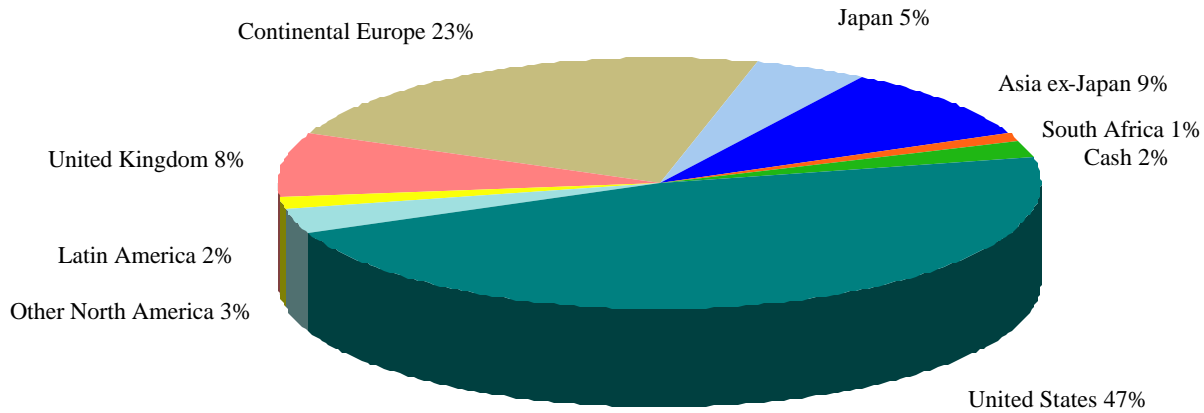


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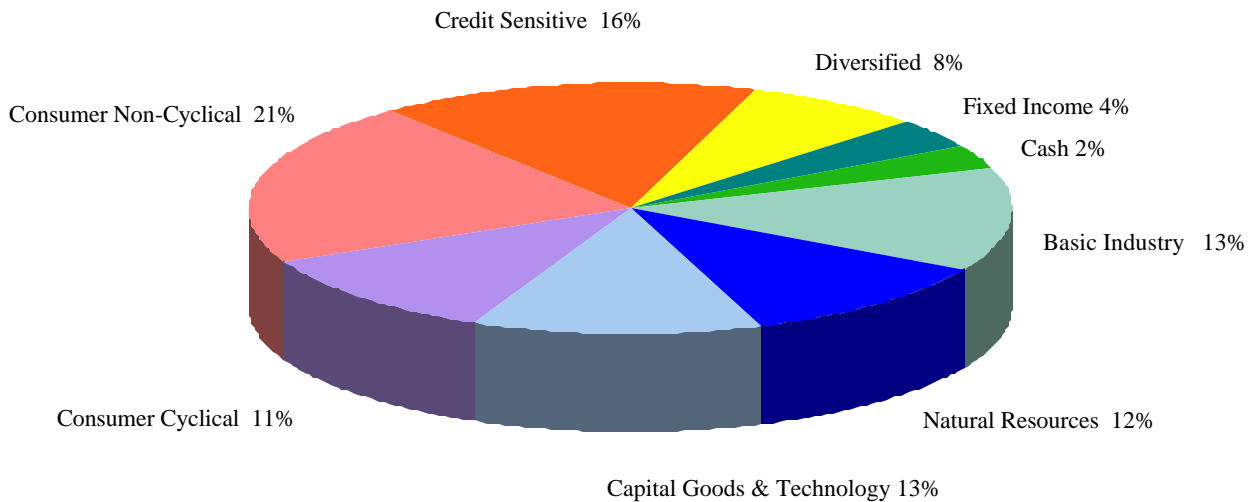
1998 First Quarter Report

GLOBAL EQUITY PORTFOLIO

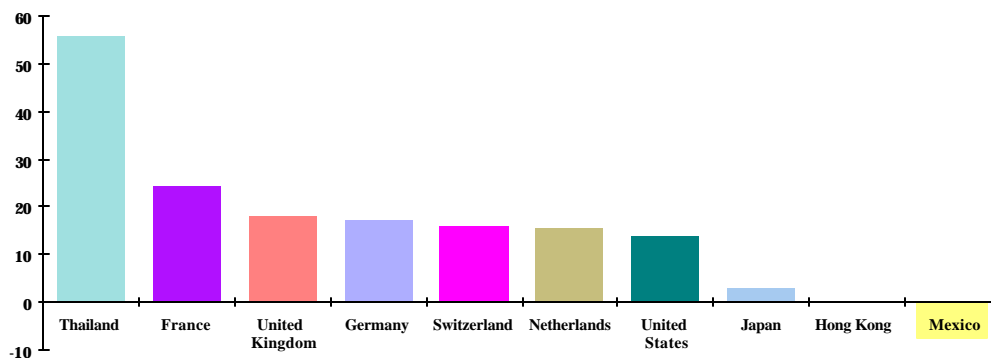
Geographic Distribution



Sector Distribution



First Quarter 1998 Performance of Selected Stock Markets in US\$



The charts above provide a 'snapshot' of the Portfolio at March 31, 1998. See inside for details of performance.

Performance

The portfolio returned 10.8% in the first quarter, a strong absolute showing, but behind both active and passive indices. The MSCI World Index (net) and the MSCI All Country World Index rose 14.3% and 13.9%, respectively, and the Lipper Global Fund Index rose 13.4%.

After a terrible start to the year that saw the portfolio's value fall by 7% by mid-January, it rebounded dramatically, so that the quarter's return surpassed that of the full year of 1997. US stocks surged, the Asian meltdown forgotten, and indices attained new highs. Our Southeast Asian stocks proved to be among the favorite destinations for offshore capital returning to the region, while investor confidence spawned by the coming European Monetary Union helped drive up the value of European shares. Volatile prices gave us the opportunity to make several purchases during the quarter. We took advantage of the weakness in Southeast Asia to add two companies to the portfolio. We also bought shares in a fast-growing US industrial software company, an attractively-priced media company in the UK, and the largest Canadian bank. By quarter's end we were nearly fully invested.

Those Asian currencies whose link to the US Dollar was broken with such disastrous consequences in 1997 were extremely volatile. For example, the Thai Baht fell by 17% against the US Dollar in the first two weeks of 1998, but ended the quarter *up* 18%. Major currencies were less volatile and weaker. The Japanese yen fell by 2%, while the Deutschemark lost 3%.

Review

Our US returns in aggregate trailed those of the S&P 500, which rose 13.9%. As a group, our smaller companies — those with a market capitalization of under \$1.5 billion — were strongest. Combined returns for **Airgas**, **Allied Capital**, **Aspen Technology**, **Wellman**, and **Wisconsin Central** were close to 20%. Wellman is the world's largest producer of recycled polyester, and the Number Two producer of polyester fiber and PET resins in the US. Demand and pricing for its products are driven by cyclical factors, but a share price that is below book value does not recognize the probability of improvement. Airgas is the country's largest independent distributor of industrial gases, and its share price still does not reflect the growth opportunities facing the consolidation of this heretofore fragmented business. Allied Capital has a long history of sustained growth, and good returns from its business of mezzanine lending to small companies. A reorganization carried out last year has succeeded in simplifying its structure, and making it more attractive to investors. Wisconsin Central owns a short-line railroad in the Midwest, and exports its operational expertise via joint ventures in Europe and New Zealand. The company has further scope to grow this business as the world's poorly run railroads are privatized.

Large cap US growth companies, **Pfizer** and **Colgate Palmolive**, also had impressive quarters. Pfizer, which returned over 30%, is successfully bringing several new blockbuster drugs to market. Colgate keeps on running its business better, as its share price, up 18%, now reflects. The company keeps growing more quickly than its competitors in every region of the world, and announced a large share buyback program during the quarter. We think its high valuation is justified.

We have chronicled the steady sales of our Southeast Asian holdings last year as, one by one, they failed to meet our high expectations. The weakness in Asian share prices in early January, however, enabled us to *add* to the portfolio two companies we have followed closely for years: conglomerates **Swire Pacific**, in Hong Kong, and **Sime Darby**, in Malaysia. With these additions, our weighting in the Asia ex-Japan region is nearly 10%. Our stocks returned 26%, the best showing in several quarters. The recovery in stock prices and currencies in that region resulted from signs that the necessary restructuring of equity ownership, and of the regulatory environment, were beginning to take place. Most of the hard evidence has come from Thailand, where we own two stocks. **Siam Cement**, which was the portfolio's worst performer last year, returned over 85% in dollars this quarter. The convertible bonds of **Bangkok Bank**, the best of the damaged Thai banking sector, were up 54%. Our Hong Kong stocks justified our long-held confidence. **Johnson Electric** shares reached record highs, as other investors began to see the value that competent managers with a fanatical attention to low cost manufacturing and asset management can bring. We took some profits to fund our purchase of Swire Pacific. These shares, together with those of conglomerate **Hutchison Whampoa**, also performed well.

In Europe, home to 31% of the portfolio's companies, we see the themes our portfolio companies represent — global competition driving managements to increase efficiency, and reduce the cost of capital — continue to take hold with salutary results. Low inflation, low (and converging) interest rates, economic recovery, and corporate restructuring are all driving stock prices upwards. At 4.9%, ten-year German Government bonds ('Bunds') are at their lowest nominal yields since the 1960's. Embracing the 'shareholder revolution' is no longer the exception; most companies we meet in Europe now understand that a high share price is an essential weapon in the battle for new markets against foreign competitors. While not all our companies loudly proclaim their adherence to shareholder friendliness, their actions speak louder than words. **ABB**, for instance, has been aggressive in shifting production from high cost countries and stands ready to take advantage of the cyclical swing in infrastructure spending in Europe. Anglo-Australian mining concern **Rio Tinto** is always run with a keen eye for return on investment and cost of capital, and announced a 10% share buyback program immediately following a change in UK law permitting it efficiently to do so. Food giant **Nestlé**, which has instituted a manager compensation program linked to achievement of certain return on capital goals, delivered unexpectedly strong earnings for the fiscal 1997 year. Each of these stocks showed double-digit returns for the quarter. The Nestlé results also helped to assuage the general fears that European companies' exposure to Asia would jeopardize the growth in earnings and dividends that are promised by recovery in the domestic economy.

The portfolio had few stocks that lost value over the quarter. In the US, **Schlumberger** shares fell 6% in sympathy with the precipitous decline in the price of oil. Earnings continue to be strong, and the correction is immaterial in light of 1997's 50% price rise. The shares of **Thermo Electron**, a diversified technology company, declined over 8% in the quarter, as it announced a share issuance for a new acquisition. Thermo has an excellent record of creating value through acquisitions at sensible prices, so we see no reason to change our optimistic outlook for the company. Shares of Swiss inspection firm **Surveillance** fell 5%, despite continued share repurchases, as investors worried about last year's difficulties with government contracts in Asia. We maintain confidence in management's ability to re-establish growth from what is still an outstanding franchise. The only sour note in emerging markets this quarter came from Argentine brewing company **Quilmes**, whose shares fell 10% in the quarter. El

Niño-related volume decreases and concerns about a proposed fourfold increase in excise taxes on all beverages in the country were responsible. Our four holdings in Japan make up only 5% of the portfolio, but they were also a drag on portfolio returns.

Outlook

The restructuring and globalization of corporate America has enabled companies to grow earnings even in a period of downward pressure on prices for their products. Price competition is at cutthroat levels and growth from incremental cost cutting at already efficient companies is becoming ever more difficult. Despite a strong economy, we are increasingly worried about corporations' ability to meet the market's high earnings growth expectations. We are seeing increasing signs that companies are feeling the margin squeeze on profits. In the first quarter alone, by our informal count, almost 150 of the companies in the S&P 500 have announced earnings disappointments or earnings estimates downgrades. Our cautious outlook for US stocks is the result of our fear that stock prices embody unrealistic expectations about future growth in profits.

While many Asian currency and stock markets did bounce back in the quarter, we are far from confident in the near-term outlook. We worry that the dramatic rebound was a result of the rush of global investors seeking 'value' taking advantage of the massive falls in prices. We worry therefore that the economic pain that will be the inevitable consequence of real reform is no longer reflected in share prices. Our response to this concern has been to concentrate the Asian portfolio on Hong Kong, which accounts for over half of the total invested in the area. We believe Hong Kong is financially at the core of a China that is increasingly managing its economy and its political role in the region effectively. Hong Kong itself has a banking system and regulatory environment that is without peer in the area, and which will stand it in good stead as a center of expertise for those neighboring countries that are less fortunate. We think the US dollar/Hong Kong dollar peg will hold. Hong Kong's monetary authorities have proven unique in the region in their willingness to accept occasional unpleasant consequences of a pegged currency: higher interest rates, and lower stock and property prices. By the end of the quarter, that virtue was being rewarded as short-term interest rates returned to more normal levels.

Japan continues to worry economists, worldwide policy makers — and us. In Japan, most companies have not been under any pressure from shareholders to increase returns, and have been protected from meaningful competition by Byzantine regulation and complex corporate relationships. The Government promises deregulation, and the competition that will ensue, but has only delivered it grudgingly. To generate economic growth it has unsuccessfully pursued the world's loosest monetary policy, and has attempted a failed series of spending packages, but is still reluctant to put more money — and clout — in consumers' pockets by cutting taxes. As mentioned above, just 5% of the portfolio is invested in the country, in companies such as **Canon**, which is a successful competitor on the world stage, or **Mitsubishi Corporation**, which has recognized the need for change and is struggling hard to implement it under difficult circumstances.

The European Monetary Union appears to be on its way to creating labor, consumer, and capital markets as large and nearly as homogeneous as that of the US. The benefits to investors and companies, first, and the region as a whole, second, will be enormous, as countries and regions compete

for investment and jobs. Without the risk of currency fluctuation threatening out-of-country investments, investors can be free to pursue the highest-returning investments anywhere under the Euro umbrella. Companies can no longer count on inert local capital for funding: the French auto parts firm will be competing with the Dutch software firm on a level playing field for the same investment Euro. We believe that the European companies in the portfolio are among those that have awakened to reality, and are positioning themselves for the era of full-blown competition that is coming.

In such a mix of volatile circumstances around the globe, we continue to monitor the levels of risk in the portfolio, remembering that our primary charges are the preservation of capital and the pursuit of absolute returns. Diversification by sector, geography, and size will continue to be the portfolio's hallmark. Diversification also demands that we keep up our search for new companies in new businesses, and in new markets. We will keep a heavy weighting in the US and in Europe, because we find many of the stocks of companies that meet our criteria — of growth, financial strength, strong management and global competitiveness — trading at reasonable prices. But we will also continue to invest in Southeast Asia, despite the risks, and in Japan, despite the bleak outlook in the near term. Such an environment means that we must be even more demanding about the qualities we look for in our companies, and ever more careful about the price we are prepared to pay for their shares.

Activity

During the quarter, we bought shares in five companies, added to one, sold three and reduced three. The portfolio's cash levels were higher than normal at the end 1997, in expectation of lower prices in Southeast Asia. By quarter's end, we were nearly fully invested.

We bought **Swire Pacific**, a leading Hong Kong conglomerate with interests in property, Coca-Cola bottling, and the airline Cathay Pacific. The company has a long-standing reputation for astute and low-risk management and for nurturing constructive business contacts with China. The sharp decline in the company's share price provided us an attractive entry point that offered good yield support, and a deep discount to NAV, made up predominately of high quality, cash-generative investment properties. We funded this purchase with the sale of **Daimler Benz**.

We have followed the fortunes of **Sime Darby** in Malaysia for many years, and in fact owned the stock until last year in your portfolio. We sold it (at just over US\$3.00 per share) as the risks inherent in being a prominent Malaysian conglomerate were rising without sufficient adjustment in the price of the shares, most notably when they bought a bank from the government in a rare (for them) instance of 'national service' in a country where such political obligations are commonplace. The point was driven home in March when Sime Bank announced loan loss provisions in excess of Sime's actual investment, whereupon the bank was quickly sold to a financial conglomerate. However, now at just over US\$1.00 per share, the shares more than adequately reflect the (still significant) risks of being a property developer, a plantation owner, the Caterpillar distributor, and the BMW dealer in Malaysia. The purchase was funded by the sale of our shares of **Nestlé Malaysia**, which had held up comparatively well throughout the turmoil of 1997.

We bought **Pearson**, which is one of Europe's largest media companies and is structured into three main groups: entertainment, information and education. It owns Penguin Books, the Financial Times, 50% of the Economist magazine, a leisure and theme park business, a television production company, part of Britain's new commercial TV channel, and newspapers in France and Spain. Pearson still has investments in BSkyB, the British satellite TV company, and in the Lazard investment banking group. Once a sprawling conglomerate, with interests ranging from fine china to investment banking, Pearson has increasingly refocused on the core areas of entertainment, information and education, gradually selling its other investments. That process is not yet complete, but the operating assets which will remain are of very high quality and will generate good returns and earnings growth. To fund this purchase, we reduced our holdings in two highly priced European growth companies: **Wolters Kluwer** and **Rentokil**.

We added to **Wisconsin Central** during the quarter, following a precipitous share decline in the fourth quarter 1997. To buy the railroad company, we sold **Union Pacific Resources**, the domestic oil and gas exploration and production company. We are convinced that the company's increasingly desperate attempts to form a new business combination were signs that the core business in the continental US was no longer sufficiently attractive to justify a high share price.

We bought **Aspen Technology**, the dominant provider of process optimization software to the chemical and petrochemical industries, with a growing presence in the pharmaceutical sector. Use of Aspen's family of software products and related consulting services typically results in high and fast return on investment for customers, and measurably enhances their competitive strengths. Many of the companies we own and watch have been able to improve processes and capital efficiencies through the use of third-party enterprise software, a trend we see accelerating. In Aspen's case, we are impressed by management's solid chemical engineering background, sensible business model, and approach to growing the company's markets. We can see earnings growth continuing to exceed 20% per annum.

We bought **Royal Bank of Canada**, Canada's largest bank, asset manager, and stock broker. With the proposed merger with the Bank of Montreal, the Royal Bank will hold dominant positions across the spectrum of financial services in Canada, from mortgages to securities underwriting, to credit cards, to mutual funds and asset management. These strong positions will enable the bank to maintain profitability in its core businesses even as the market becomes more open to foreign competition, and to grow earnings through cost savings arising from the merger. Profitability will be enhanced. With management further committed to stock buybacks, the valuation is undemanding.

Finally, we realized a gain in part of the position in **Johnson Electric**, and sold **ServiceMaster**, both for price reasons.

GLOBAL EQUITY PORTFOLIO

as of March 31, 1998

Company	Country	Weight	Description
Allied Capital	US	4.9%	Financial institution making equity linked loans to small businesses
Fannie Mae	US	4.7%	Government-sponsored agency that buys & repackages mortgages
Royal Dutch ADR	NETH	3.8%	Premier oil company operating worldwide
Gaz et Eaux	FRA	3.1%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Hutchison Whampoa	HK	3.1%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Pfizer	US	3.0%	US Pharmaceutical, medical equipment, veterinary, specialty chemical & toiletries company
Baxter International	US	2.9%	Leading medical products supplier focused on: renal, biotech, cardio & intravenous systems
Nestlé	SWITZ	2.8%	World's largest food company
Dover	US	2.8%	Diversified capital goods manufacturer
Schlumberger	US	2.8%	Premier supplier of technical services & equipment to the petroleum industry
Deutsche Bank	GER	2.8%	One of Europe's premier universal banks
Investor	SWE	2.8%	Holding company for Wallenberg family interests in Swedish industrial concerns
Thermo Electron	US	2.7%	World leader in environmental monitoring, analysis instruments & biomedical products
Colgate	US	2.6%	Leading global consumer products company
Exxon	US	2.5%	Premier global oil company
Wrigley, Wm. Jr.	US	2.4%	World's largest producer of chewing gum
Rio Tinto	UK	2.4%	One of world's largest & most diversified mining companies
Johnson Electric	HK	2.2%	Manufacturer of small precision motors used in cars & consumer products
ABB	SWITZ	2.2%	Leading worldwide capital goods company with focus on power generation
Rentokil Initial	UK	2.2%	Provider of wide range of services to commercial sector
Allied Signal	US	2.2%	Aerospace, auto, chemical & fibre manufacturing company
Mitsubishi Corp	JAP	2.1%	One of Japan's leading trading companies
Surveillance	SWITZ	2.1%	Worldwide provider of trade certification, testing & loss adjustment services
Wisconsin Central	US	1.9%	Railroad operator in US & overseas
Deere & Co	US	1.8%	World's leading producer of farm equipment
Pearson	UK	1.8%	
Motorola	US	1.8%	Electronics company producing semiconductors, communications equipment & computers
Wolters Kluwer	NETH	1.7%	Dutch publisher of legal, tax, medical & business information
Swire Pacific	HK	1.6%	Diversified Hong Kong conglomerate
Boeing	US	1.6%	World's largest manufacturer of jet aircraft, & America's largest exporter
Railtrack	UK	1.5%	Owner of UK's railway infrastructure
Partner Re	BERM	1.5%	Bermuda's most strongly capitalized property reinsurer
Bayer	GER	1.4%	World's fourth-largest chemicals company & tenth-largest pharmaceuticals company
Canon	JAP	1.3%	World's leading producer of wide range of visual image & information equipment
Royal Bank of Canada	CAN	1.3%	Canada's largest bank, asset manager & broker
Airgas	US	1.3%	Largest independent distributor of industrial, medical & specialty gas in the US
Libsil	S AFR	1.2%	Holding company with investments in South African Breweries & Standard Bank
Kimberly-Clark Mex.	MEX	1.1%	Mexican subsidiary of US-based Kimberly-Clark Corporation
Siam Cement	THAI	1.0%	Thailand's largest industrial group
Bangkok Bank	THAI	1.0%	Thailand's largest & strongest bank
Aspen Technology	US	0.9%	Leading provider of process optimization software
Wellman	US	0.8%	Producer of chemical-based polyester fiber & fibers from recycled plastics
Hirose Electric	JAP	0.7%	Leading Japanese manufacturer of electrical connectors & components
Quilmes	ARG	0.7%	Leading producer of beer & soft drinks in Latin America
Atlantis Japan	JAP	0.6%	Closed-end fund invested in smaller Japanese companies
Sime Darby	MAL	0.4%	Largest conglomerate in Malaysia, with interests in plantations, manufacturing & banking
Scania	SWE	0.0%	Premium heavy-duty truck & bus manufacturer

**GLOBAL EQUITY COMPOSITE
PERFORMANCE SUMMARY**
as of March 31, 1998

	Annualized Returns for Trailing Periods (%)				
	1 Year	3 Years	5 Years	8 Years	Since Inception*
HLM Global Equity Composite	23.0	18.5	15.3	14.4	15.3
<i>Financial Times World Index</i>	31.6	19.7	16.2	12.4	10.2
<i>Morgan Stanley Capital Int'l All Country World Index</i>	29.2	19.2	16.2	12.3	10.3
<i>Lipper Global Fund Index</i>	27.2	19.9	16.0	12.4	11.8

Volatility Annual Standard Deviation (%)
Since Inception*
11.7
14.3
13.8
12.4

*Inception Date: 11/30/89

	Calendar Year Returns (%)									
	YTD 1998	1997	1996	1995	1994	1993	1992	1991	1990	1990
HLM Global Equity Composite	11.0	11.0	17.4	19.0	-0.1	24.2	9.1	31.6	3.6	
<i>Financial Times World Index</i>	14.1	15.4	13.2	19.6	5.9	22.6	-5.1	19.6	-17.0	
<i>Morgan Stanley Capital Intl All Country World Index</i>	13.9	14.7	13.1	18.2	5.4	25.5	-4.3	19.5	-17.2	
<i>Lipper Global Fund Index</i>	13.4	14.0	16.3	14.0	-2.2	32.8	0.1	20.3	-9.1	

	Composite Information									
	YTD 1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	15	15	13	13	17	17	14	7	†	†
Total market value of accounts included in composite (\$M)	\$283.7	\$249.3	\$188.0	\$147.1	\$112.7	\$93.2	\$64.5	\$36.6	\$15.3	\$1.6
% of total firm assets represented by composite	16.8%	16.3%	15.0%	23.4%	30.7%	38.2%	32.9%	20.0%	23.0%	5.5%
Internal dispersion: standard deviation of calendar year returns	NA	1.6%	0.8%	2.1%	1.4%	6.8%	3.5%	5.8%	†	†

† Five or fewer accounts

NOTES :

- Composite includes all fee-paying global equity accounts under discretionary management, including accounts no longer in existence. Accounts are included from the first full month following the date on which the account is deemed to be fully invested.
- Returns shown are time-weighted total returns in US\$, and reflect reinvestment of dividends and interest. Returns are weighted by account size in the composite.
- All cash equivalents, bonds and/or convertible securities used in place of equities are included in return calculations.
- Composite returns are presented after brokerage commissions but before management and custodial fees and foreign withholding taxes. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce composite returns by approximately 1.0% per annum.
- Returns of all indices (except Lipper) are presented before foreign withholding taxes, and do not reflect commissions or fees that would be incurred by an investor in the index portfolios. Lipper Index returns are reported after all fees and expenses.
- Annual standard deviations of returns (volatility) is estimated from monthly returns using a continuous return model to derive annual periodic standard deviation.
- A complete list and description of the firm's composites is available upon request.

Annualized Returns for Trailing Periods (%)

