde**, from our international portfolios. We made three other sales in international portfolios:

- **Kyocera**'s position as a world leader in the field of ceramic packaging for integrated circuits proved to be less valuable than we understood. It may have become a victim of changes in industrial processes, leaving it as more of a commodity components manufacturer and price taker than a provider of a highly sophisticated process linked to high-end chip production. In addition, the commercial failure of the 'Personal Handyphone System' in Japan further eroded longer-term growth prospects. The stock price did not reflect the much increased uncertainty, and, hence, risk.

- **Coflexip** was also a victim of a changing industry demands. As the dominant provider of flexible flow lines for subsea hydrocarbon transportation, the company failed to keep its costs controlled and pricing competitive and, more worrisome, ignored the expansion of products and services provided by the international competition, who foresaw the need for more bundled services and total solutions in the oil patch.

- **IDIA**, the French investment holding company, was the target of a successful takeover bid, by Credit Agricole, the controlling shareholder.

Finally, we reduced the holding in **Primagaz**, for price reasons. What had been bought as a cheap, slow-but-steady growth company in Europe suddenly attracted investor attention at a time when slow-but-steady growth was a rare attribute.

HARDING, LOEVNER MANAGEMENT
Global Equity Performance Summary 3/31/96

	Calendar Year Returns						
	1996 3 Mos	1995	1994	1993	1992	1991	1990
HLM Global Equity Composite	**7.6**	**19.0**	**-0.1**	**24.2**	**9.1**	**31.6**	**3.6**
Financial Times World Index	*4.0*	*19.6*	*5.9*	*22.6*	*-5.1*	*19.6*	*-17.0*
Morgan Stanley Capital International World Index	*4.2*	*21.3*	*5.6*	*23.1*	*-4.7*	*18.7*	*-16.4*
S&P 500	*5.4*	*37.5*	*1.3*	*10.1*	*7.7*	*30.2*	*-3.1*
Lipper Global Fund Index	*5.6*	*14.0*	*-2.2*	*32.8*	*0.1*	*20.3*	*-9.1*

	Average Annual Returns for periods ending 12/31/95			
	1 year	3 years	5 years	Since Inception*
HLM Global Equity Composite	**24.0**	**14.8**	**15.2**	**15.2**
Financial Times World Index	*19.7*	*14.0*	*10.7*	*7.4*
Morgan Stanley Capital International World Index	*20.6*	*14.8*	*11.1*	*7.8*
S&P 500	*32.0*	*15.7*	*14.7*	*13.7*
Lipper Global Fund Index	*20.7*	*13.6*	*11.5*	*9.5*

* 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: 13; 1996: 12.
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: $147,062; 1996 Q1: $156,437.

HARDING, LOEVNER MANAGEMENT
International (Non-US) Equity Performance Summary 3/31/96

	Calendar Year Returns						
	1996 3 mos	1995	1994	1993	1992	1991	1990
HLM International (non-US) Equity Composite	**7.1**	**13.2**	**2.5**	**46.3**	**9.9**	**21.9**	**-12.9**
Financial Times World ex.-US Index	*3.0*	*10.4*	*8.4*	*32.1*	*-13.1*	*13.3*	*-23.1*
Morgan Stanley Capital International World Ex-US Index	*3.1*	*11.8*	*7.6*	*32.6*	*-11.9*	*12.4*	*-22.8*
Lipper International Fund Index	*4.4*	*9.3*	*-0.9*	*39.2*	*-4.3*	*13.2*	*-12.4*

	Average Annual Returns for periods ending 3/31/96			
	1 year	3 years	5 years	Since Inception*
HLM International (non-US) Equity Composite	**23.3**	**17.9**	**17.0**	**13.2**
Financial Times World ex.-US Index	*12.7*	*13.1*	*8.3*	*4.1*
Morgan Stanley Capital International World Ex-US Index	*13.0*	*13.7*	*6.7*	*4.6*
Lipper International Fund Index	*17.0*	*13.2*	*9.6*	*7.2*

* Inception date: 9/30/89

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 international 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 international 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: 2; 1991: 3; 1992: 4; 1993: 5; 1994: 14; 1995: 26; 1996: 28.
2. Total market value at year-end of accounts included in composite ('000): 1989: $10,899; 1990: $10,599; 1991: