



## Global Equity

### Performance

The portfolio soundly outpaced its benchmark Index, and rose in line with its actively managed peer group.

### The Portfolio

Our fundamental investment process relies heavily on analyzing competitive pressures within industries.

Portfolio variations from the benchmark Index give insight into our way of thinking.

### Outlook

Our outlook is best described by reference to the companies and industries in which we invest.

We favor companies with attractive long-term characteristics, where demand is growing and where the competitive structure permits sustained profitability.

### Activity

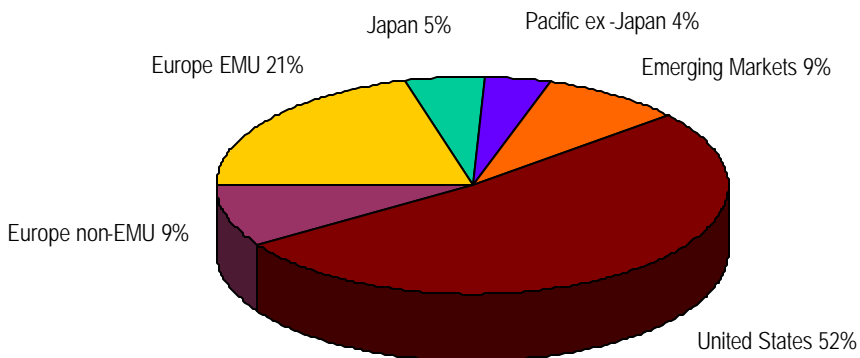
**Bought:** Allianz, Cerus, Close Brothers and Teva Pharmaceutical.

**Sold:** AXA, Honeywell, Investor, Mizuho Holdings, Nokia, Pfizer, Rentokil Initial, and Vodafone.

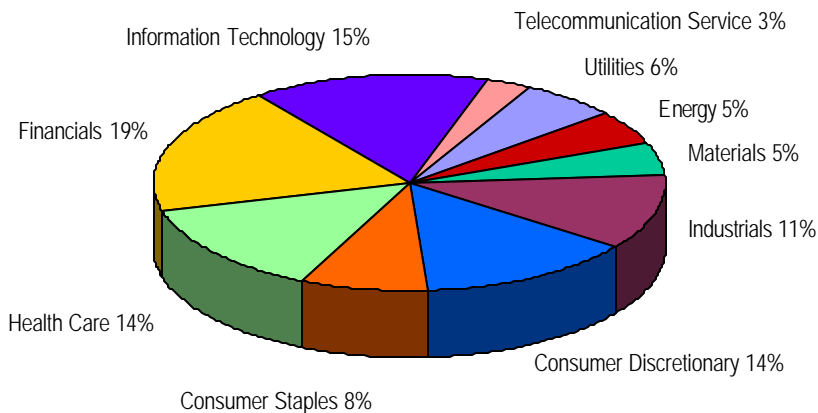
## 2001 Second Quarter Report

The portfolio turned in a solid performance in the quarter driven particularly by selection in the Health Care sector. Stocks in the Information Technology sector and a *lack* of stocks in the Telecommunication Services sector also notably aided returns.

### Region Distribution



### Sector Distribution



The charts above provide a 'snapshot' of the Model Portfolio at June 30, 2001.

## Executive Summary

Despite an unmistakable curtailing of profitability growth in US companies, the US equity market had its best performing quarter since the fourth quarter of 1999. Fears that the slowing of the US economy would impact the global economy led to generally lower prices throughout international equity markets in the quarter, with the notable exception of several important emerging markets. The surprising strength of the US dollar continued to hurt the international returns for US investors. The portfolio's sector and geographic exposures - resulting from our fundamentally based "bottom-up" stock picking - reflect our view of the competitive structures we see playing out in industries throughout the world. In the following report, we discuss in detail how our individual stock selection has led to important portfolio sector weightings, and resultant "bets," relative to our benchmark. The importance of industry weightings as a meaningful explanation of portfolio returns is growing at the expense of country weightings. Our outlook is best described by reference to the companies in which we invest: we seek to hold companies in industries with attractive long-term characteristics, where demand is growing and competitive structures permit sustained profitability.

## Performance

The portfolio rose 4.8% in the second quarter, better than the 2.8% rise of the MSCI All Country World Index. Major markets started off the quarter with strong rallies, driven by the prospect of further interest rate cuts from central banks around the world. But most gains evaporated as fears that the US slowdown would not only linger, but infect other economies to a greater extent than had been thought. The Federal Reserve has now cut interest rates six times in six months, cutting overnight rates nearly in half. Markets noticed, however, that other central banks have lagged behind the Fed in applying monetary tonic to the problem, and consequently began to discount not only further interest rate cuts abroad, but also a slower economic recovery. The result was that non-US stock returns were negative in the quarter, when measured in dollars. The S&P500 rose 6%, while the NASDAQ index rose 17%. In Japan, stocks rose less than one percent, while European stocks as a whole fell 2% in dollars, as measured by the MSCI Europe Index. Emerging markets fared better. China rose by 17%, while Mexico rose by 21%.

Within the US market, computer software was one of the best performing industries in the quarter, up 27%, but near the top were a number of consumer-related industries, such as leisure, entertainment, and photography. Beverages, along with food and drug retailing, joined communications equipment and most of the energy sector as the laggards. The market was conspicuously acknowledging the evidence that consumers' spending has remained resilient in the face of substantial stock market wealth destruction over the prior twelve months.

***Major markets started off the quarter with strong rallies, driven by the prospect of further interest rate cuts. . .but most gains evaporated.***

## The Portfolio

In a departure from our habit of arguing from the general to the specific—that is, from themes we have observed to the companies we own—we hope this time to describe more fully how the portfolio is invested, touching along the way on some themes that inform that description. As we never tire of telling you, we are ‘bottom-up’ stock pickers. However, this shorthand only goes part way in communicating the importance we place on analyzing the competitive pressures within the industries in which the companies we research operate. Consequently, this report will examine how our company selection results in differing industry exposures, in addition to the differing geographic exposures we have touched on before. This latter, increasingly, has little explanatory—let alone predictive—power, in our view.

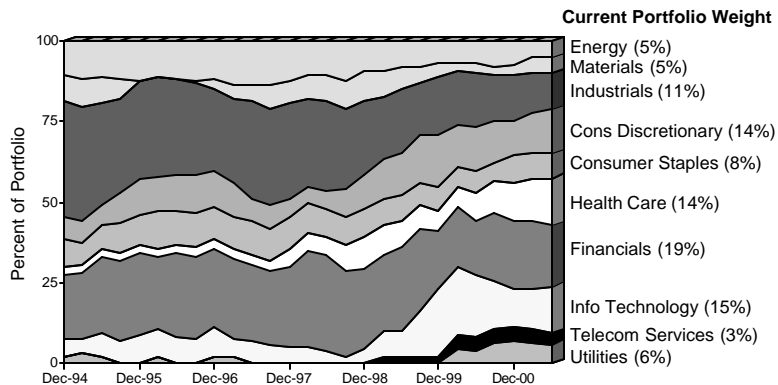
As stock pickers, we have resisted a benchmarking mentality, on the grounds that close observance of (or obsessing on) any benchmark would lead to benchmark-like returns. But for purposes of comparison, we must have a frame of reference, and in this case we have taken, and will make reference to, the MSCI All Country World Index, which is the benchmark for this portfolio. ‘Benchmark’ though it may be, that index does broadly represent the universe of companies in which we could invest if, on an individual basis, the companies met our investment criteria. As a result, we believe that examining our stock-picking results in the areas where our exposure varies from that of the Index provides insight into the kind of companies we favor, and the kind of stocks we think are currently attractively priced.

### *Sector Allocation and Changes*

Just to show how absurd it is to obsess about benchmarks, one of our longstanding holdings, which has been publicly listed in Hong Kong for decades, was reclassified from the financial sector to the industrial sector by MSCI sometime during the first half of this year. This had the result of decreasing our weighting in the Financials sector and increasing our weighting in the Industrials sector. The chart below shows how our sector exposure has changed over time.

**As stock pickers, we have resisted a benchmarking mentality, as it leads to benchmark-like returns.**

Portfolio Distribution by GICS Sector (through June 30, 2001)



\*MSCI All Country World  
 Source: Vestek / MSCI / Harding Loevner Global Equity Model

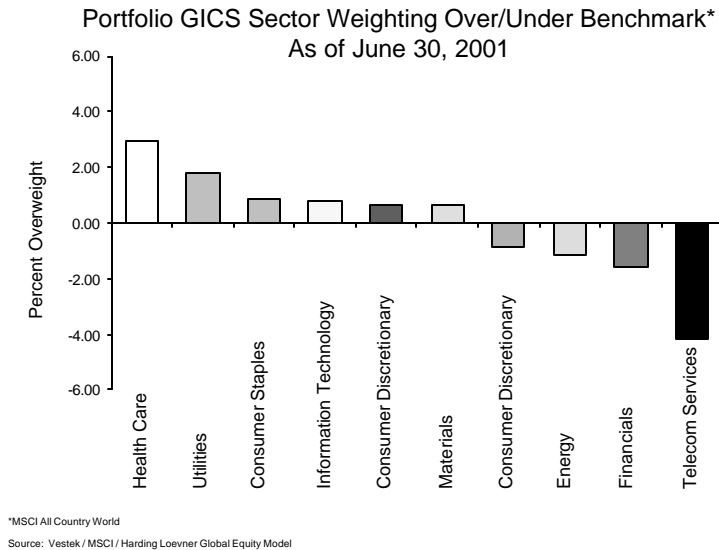
***We reduced our holdings in the Industrials sector. Even though the companies we held lead their respective segments, they are unable to escape slowing industrial demand and surplus capacity.***

In spite of the efforts of the MSCI folks, one of the largest changes in the year to date has been a reduction in holdings of the broadly defined Industrials sector, where we have sold four of the nine companies we owned in the sector at the start of the year. In addition to the sale of electrical capital goods producer ABB, and US rail operator Wisconsin Central last quarter, we have sold the UK commercial service company **Rentokil Initial** and US-based **Honeywell** this quarter. We sold Honeywell before the news that its deal with GE was to be scotched by the European authorities on the basis that General Electric's own shares, which we were to have received, were priced to discount a future with little risk, a future we had trouble envisioning, given the difficulties facing other of our well-managed industrial companies. Although we sold each of the four for individual reasons, common to each of these companies is that, although they enjoy leadership in their respective segments of the industrial economy, they cannot escape generally slowing industrial demand, nor the surplus capacity in most industries.

Much of the proceeds of those industrial sales were reinvested into companies within the Information Technology sector, where we have emphasized software companies, such as **Oracle**, **SmartForce**, and **Dassault Systemes** and semiconductor manufacturers, such as **Intel** and **Taiwan Semiconductor ('TSMC')**, at the expense of communications equipment makers. Nearly all stocks of companies in this sector have suffered devastating price declines over the past fifteen months and, while we do not presume to 'call the turn' in this sector of the economy or of these stocks, we recognize the dramatic differences in valuation afforded by current prices. But, in particular, we note the increasing concentration of the semiconductor industry, as several longstanding participants in this market, both in Asia and in Europe, have finally capitulated to the high and rising fixed costs of successive generations of chip technology, and either merged or withdrawn from the market. With additions to our holdings of TSMC and Intel, we have increased our weighting in the

Information Technology sector (even as the benchmark's holdings were shrinking relative to the whole), eliminating the distance between our portfolio and the benchmark's holdings in this sector.

These and other, earlier changes have led to the allocations shown in the chart on the previous page. The following chart shows how the current exposure compares with that of the benchmark Index.



**We are under-represented in Telecommunication Services sector. We find very few companies in that sector that meet our basic investment criteria.**

As you can see, the most notable area where we are under-represented is in Telecommunication Services. We can find very few companies that meet our basic criteria that they be able to grow, be well managed, have strong financial position and durable competitive advantage. Growth prospects involve a race between falling prices for voice transmission as deregulation opens incumbent networks up to new, more efficient competitors. Fixed-line telecom companies outside the US are mostly recently privatized and management has no long-standing public track record, while their new competitors have, by definition, no record of success over economic cycles. Fixed-line operators, in particular, generate large amounts of cash, offering the illusion of financial strength, but their commitments are equally huge. In particular, fulfilling their combined commitment to the '3G', or next generation, of wireless communication equipment and services will take several hundred billion dollars. Finally, the resulting services are undifferentiated, as American consumers, used to frequent switching, at ever lower prices, between competing vendors in the long distance telephony market, can attest. We own **BellSouth**, the US 'baby Bell', and **China Mobile Telecom**, having sold the last remnant of our holding in **Vodafone** this quarter.

**Within the Consumer Discretionary sector, we have a significant weighting in the media industry.**

The portfolio has only slightly more exposure to the 'Consumer Discretionary' sector than the benchmark, but this conceals a significant weighting in the media industry, just one of the components of this sector. Of the 14% of the portfolio invested in the sector, 8% is in media, compared with just 5% for the benchmark. Meanwhile, there is not a single automobile, textile/fashion, or

***The weighting in the Health Care sector reflects a shift to smaller, more focused health care companies that can grow faster and are more attractively priced.***

***In the Utilities sector, we own two companies that are agents of change astride the trend towards deregulation.***

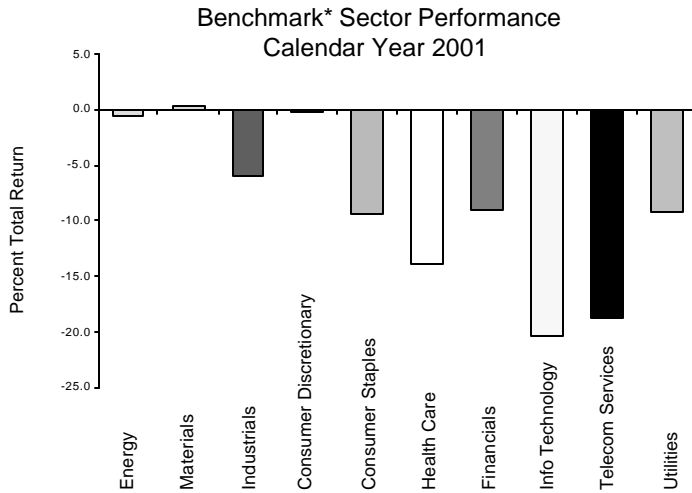
hotel/leisure company represented. We are very confident about the long-term outlook for the media sector, despite more immediate concerns about declines in revenues from advertising. We think that the global trend towards a more fragmented media distribution industry will continue to put upwards pressure on prices for the content passed through those channels, and that, in the longer term, globalization and deregulation will continue to drive the upwards trend in advertising expenditure. The portfolio's holdings in the sector include advertising companies **WPP**, and **Asatsu DK**, along with owners of content such as **Wolters Kluwer** and **Pearson**, as well as **Televisa** and **Viacom**, which combine content production with very strong, multi-channel distribution.

The weighting in the Health Care sector, where the portfolio weight is greater than that of the benchmark, obscures a greater skew within the sector. We have shifted our holdings to smaller, more focused health care companies that can grow faster, and yet were more attractively priced than the global giants of the pharmaceutical world. We believe that, while those giants have the wherewithal to spend billions of dollars on new drug research, the productivity of that spending is declining. At the same time, the sheer size of their annual revenues means that a meaningful new drug must achieve unrealistically huge annual sales to have a meaningful impact on their growth rates. We bought our first biotechnology company this quarter. We began following **Cerus** several years ago because it was jointly developing with **Baxter**, another portfolio company, a new class of virus de-activation products for blood transfusions. An increasing confidence in the eventual outcome of its research efforts, combined with an extremely volatile stock price, gave us an attractive entry point in the shares.

Another threat facing global pharmaceutical companies is the backlash against their high prices and high margins. We accept their arguments that these margins are needed to fund the research necessary if these life-saving drugs are to continue to be discovered and developed, but the voters, and politicians, do not always see it that way. We believe that pharmaceutical solutions to growing health care issues are easily more cost-effective than other forms of medical treatment, but there is no doubt that the backlash is beginning to have an impact and that pressure for lower prices is mounting. One beneficiary will be **Teva**, another smaller pharmaceutical company we bought this quarter, mainly a producer of generic drugs, the low-cost alternatives to off-patent pharmaceutical products.

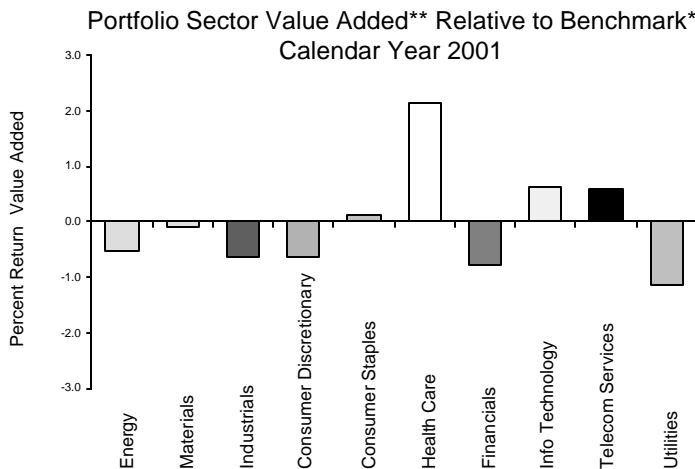
Finally, within the Utilities sector, we own two companies, **Enron** and **Suez**, which are classified as 'multi-utilities', partly because they are so hard to classify. They are both agents of change astride the trend towards deregulated utilities worldwide. Our thesis has been that steadily growing demand for electricity worldwide will best be met by unleashing market forces on the inefficiencies of this industry, and that power generation, power distribution, and water distribution will increasingly succumb to the efficiencies of the private sector. That thesis is being tested by the political fallout surrounding the California energy crisis, but we remain to be dissuaded of its long-term merits. In contrast, we own no traditional utilities.

Performance by industry sector was as follows.



\* MSCI All Country World  
 Source: Vestek / Harding Loevner Global Equity Composite

And our value added in the year to date was as follows.



\* MSCI All Country World  
 \*\*Sum of Value Added from Stock and Sector Selection  
 Source: Vestek / Harding Loevner Global Equity Composite

**Returns to stock selection outweighed returns to sector selection and weightings.**

Returns to stock selection outweighed returns to sector selection. Our decision to own more Health Care than the benchmark was beneficial to performance because the companies we owned performed extremely well. The sector itself has lagged the overall benchmark, and a top-down decision to ‘overweight’ health care, absent compelling company specific ideas, would have detracted from performance. Conversely, our heavy weighting of media companies has hurt our performance in the year to date, not because of the industry—which performed better than the total index—but because the companies we chose performed worse than their industry peers. Another case of this was in the

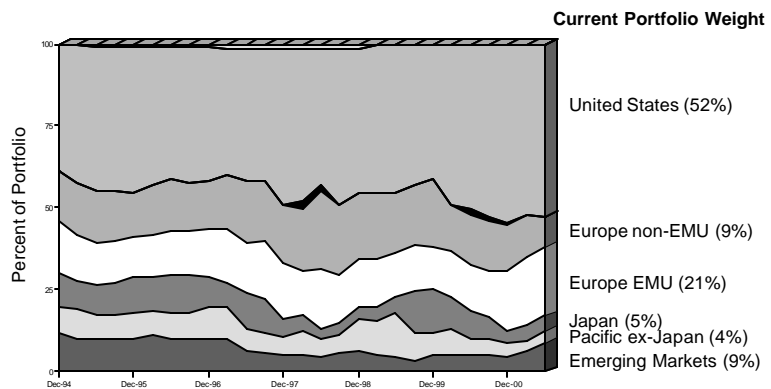
**The influence of sectors and industries on stock market returns is increasing, at the expense of the influence of regions and countries.**

Utilities sector, where we owned something like a benchmark weight in a sector that performed slightly better than the benchmark overall. The terrible recent performance of Enron within that sector, however, has dragged down performance significantly.

*Region Allocation and Changes*

We believe that company research gives us some insight into whole industries. We also believe that the influence of sectors and industries on stock market returns is increasing, at the expense of the influence of regions and countries. Further, the kinds of companies that we research usually (though not always) operate on a global basis, and allow for few generalizations about individual countries. The difficulty of drawing country specific conclusions can be demonstrated by doing similar analysis as we have done above, by region and country.

Portfolio Distribution by Region (through June 30, 2001)

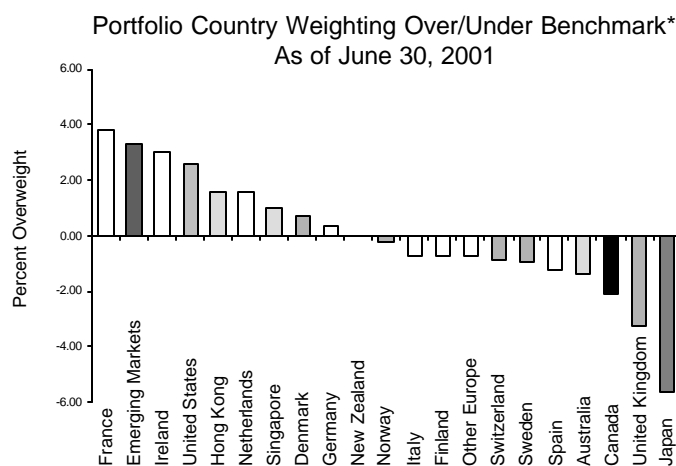


\*MSCI All Country World  
Source: Vestek / MSCI / Harding, Loevner Global Equity Model

**We have been finding more undervalued stocks of good quality companies in emerging markets.**

The most important change in the year to date has not been a regional- or country-based one, but a near-doubling in holdings in emerging markets. It had become clear to us at the end of last year that we were finding more undervalued stocks of good quality companies in emerging markets. We suspect this is the reverse of the same 'index effect,' which we have discussed before, that drove institutional investors to chase ever higher the stocks of companies that were large index components. Many investors are reluctant to invest in emerging markets, which may not be represented in their benchmark. For us, this has provided an opportunity, and, during the year, we have added emerging market holdings such as TSMC in Taiwan, Teva in Israel, and CVRD in Brazil to existing positions.

Looking at our country holdings relative to those of the benchmark also provides little insight.



\*MSCI All Country World  
Source: Vestek / MSCI / Harding, Lovner Global Equity Model

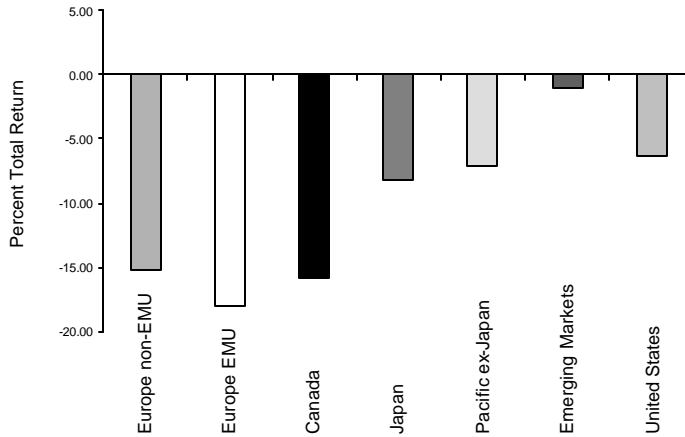
The areas of biggest overweight are France and Ireland. Ireland is home to both **Elan** and SmartForce. Elan, a small pharmaceutical company, has gradually diversified in the last few years from being a manufacturer of drug delivery systems to being a discoverer and developer of new drugs. SmartForce has its research and development, and content creation facilities in Ireland, but its head office is actually in California, and its sales are made globally. The weighting in France is incidental to its proximate cause, the identification of a number of companies we find attractive. France is the heart of the euro currency area, and as that currency has become cheaper, we have found companies within the EMU region to be more compelling from a price perspective than companies elsewhere, with last quarter's swap of industrial gas producer Air Products into French-based **L'Air Liquide** a case in point.

The country where we have the least exposure relative to the benchmark is in Japan. We continue to be disappointed with the underlying operating performance of the companies that we follow there. We recognize that for some, such as **Mizuho**, the bank that was formed two years ago by the merger of Daiichi Kangyo, Industrial Bank of Japan, and Fuji Bank, the poorer results are partly a reflection of a much worsened environment. Despite the optimism surrounding the election to the leadership of the ruling Liberal Democratic Party of Mr. Koizumi, there has been little evidence of progress in solving Japan's problem of a weak banking system and low demand. Mizuho itself has proven unable to make progress as we had hoped against that background, so we have recently sold our holding. The result is that the Japanese weighting is very low relative to the benchmark, and to our own preference.

Performance by region was as follows.

**The least exposure relative to the benchmark is in Japan. We continue to be disappointed with the operating performance of the companies we follow there.**

Benchmark\* Region Performance  
Calendar Year 2001

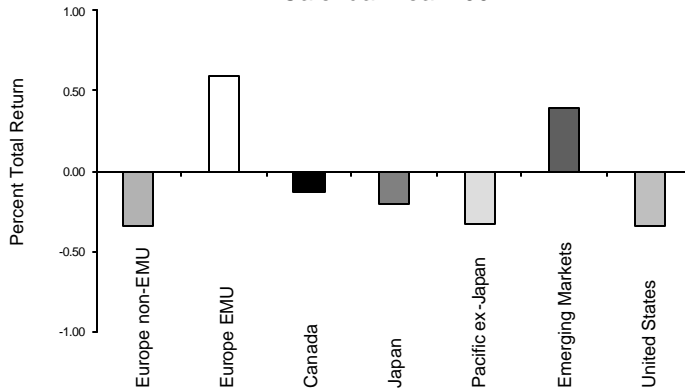


\* MSCI All Country World

Source: Vestek / Harding Loevner Global Equity Composite

And our value added in total in the year to date was as follows.

Portfolio Region Value Added\*\* Relative to Benchmark\*  
Calendar Year 2001



\* MSCI All Country World

\*\*Sum of Value Added from Stock and Sector Selection

Source: Vestek / Harding Loevner Global Equity Composite

**Returns to stock selection have dwarfed returns to country selection; stock selection in the US and emerging markets were particularly excellent.**

Returns to stock selection have dwarfed returns to country selection. We have reduced a large weighting in the US over the past six months, but enjoyed excellent stock selection within our US holdings during the second quarter, which added to performance. Our holdings in China and Mexico (China Mobile, Grupo Televisa and **Wal-Mart de Mexico**) were sufficient to enable us to participate in the good performance of those markets. Overall we were correct to have increased exposure to emerging markets, and chose stocks well.

In Japan, we added no value being underweight a market that performed just ahead of the benchmark; but the stocks we owned underperformed that country's benchmark, subtracting value. The only major country allocation

'error' was to be underweight in Australia, where the market rose by 16%. We do own, however, **Rio Tinto**, which can be owned in the UK, or in Australia, as it has, effectively, a dual listing. What better example of the confusion caused by country (rather than industry) performance attribution!

## Outlook

Our outlook is always best described by reference to the companies and industries in which we invest. We observe that economic growth has slowed around the world and that the risks are high that the slowdown will be prolonged. We try to invest in companies that operate in industries with attractive long-term characteristics. These include relatively obvious ones such as the media industry, but also less obvious ones such as natural resources. Within industries, we think we have the best companies. Our experience of previous periods of difficulty is that these are the companies that lead when industry conditions improve, and whose stock prices fare best when better stock market conditions return. We saw this as recently as 1999 following the Asian crisis, when the companies in which we had confidence during the depths of the crisis survived and, subsequently, prospered.

## Activity

We bought new holdings in:

**Allianz**, the largest insurance company in the world, measured by premium income. It has significant market shares in most OECD countries and an increasing presence in emerging markets. As an investment manager, Allianz has \$200 billion in assets. Its portfolio is concentrated in a number of large German industrial and financial holdings, but is increasingly becoming globally diversified.

**Cerus**, a California-based biotechnology company that has developed a method of inactivating pathogens or viruses in blood. Initial application is for transfusions of platelets, plasma and red blood cells. Baxter International owns 14% of the common. Cerus has a number of products in various phases of trials that should have commercial application beginning in Q42002. The company has intellectual property rights consisting of over 100 patents on a novel form of inactivating viruses in blood. The commercial market for this product is in protecting the safety of blood used in transfusions. Cerus believes that the size of the market is in excess of \$3.1 billion annually.

**Close Brothers**, a small London merchant bank operating in a variety of niche markets, such as small-cap stock market making, asset finance and tax-advantaged retail asset management. The firm's clearheaded focus on unfashionable corners of finance has allowed it to build strong and defensible franchises that generate handsome returns. Investors' flight from small capitalization companies has meant that Close Brothers' consistently high profitability has been overlooked by the market, thus offering attractive prospective returns.

**We invest in companies that operate in industries with attractive long-term characteristics.**

**In the quarter, we bought four companies, sold eight, added to four and reduced one.**

***Sales of individual holdings reduced exposure to the broad Telecommunication Services sector.***

**Teva Pharmaceutical**, a major producer of generic and, increasingly, proprietary pharmaceuticals. Teva is the inventor of Copaxone, a new and important prescription drug used to treat multiple sclerosis. Teva is based in Israel but has acquired or established manufacturing operations in Italy, the UK, the Netherlands, Canada and the US.

We added to **DBS Group, Intel, Sony, and TSMC.**

We sold holdings of:

**AXA**, the French-based global life and general insurance company and asset manager. AXA has been more aggressive in its capital management than many other of the largest insurance companies, which has helped it to grow more quickly over the past decade as it has made multiple acquisitions. In the current environment of economic uncertainty, we prefer companies with greater cushions of financial strength and less exposure to the US savings and investment market.

**Honeywell**, an industrial and engineering conglomerate. With the US approval of General Electric's takeover bid, Honeywell shares became a near proxy for GE shares. We sold on the grounds that GE is fully valued, and nearly as vulnerable to cyclical or financial woes as other alternative investments.

**Investor**, the Swedish industrial holding company. The stock has outperformed its constituent holdings, and the discount to NAV has narrowed to 20% from nearly 40%. This has partly been investor anticipation of the company buying back shares now that it has become legal in Sweden; this includes Martin Ebner, who has accumulated about 10% of the outstanding shares. Management is now making equivocal statements about share buybacks, and controlling Wallenberg foundations/pension funds have upped their holdings to 50%, so there is nothing beyond embarrassment that Ebner can do to make management/family do other than what they wish. With equity markets down so much, that is likely to mean investing in new or existing holdings rather than returning capital to shareholders.

**Mizuho**, Japan's largest bank. Recovery in the Japanese banking sector is increasingly in the hands of the politicians, not of management of the banks themselves. This is partly the result of management failings, and partly the result of further economic weakness. Whatever the reason, we can no longer be confident in the company's financial strength as reflected in published figures, and thus think the risks to shareholders have increased substantially.

**Nokia**, the world's largest manufacturer of wireless telephone handsets. The growth rate in Nokia's handset and infrastructure markets has slowed markedly, and to beneath our expectations. We believe Nokia now faces an extended slow growth period given the delays in introducing wireless data technology, uncertainties surrounding the wireless data economic model, and continued economic weakness.

**Pfizer**, the US pharmaceutical, veterinary, specialty chemicals, toiletries and cosmetics manufacturer and marketer. The company has had a spectacular, multi-year run of new products and corporate success. As a result, it has

become highly priced by investors. We sold to invest in companies less highly valued by the market, with riskier product profiles, but lower constraints to growth.

**Rentokil Initial**, the UK business services company, which has struggled to refocus after 1999 ended the long string of consecutive years of 20% growth. We sold into the company's share buyback program.

**Vodafone**, a provider of cellular, paging, mobile and pocket radio and network services. The push-back of third generation wireless (3G) by two years, allowing all parties relief from the big capex spend, may work to VOD's disadvantage, while helping weaker competitors shore up their balance sheets. Thus, our hope that the relative strength of the company would eventually allow them to dominate the business may not be borne out in a timeframe that is meaningful to us.

We reduced holdings of **Baxter** in order to buy Cerus, and subsequently *reduced* Cerus after it promptly doubled.

Company	Country	Weight (%)	Sector	Description
Tyco Intl	US	3.4	Industrials	Industrial products manufacturer & supplier
Wrigley, Wm.	US	3.4	Consumer Staples	World's largest chewing gum maker
Baxter International	US	3.1	Health Care	Medical products supplier
Suez	FRA	3.1	Utilities	Multi-utilities company
Allied Capital	US	2.9	Financials	Financial institution providing small business loans
American Int'l Group	US	2.8	Financials	Insurance holding company
Royal Dutch Pet	NETH	2.6	Energy	Global integrated oil company
Enron Corp	US	2.5	Utilities	Integrated natural gas & electric company
BellSouth	US	2.5	Telecommunication	Telecommunication services provider
Intel	US	2.4	Information Technology	Global semiconductor manufacturer
IBM	US	2.3	Information Technology	Integrated information technology company
Schering-Plough	US	2.3	Health Care	Pharmaceutical & consumer product manufacturer
Viacom	US	2.3	Consumer Discretionary	Diversified media company
Rio Tinto Ltd.	AUS	2.3	Materials	Diversified mining company
Sony Corp.	JAP	2.2	Consumer Discretionary	Global entertainment media corporation
Allianz	GER	2.1	Financials	General insurance company
Exxon Mobil Corp	US	2.1	Energy	Global oil company
SmartForce	IRE	1.9	Information Technology	Computer software training firm
Wells Fargo	US	1.9	Financials	Commercial bank
Nestlé Reg ADR	SWITZ	1.9	Consumer Staples	World's largest food company
Quintiles	US	1.9	Health Care	Outsourcing partner for healthcare companies
JP Morgan Chase	US	1.8	Financials	Large money center bank
Taiwan Semiconductor	TAIW	1.8	Information Technology	Dedicated IC foundry
WPP Group	UK	1.8	Consumer Discretionary	Advertising & marketing services company
Oracle	US	1.7	Information Technology	Database management software firm
Deutsche Bank	GER	1.7	Financials	Universal bank
Hutchison Whampoa	HK	1.7	Industrials	Ports, telecom, & property conglomerate
Bristol-Myers Squibb	US	1.6	Health Care	Pharmaceutical & specialty products manufacturer
Hewlett-Packard	US	1.6	Information Technology	Computing, measurement, & communications device
Berkshire Hathaway	US	1.6	Financials	Auto insurer & general reinsurer
Automatic Data Proc	US	1.6	Industrials	Business services outsourcing company
Air Liquide	FRA	1.5	Materials	Industrial gas company
CGIP	FRA	1.4	Industrials	Investment holding company
Embraer	BRAZ	1.4	Industrials	Regional jet aircraft maker
Colgate-Palmolive	US	1.4	Consumer Staples	Consumer products company
Atlantis Japan	JAP	1.4	Financials	Closed-end fund of small Japanese companies
Wal-Mart de Mexico	MEX	1.3	Consumer Discretionary	Consumer goods & food retailer
DBS Group	SING	1.3	Financials	Singapore's largest bank
Wolters Kluwer	NETH	1.2	Consumer Discretionary	Legal, tax, medical & business news publisher
Elan	IRE	1.2	Health Care	Drug research & development company
Teva Pharmaceutical	ISR	1.2	Health Care	Producer of branded & generic pharmaceuticals
ISS Int'l Service	DEN	1.1	Industrials	Cleaning services company
Luxottica	ITA	1.1	Health Care	Low cost producer of eyeglass frames
Dassault Systemes	FRA	1.1	Information Technology	CAD/CAM software designer
Amdocs	US	1.0	Information Technology	Telecom customer & billing solutions provider
Cerus	US	1.0	Health Care	Biotechnology company
CVRD	BRAZ	1.0	Materials	Iron ore exporter & private railway operator
Carrefour	FRA	0.9	Consumer Discretionary	Food retailer & hypermart operator
Eastman Kodak	US	0.9	Consumer Discretionary	Imaging products & services group
Asatsu	JAP	0.9	Consumer Discretionary	Advertising company
Pearson	UK	0.9	Consumer Discretionary	Print & broadcast media company
Grupo Televisa GDR	MEX	0.9	Consumer Discretionary	Spanish language media company
Close Brothers	UK	0.8	Financials	Small merchant bank
China Mobile	CHINA	0.8	Telecommunication Svcs	Cellular telephone operator
Li & Fung	HK	0.7	Consumer Discretionary	Trading & logistics company
CGIP – Cap Gemini Warrants	FRA	0.0	Industrials	Investment holding company

# Global Equity Composite Performance

As of June 30, 2001

	Annualized Returns for Trailing Periods (%)					Volatility**					
	1 Year	3 Years	5 Years	10 Years	Since Inception*	Since Inception*					
<b>Global Equity (gross of fees)</b>	<b>-13.6</b>	<b>6.2</b>	<b>8.7</b>	<b>12.2</b>	<b>12.5</b>	<b>13.5</b>					
<b>Global Equity (net of fees)</b>	<b>-13.8</b>	<b>5.8</b>	<b>8.1</b>	<b>11.4</b>	<b>11.7</b>	<b>13.3</b>					
<i>MSCI All Country World Index***</i>	-20.4	1.6	7.7	10.0	7.8	14.3					
<i>MSCI World Index</i>	-20.0	1.5	8.6	10.5	8.2	14.4					
	* Inception Date: 11/30/89 ** Annual Standard Deviation (%) *** Benchmark Index										
	Calendar Year Returns (%)										
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
<b>Global Equity (gross of fees)</b>	<b>-9.9</b>	<b>1.3</b>	<b>38.9</b>	<b>2.3</b>	<b>11.0</b>	<b>17.3</b>	<b>19.0</b>	<b>0.0</b>	<b>24.3</b>	<b>8.9</b>	<b>29.4</b>
<b>Global Equity (net of fees)</b>	<b>-10.0</b>	<b>0.9</b>	<b>38.2</b>	<b>1.6</b>	<b>10.1</b>	<b>16.3</b>	<b>18.0</b>	<b>-0.9</b>	<b>23.2</b>	<b>8.1</b>	<b>28.3</b>
<i>MSCI All Country World Index***</i>	-9.9	-13.9	27.3	21.7	14.7	13.1	18.2	5.4	25.5	-4.3	19.5
<i>MSCI World Index</i>	-10.4	-12.9	25.3	24.8	16.2	14.0	21.3	5.6	23.1	-4.7	18.7
	Composite Information										
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Total market value of accounts (\$M)	\$98.4	\$107.5	\$95.7	\$179.4	\$251.3	\$188.1	\$146.8	\$112.5	\$80.2	\$63.3	\$41.8
% of total firm assets	7.9%	7.7%	6.7%	13.1%	16.5%	15.1%	23.4%	30.5%	31.8%	39.3%	29.3%
Number of accounts	6	5	†	11	15	13	13	17	16	14	12
Dispersion: asset-weighted standard deviation	NA	†	†	0.5%	0.6%	0.2%	0.6%	0.4%	1.1%	0.7%	†

† Five or fewer accounts

Portfolio Characteristics	
Weighted Average Market Cap (\$ million)	\$59,810
Price/Earning (2001 forecasted)	21.9x
Price/Earning (2000 historical)	23.6x
Price/Cash Flow	14.7x
Growth Rate	14.6%
Price/Book	3.5x
Yield	1.4%
Return on Equity	14.6%
Number of Holdings	55
% annual turnover (5 year average)	33%

Ten Largest Holdings	% Portfolio
Tyco Int'l (United States)	3.4%
Wrigley (United States)	3.4%
Baxter Intl (United States)	3.1%
Suez (France)	3.1%
Allied Capital (United States)	2.9%
American Intl Group (United States)	2.8%
Royal Dutch (Netherlands)	2.6%
Enron Corp (United States)	2.5%
BellSouth (United States)	2.5%
Intel (United States)	2.4%

Harding, Loevner Management, L.P. ('Harding Loevner') has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management Research ('AIMR-PPS™'). AIMR has not been involved with the preparation or review of this report. Harding Loevner is compliant with AIMR-PPS since 10/31/89. Compliance has been verified at Level II, one quarter in arrears, by Ashland Accounting LLP.

#### NOTES:

- Harding, Loevner Management, L.P. is an independent registered investment adviser.
- Composite includes all US\$ based, fee-paying global equity accounts under discretionary management, including accounts no longer in existence, except those related to multi-asset wealth management programs sponsored by third parties. Harding Loevner's participation in third-party sponsored programs for global equity accounts commenced April 30, 2001. Accounts are included from the first full month following the date on which the account is deemed to be fully invested. No subsector or segment of a larger portfolio is included.
- Returns shown are time-weighted total returns in US\$, and reflect reinvestment of dividends and interest. Returns include the effect of foreign currency exchange rates. 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 (gross and net) are presented after reduction due to brokerage commissions but before reduction due to custodial fees and foreign withholding taxes. Net of fees composite returns are presented after reduction due to actual management fees paid. Management fees are described in our Form ADV Part II.
- Returns of all indices are presented before foreign withholding taxes, and do not reflect commissions or fees that would be incurred by an investor in the index portfolios. Additional information regarding the benchmark, including the percentage of the composite invested in countries not included in the benchmark, is available upon request.
- Annual standard deviations of returns (volatility) are 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.
- Past performance is not indicative of future results.