



Global Equity

Performance

The Composite underperformed its benchmark during the quarter.

Review and Outlook

Non-US equity investments continue to outperform US equity investments.

We have increased the proportion of non-US companies over the past several quarters.

Activity

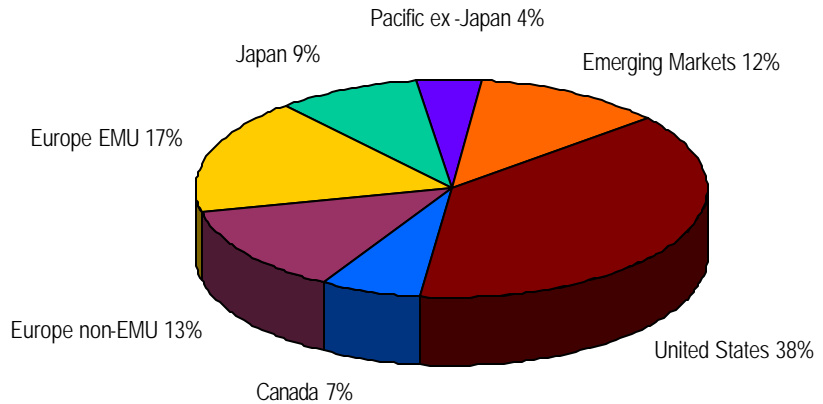
Bought: CAE, Kao Corporation, L'Oreal, Nomura Holdings, Sasol, TJX Companies

Sold: Deutsche Telekom, Grupo Televisa, ISS, Li & Fung, Munich Re, Quintiles, Schering-Plough, Viacom.

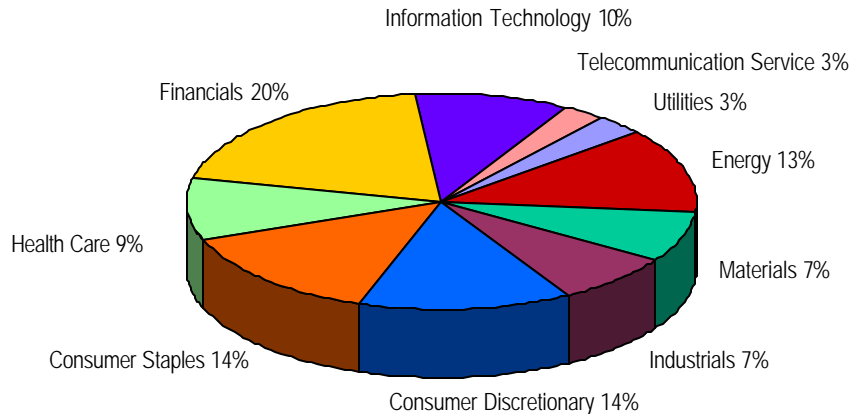
2002 Second Quarter Report

Concerns over the rate of economic recovery, accounting scandals and the financial health of leveraged technology and telecommunication companies as well as threats of war in South Asia caused poor market performance in the quarter. Despite these justified fears, we are optimistic that our companies' mix of financial strength, sound management and competitive advantages augurs well for future returns.

Region Distribution



Sector Distribution



The charts above provide a 'snapshot' of the Model Portfolio at June 30, 2002.

Markets performed poorly in the quarter, but returns to US investors in non-US markets were rescued by sharp appreciation of major currencies against the US Dollar.

Executive Summary

The Global Equity Composite fell 9.2% in the second quarter, performing just behind benchmark, as poor local market returns were mostly offset by the sharp appreciation of major currencies against the US dollar. Non-US equity investments continue to outperform US equity investments as management misdeeds weigh on US stock prices and the US Dollar as well. A key variable in both global economic forecasts and expectations for markets has been the behavior of the US consumer, but the imbalances brought on by years of domestic consumption outweighing domestic production have begun to affect the willingness of foreign investors to hold US equities. Many Asian countries, on the other hand, have long been producing more than they were consuming, are now running large current account surpluses, and are finding internal demand rising strongly to absorb production that had been heretofore targeted for the US. The large pool of savings in Europe will remain there, financing businesses and consumption alike. The mix of financial strength, sound management and global reach and competitiveness in our portfolio companies, together with their presence in growing industries and developing geographic regions gives us cause for optimism for future returns.

Performance

The Composite fell in value by 9.2% in the second quarter of 2002. Its benchmark, the MSCI All Country World Free Index, fell by 9.0%, and is now down by 8.1% for the year. Both of the style halves (i.e., growth and value) of the MSCI index fell in the quarter, by 10.0% and 8.0%.

Market Review

Markets performed poorly in the quarter, paced by dreadful returns from US stocks. The S&P500 Index fell 13% and the NASDAQ Composite Index fell 21% in the quarter. On the other hand, returns to US investors in non-US markets were rescued by sharp appreciation of major currencies against the US Dollar. Sector declines were led once again by sell-offs in most areas of technology, media, and telecommunications as companies in those sectors warned that earnings would not recover as quickly as investors and managements had hoped. MSCI's global information technology sector index fell 27%, telecom services fell 23%, while the media subindex fell 24%. Companies with

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The historically 'defensive' sector, pharmaceuticals, was not the place to hide in the quarter.

heavy debt loads, such as AT&T, Tyco, France Telecom, and Ericsson, struggled with hostile markets for asset sales or equity issuance they had contemplated to raise cash. Fears of debt defaults and restructurings have weighed on shares of technology and telecom companies.

Additionally, more accounting irregularities made headlines (primarily in the US: Omnicom in advertising, WorldCom in telecommunications) and caused investors to reduce their risk tolerance. The repeated pattern of 'TMT' in the chief market losers camp is fulfilling the old adage, 'The bigger they come, the harder they fall,' reflecting the extreme degree to which these sectors had become so overpriced and widely held. The portfolio is underweight both technology and telecom services, but overweight companies that fall into the media category.

Investor focus on debt defaults, along with the general decline in equity markets, hit the financial services sector hard, especially in Europe. Wholesale banks have reported rising loan loss provisions and falling commissions from corporate transactions, while insurance companies have suffered the twin perils of claims (September 11) and falling equity markets (which erased large chunks of their capital). Suspicions linger that a significant portion of US corporate bonds, securitized debt, and credit derivatives have wound up on the books of supposedly stodgy insurance companies. Additionally, valuations in Europe had included significant expectations of increased private pension investment by individuals, which they are now likely to postpone irrationally amidst rising aversion to equity investment in the current climate. The European insurance sub-index fell by 20% in the quarter, in local currency terms. We sold our only European insurance holding in the quarter.

Neither was the historically 'defensive' sector, pharmaceuticals, the place to hide in the quarter. Drug companies are victims of both the vicissitudes of scientific discovery and the dependence on (democratic) governments to enforce the intellectual property rights that protect their out-sized margins. The progress of the McCain/Schumer bill through the US Congress, giving generic manufacturers greater access to the proprietary products of the ethical drug companies is merely the latest manifestation of this latter issue. Since the US drug market is by far the largest and most profitable, the potential impact on all global pharmaceutical companies is significant. The portfolio is underweight healthcare, having sold **Schering-Plough** and **Quintiles** early in the quarter.

We have increased the proportion of non-US companies in the portfolio over the last eighteen months. The proportion of US-domiciled holdings is just 37%.

What is clear, however, is that non-US equity investments continue to outperform US equity investments as the steady drumbeat of management misdeeds weighs not only on US stock prices, but on the value of the dollar as well. For the year to date, the MSCI All Country World ex-US Index has outperformed the S&P500 by more than eleven percentage points in dollar terms. There is wide dispersion within the non-US world, of course. In the quarter, the European indices performed worse than US indices if you looked at each in its local currency, but the European returns were still better for USD investors due to the 14% strengthening of the Euro against the US Dollar. We have been consistently increasing the portfolio's holdings of non-US companies over the past eighteen months, causing the proportion of US-domiciled holdings to fall to 37% at quarter end, down from just over half.

Japan, on the other hand, after its sharp first quarter rally, actually rose another 7% this quarter, falling back only after making further gains early in the quarter. The question remains whether its performance, clearly engineered by the Government in the first four months of the year, will prove to be as fleeting as previous rallies have been, or instead presages more fundamental improvement. Optimists can point to steady increases in export revenues, share buybacks announced by a number of the strongest companies, and continued restructuring and even occasional mergers in the corporate sector. Pessimists can point to the ineffectual government efforts at reform and the barely functioning banking system. We have moved towards the optimist camp, adding two new companies, **Kao** and **Nomura**, to our holdings in Japan this quarter.

Emerging markets, as one might expect, have not prospered in the current environment of increased risk aversion. The MSCI Emerging Market Index fell by 8.4% in the quarter. While the technology sectors of Korea and Taiwan clearly dragged down those individual markets, it was Brazil—potentially the latest Latin American casualty—that weighed most heavily on sentiment. Favorable prospects for the populist Presidential candidate, Mr. Luiz Inacio or 'Lula' da Silva, have shaken the confidence of both domestic and foreign investors. Statements about his willingness to see Brazil default on its foreign debt caused sovereign debt yields to spike to 20% from 14% in the space of three weeks, with the inevitable consequences for Brazilian equity prices, and with knock-on effects elsewhere in the region, particularly in Mexico, where investors' confidence in political and economic stability

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had led to quite low interest rates and elevated stock prices over the past two years. More than one tenth of the portfolio is invested in emerging markets, with only **CVRD** in Brazil, whose ultra-basic business of exporting iron-ore remains relatively untouched by the turmoil.

US Consumption

A key variable in both global economic forecasts and in investors' expectations for markets is the behavior of the US consumer. The reason lies in their behavior over the past five years, in which the *growth* in US domestic demand outstripped growth in domestic production by at least a half percent a year, a phenomenon that has led to the US current account deficit reaching more than 4% of GDP. That is to say, Americans have bought imports, such as capital goods (e.g., computers—or computer chips—made in Taiwan), consumer goods (BMW automobiles, or Chinese bristle paint brushes), commodities (oil), or services (vacations abroad) to the tune of \$350 billion dollars *more* than the nation produced last year. That sustained excess demand has been the primary growth engine of the global economy, and any downshift has implications for nearly all companies, regardless of their domicile. Every other country that has ever reached that level of imbalance (in percentage terms) eventually has had to make a nasty adjustment in their standard of living, normally via the mechanism of changes in the value of their currency, and often via increases in their cost of capital (e.g., interest rates) as well.

While US business capital spending has declined markedly, this sort of adjustment has not yet been forced on US consumers because foreign investors have been happy (until just recently) to increase continuously their holdings of US securities—IOWs, if you will—because the returns from US investments were consistently high or safe, compared to their domestic alternatives. Now, of course, the corporate governance or accounting scandals, along with high-profile bankruptcies, are creating concern that with those high returns have lurked high, but hidden, risks all along. This concern is reducing the willingness of investors to hold equities in general, and US equities in particular. We believe that this factor, itself an increase in the cost of capital for companies, has triggered a downward shift in the willingness of foreign savers to hold US dollar-denominated investments. The necessary corollary is that US consumption will no longer be easily financed abroad, and must therefore adjust as well.

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There are other corollaries to this increase in the average investor's perception of risk that relate to our longstanding preferences in choosing companies for investment. First, and most obvious, is that our continuous monitoring of management's ability and attitude toward shareholders has large dividends to reap. We have not been wholly unscathed by managements that mislead us and put their own interests ahead of outside shareholders, but we have at least been cognizant and vigilant that such potential conflicts form a key risk to long-term returns. We think attention to that vector of risk, along with our willingness to sell solely based on such intangible and subjective grounds, has spared us some of the worst of the losses that are grabbing headlines today. (In January, for example, we sold our holding in Elan, the Irish pharmaceutical company, when we became aware that the company had less-than-arms-length business dealings with a company in which management and a director held personal interests.) Second, our insistence on financial strength has steered us clear of the high profile debt-induced collapses. It should continue to serve us well in the period ahead, since financially stronger companies will enjoy a lower cost of capital than indebted ones, a key competitive advantage when there are attractive pieces of devastated corporate empires to pick up cheaply. Third, our pursuit of companies with global competitiveness and global reach means that companies in the portfolio, notwithstanding their often significant exposure to the US economy, will be blessed with growing businesses elsewhere in the world to which they can redirect resources. The combined effect is that our companies should enjoy a smaller increase in their collective risk premium than the average company, and certainly than the average US company.

Indeed, this mix of financial strength, sound management, and global reach and competitiveness in our portfolio companies, together with their presence in growing industries and diverse and developing geographic regions gives us cause for optimism for future returns. Our US holdings increasingly are dominated by companies with a high proportion of overseas earnings. **Wrigley**, for example, has invested for decades in building its chewing gum business beyond the borders of the US, to the point that now more than half its revenues originate from its international business. If the dollar remains weak, it will not be long before more than half its profits do so as well. **JPMorganChase**, after merging the Robert Fleming and the Morgan asset management and investment banking businesses, now earns one third of its revenues in Europe and Asia. **Intel**, the world's dominant manufacturer of microprocessors for personal computers and network servers, had more

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of its sales revenues come from the Asia-Pacific region than from North America for the first time last year. Now, almost two thirds of revenues are from outside the Americas, the result of years of painstaking development of its global distributor networks as well as heavy investment in research, development, and production facilities even during recessions.

Asian Consumption

So who has been holding all these US IOUs, and what are they doing with the money? The answer, of course, is Asians. Asian countries, surprisingly even the ones that were on the ropes just four years ago, are running large current account surpluses. China and Hong Kong together hold official reserves of \$350bn, equal to last year's US current account deficit. Thailand, forced to devalue its currency in 1998 due to its own balance of payments crisis, now holds \$34bn in official foreign reserves, while South Korea, another devaluation victim, has amassed more than \$100bn. Foreign asset positions reported in a number of Asian banking systems have shown dramatic growth in the recent past, implying that the private sector is holding substantially more US securities than the official reserve statistics reveal. The ability to turn around their own balance of payments with a combination of devaluation-led export booms alongside financial restructuring have left most Asian countries with very large foreign currency, i.e., US Dollar, asset positions. If they have been producing (for export) more than they have been demanding (for consumption or for capital expansion), as the current account surplus defines, the logical alternative to reducing production or increasing their stock of US Dollar IOUs is to increase internal demand, particularly consumption!

Exports (from Japan) have been enjoying a cyclical upsurge, rising five months in a row, and up 7% from the post-September 11th lows hit last November. The surprise has been the proportion of those exports that are headed for the rest of Asia rather than for the US, previously the favored destination. This pattern fits with an abundance of evidence that consumption across the rest of Asia has rebounded from the crisis of 1997/1998, and has been growing strongly even as the world has narrowed its focus to the fate and health of the US consumer. Thailand's exports have been falling (normally a sign of weakness!) as rising domestic demand absorbs more of domestic production, particularly of motorcycles and small trucks and vans. In Taiwan, there are now more mobile phones in use than there are citizens. This recent

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Asian phenomenon of absorbing domestic production with domestic consumption, thereby displacing exports and reducing the buildup of foreign IOUs, has been particularly rapid in Korea. There, a large current account surplus has shrunk over the past two years, coincident with a consumer credit boom that has sent mortgage issuance and credit card receivables to unprecedented heights. Partly as a consequence of government policies encouraging card use to (sensibly) improve the reporting of retail transactions and the collection of sales taxes, there are four credit cards in issue for each man, woman, or teenager over the age of 15!

In China, the two largest mobile phone companies between them continue to add nearly three million new users per month, not counting those they are adding by acquisition. For **China Mobile Telecom**, the largest, that equates to a 40% customer growth rate in the current year. We also own **DBS** (formerly the **Development Bank of Singapore**), which, too, will grow with exposure both to consumers and to businesses in Singapore, Hong Kong, Thailand and the Philippines. We also own a number of multinational companies whose longstanding presence and consistent investment in the region are reaping high rewards today and should continue to do so in future. Besides Wrigley and Intel, already mentioned, **Colgate** and **Nestlé** both earn nearly a fifth of their revenues in Asia, while **Sony's** consumer electronics products are high on the list of brand name items sought by Asian consumers. We own insurer **American International Group (AIG)**, whose corporate origins actually lie in Shanghai rather than New York City, and which earns one-third its revenues (and a greater share of its profits) from Asia, where the penetration of financial services is growing rapidly.

European economies are not caught in the excess consumption bind of the US, nor do they have the same incidence of accounting or management scandal, notwithstanding the tribulations of Jean-Marie Messier in the aftermath of his acquisition-led efforts to turn French water utility Generale des Eaux into to a global media powerhouse (re-named Vivendi) to rival America's. Nevertheless, Europe's stock markets have been weak, as immature equity markets have looked to the US market for leadership and found it wanting, or rather, active in a downward direction. There is a large pool of savings in Europe, a significant amount of which has been invested abroad, particularly in the US. In addition, the imperatives of an under-funded state pension system imply that savings streams will be growing in future, as reforms

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to the systems foster greater private, individual pension investment. We believe that much of these investment flows will remain inside the European area, financing business and consumption alike. A housing price boom is underpinning consumer confidence in many European countries, such as in Spain or the UK, both of which have seen house prices rise by a third over the past three years, and where the ratio of home prices to income are on par with US levels. The combination of no external imbalance to redress and a healthy consumer should mean that European demand is insulated from a US consumption slowdown or weak stock markets. Thus, Europe, unlike the US, does not present the conditions for a vicious cycle of stock market and economic decline.

Our holdings in Europe are increasingly in less volatile businesses, whose earnings will be resilient even during a period of prolonged strength in European currencies. They are uniformly of high financial quality, with strong management track records. There are almost no exporters among them, although most are multinationals with significant businesses in the US and elsewhere outside Europe. Typical of these is **L’Air Liquide**, the French-based industrial gas multinational, whose business is geared in the medium term to the growth of industrial production, but in the short run is dictated by long-term contracts with food, semiconductor and steelmakers, who need its pure products without interruption in their manufacturing processes. One third of its installations, and therefore its revenues, are in the US, but earnings are shielded from currency depreciation by dollar borrowings. **L’Oreal**, a new holding this quarter, earns nearly two-thirds of its profits in Europe, but has seen very rapid growth for its cosmetic and hair coloring products in Asia and emerging markets, which should compensate for any slowdown in its US earnings growth.

One aspect of global competitiveness that differs from the global reach achieved by years of painstaking development of brand awareness and distribution far from home base is the competitive position that accrues to the survivors, nay, the victors of a long and painful consolidation process in an industry. The end result can be a sustained improvement in profit margins as the bargaining power of a fragmented customer base wanes in comparison to the few remaining producers. The end result can be earnings growth where previously there had only been cyclicity and fleeting values. We believe that is the case in several industries today. We own both **Rio Tinto**, the world’s mining finance house, with its significant share of world coal, copper, and iron ore production, and **Companhia Vale do Rio Doce (CVRD)**, the world’s

The activity in the portfolio reflected several of the themes discussed above.

We reduced exposure to the US consumer. . .

largest producer of iron ore pellets. These producers of commodity products have not spent money on trying to differentiate their products from others', in the way Nestlé has; rather, they have concentrated their efforts on continuously reducing their operating costs while maintaining their financial strength so as to be able to take advantage of their competitors' moments of weakness. With 75% of global iron ore production shared between these two companies plus Australia's BHP, they have been able to shrug off most of the downward price pressure that used to exert itself so brutally in prior recessions.

Activity

Early in the quarter, we sold holdings in two health care companies. We had held **Schering-Plough** as a fallen angel in the drug sector, and cheered as it repaired the two major holes in its armory, achieving a sign-off by the FDA on its manufacturing processes and then getting Clarinex approved, but there are few reasons going forward to suggest that its growth will exceed what its share price discounts. We sold **Quintiles** as our thinking crystallized that the company was gravitating to a different business model in response to changes in their bargaining position versus some of their customers, requiring a good environment for health care start-ups to get full payment for their services. We also reduced our holding in **Cerus**, concerned that the clouds over the biotechnology and pharmaceutical sectors would negatively impact the discount rate of this company's major products, which are not due to earn revenues for another two years. That concern has unfortunately proven correct, even though the company continues to hit all its milestones on the way to the introduction of its viral inactivation blood products.

We reduced exposure to the US consumer by *selling* our holding in **Li & Fung**, whose shares have appreciated sharply since last fall and were trading at the time of sale at thirty times our estimate of 2002 earnings. This valuation leaves little room for earnings disappointment, which is a possibility given the company's reliance on continued strength in US retailing. We invested the proceeds in **TJX**, the dominant 'off-price' retailing company in the US, operating under store brands such as T.J.Maxx and Marshalls. Its business tends to do well in difficult times for the consumer, as they become more bargain oriented, and when mainline retailers have more unsold merchandise for TJX to liquidate.

We *sold* our holding in **Viacom**, whose share price has risen substantially since last fall, anticipating a full recovery of its advertising

. . .we increased holdings of less cyclical consumer companies. . .

. . .and reduced³/₄ again³/₄ our exposure to telecommunication services. . .

revenues and synergies between its television, radio, and outdoor advertising channels. This is at odds with the share performance of other advertising related shares we own, and takes no account of the tensions between the CEO and the Chairman in the corporate office. We reinvested the proceeds in a company whose share price reflects deep cynicism about its ability to either achieve synergy between its multiple media channels *or* see a recovery in its advertising revenues: **AOL-Time Warner**. We are admirers of Richard Parsons, its new CEO, and are attracted to the significant portion of its revenues that are recurring customer fees, especially relative to Viacom. We also *sold* our position in **Grupo Televisa**, the Mexican broadcaster. The company has done a good job in cutting its costs in the last few years, but has disappointed in its efforts to increase the rate of revenue growth in the Mexican market. Televisa's ability to generate returns from its library of Spanish language content has been inhibited by the terms of its deal with Univision, the leading Spanish language broadcaster in the US. We are thus concerned that the company has failed to capitalize on a consumer boom, leaving it vulnerable to an economic downturn in Mexico, the US, or both.

We increased holdings of less cyclical consumer products companies by *adding* to our position of **Colgate-Palmolive**, whose consistent performance in both product innovation and profitability continue to impress us, and *buying* a new holding in **L'Oreal**, the Paris-based cosmetics and personal care products company, whose record of sales and profit growth we have long admired, but whose share price has long reflected its pre-eminent position and bright growth prospects. Its shares had weakened over the past year, in part due to customer restraint after September 11th, but for us, its long-term attractions are undimmed, and we view this as a rare opportunity to buy at an attractive valuation.

We reduced our exposure, once again, to telecommunication services by *selling* our holding of **Deutsche Telekom**, where our investment thesis, that the company's size and financial strength were important competitive advantages, has proven flawed. The company has been unable to sell sufficient assets to reduce debt to the levels that we had assumed would be the case by now. But we began adding to our information technology holdings, *buying* additional shares of database software maker **Oracle Systems**, whose share price has been buffeted by profit warnings amidst the slowdown in business spending and by its own botched introduction of a new product suite. It remains the dominant provider of business-to-business software, and will benefit

We added to Japan. . .

from any eventual upturn in business or government spending to upgrade information systems.

We bought two new holdings in Japan, and added to a third. We bought **Nomura Securities**, Japan's largest stockbroker. Nomura sits at the crossroads of much that is changing in Japan: unwinding of cross shareholdings between companies and banks; securitization of loans and real estate to provide financing and investment alternatives to banks; defined contribution pensions (401K-style); Postal Savings disgorging (\$300 billion matured in 2000-2001); inheritance by 'baby boomers'; and the advent of 'Life Cycle Investing', financial advisors, and diversified portfolios. The new CEO has made large strides towards reorienting the company to customers' and shareholders' needs. We also bought shares of **Kao Corporation**, Japan's premier producer of branded household products such as laundry detergents, body care, disposable diapers, and cooking oils. Kao's dynamic management has not rested comfortably on the company's strong and dependable business franchise; instead it has restructured its distribution methods, reducing its reliance on the wholesaler middlemen that constrict so much of Japan's retail supply, and have continued to improve their market-leading positions in their product categories. More importantly, they have turned their attention to shareholders, whom they have rewarded with annual dividend increases in nine of the last ten years, along with instituting share buybacks amongst the earliest of Japanese companies, in 1999. We also added to our holding of WPP advertising affiliate, **Asatsu**.

*. . .and rearranged our
financials holdings.*

We sold our holding in **Munich Reinsurance**, which was caught not only in the negative environment of European investors grappling with lack of transparency and reduced capital adequacy for insurers, but also with the temporary but real difficulty of a strategic shareholder, Deutsche Bank, liquidating its holding in a falling market. We reinvested instead in additional shares of **AIG**, in order to maintain exposure to the hardening insurance cycle and to take advantage of its own transparency affected share price. We also added to holdings of **Deutsche Bank**, convinced that the sale of industrial stakes, however untimely, was a proof statement by new CEO Josef Ackerman that the bank will finally deliver on its promise of better focus on its asset returns and its costs.

We reduced our large holding in **Allied Capital**, cognizant that its portfolio of high-yield loans and equity warrants necessarily contained more general risk than the market appeared to be discounting, but we

**We added holdings in
two unique
businesses**

were subsequently surprised by how scathingly some investors began to view the company's longstanding accounting practices. We have followed and owned this company for many years, and continue to believe that the imperative of paying a high quarterly dividend, combined with substantial management ownership of shares in the company, has and will keep management's focus on sound business practice and serve shareholders well. We also reduced our holding of **DBS** in the quarter.

We added two holdings in unique businesses that have newly attracted our attention. We bought a new holding in Canadian flight training provider, **CAE**, which is leveraging its global leadership in flight simulators into the pilot training market, including, now, military training. Simulation-based training continues to grow, driven mainly by its cost advantage versus live training. We also bought shares in **Sasol**, South Africa's leading energy company and the world's largest producer of motor fuels and refined chemicals produced from coal feedstock. Sasol has also commercialized a gas-to-liquids synthesis that converts natural gas into diesel fuel and, in partnership with Chevron, is developing three such plants in Qatar, Trinidad and Nigeria, near stranded gas fields where the energy reserves would otherwise be unused or flared off as waste.

We *sold* the holding in Danish contract services company **ISS** to fund the purchase of CAE.

Global Equity Holdings as of June 30, 2002

Company	Country	Weight (%)	Sector	Description
Wrigley, Wm.	US	4.7	Consumer Staples	World's largest chewing gum maker
Air Liquide	FRA	3.4	Materials	Industrial gas company
Oracle	US	3.3	Information Technology	Database management software firm
American Int'l Group	US	3.3	Financials	Insurance holding company
Taiwan Semiconductor	TAIW	3.1	Information Technology	Dedicated IC foundry
Suez	FRA	3.1	Utilities	Multi-utilities company
Hutchison Whampoa	HK	3.0	Industrials	Ports, telecom, & property conglomerate
Imperial Oil	CAN	2.9	Energy	Integrated oil company
Royal Dutch Pet	NETH	2.9	Energy	Global integrated oil company
Teva Pharmaceutical	ISR	2.8	Health Care	Producer of branded & generic pharmaceuticals
Rio Tinto Ltd.	UK	2.7	Materials	Diversified mining company
AOL Time Warner	US	2.6	Consumer Discretionary	Large media company
Allied Capital	US	2.6	Financials	Financial institution providing small business loans
Nestlé Reg	SWITZ	2.4	Consumer Staples	World's largest food company
Wells Fargo	US	2.4	Financials	Commercial bank
Baxter International	US	2.4	Health Care	Medical products supplier
Exxon Mobil Corp	US	2.4	Energy	Global oil company
Colgate-Palmolive	US	2.3	Consumer Staples	Consumer products company
EnCana	CAN	2.3	Energy	Producer of natural gas
L'Oreal	FRA	2.2	Consumer Staples	Personal care products manufacturer
Deutsche Bank	GER	2.2	Financials	Universal bank
Automatic Data Proc	US	2.1	Industrials	Business services outsourcing company
Sasol	S AFR	2.1	Energy	Refined petroleum products producer
Sony Corp.	JAP	2.1	Consumer Discretionary	Global entertainment media corporation
TJX Companies	US	2.0	Consumer Discretionary	Off-priced name brand stores
Nomura Holdings	JAP	1.9	Financials	Brokerage firm
Berkshire Hathaway	US	1.8	Financials	Auto insurer & general reinsurer
Intel	US	1.8	Information Technology	Global semiconductor manufacturer
Novo Nordisk	DEN	1.8	Health Care	Prescription drug manufacturer
Pearson	UK	1.8	Consumer Discretionary	Print & broadcast media company
WPP Group	UK	1.8	Consumer Discretionary	Advertising & marketing services company
Kao Corporation	JAP	1.7	Consumer Staples	Household products maker
Vodafone	UK	1.7	Telecommunication	Telecommunication services provider
JPMorgan Chase	US	1.6	Financials	Large money center bank
Atlantis Japan	JAP	1.6	Financials	Closed-end fund of small Japanese companies
Asatsu	JAP	1.6	Consumer Discretionary	Advertising company
Wal-Mart de Mexico	MEX	1.6	Consumer Discretionary	Consumer goods & food retailer
Luxottica	ITA	1.5	Health Care	Low cost producer of eyeglass frames
Dassault Systemes	FRA	1.5	Information Technology	CAD/CAM software designer
CVRD	BRAZ	1.3	Materials	Iron ore exporter & private railway operator
CAE	CAN	1.2	Industrials	Flight simulator & pilot training software maker
Honeywell International	US	1.0	Industrials	Industrial & engineering conglomerate
DBS Group	SING	1.0	Financials	Singapore's largest bank
China Mobile	CHINA	0.9	Telecommunication Svcs	Cellular telephone operator
Close Brothers	UK	0.8	Financials	Small merchant bank
Cerus	US	0.8	Health Care	Biotechnology company

All portfolio holdings and sector allocations are subject to review and may vary in the future; and are not recommendations to buy or sell any security.

Global Equity Composite Performance

As of June 30, 2002

	Annualized Returns for Trailing Periods (%)					Volatility ²					
	1 Year	3 Years	5 Years	10 Years	Since Inception ¹	Since Inception ¹					
Global Equity (gross of fees)	-14.5	-1.2	2.0	8.4	10.1	13.5					
Global Equity (net of fees)	-14.9	-2.0	1.2	7.5	9.2	13.4					
<i>MSCI All Country World Free Index³</i>	<i>-14.2</i>	<i>-8.4</i>	<i>0.4</i>	<i>7.9</i>	<i>6.0</i>	<i>14.2</i>					
<i>MSCI World Index</i>	<i>-14.9</i>	<i>-8.5</i>	<i>0.9</i>	<i>8.2</i>	<i>6.2</i>	<i>14.2</i>					
	¹ Inception Date: 11/30/89 ² Annual Standard Deviation (%) ³ Benchmark Index										
	Calendar Year Returns (%)										
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Global Equity (gross of fees)	-9.7	-14.9	1.3	38.9	2.3	11.0	17.3	19.0	0.0	24.3	8.9
Global Equity (net of fees)	-9.8	-15.5	0.9	38.2	1.6	10.1	16.3	18.0	-0.9	23.2	8.1
<i>MSCI All Country World Free Index³</i>	<i>-8.1</i>	<i>-15.9</i>	<i>-13.9</i>	<i>27.3</i>	<i>21.7</i>	<i>14.7</i>	<i>13.1</i>	<i>18.2</i>	<i>5.4</i>	<i>25.5</i>	<i>-4.3</i>
<i>MSCI World Index</i>	<i>-8.6</i>	<i>-16.5</i>	<i>-12.9</i>	<i>25.3</i>	<i>24.8</i>	<i>16.2</i>	<i>14.0</i>	<i>21.3</i>	<i>5.6</i>	<i>23.1</i>	<i>-4.7</i>
	Composite Information										
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Total market value of accounts (\$M)	\$131.9	\$152.5	\$107.5	\$95.7	\$179.4	\$251.3	\$188.1	\$146.8	\$112.5	\$80.2	\$63.3
Total firm assets (\$M)	\$1148.0	\$1154.5	\$1392.4	\$1423.3	\$1371.5	\$1520.8	\$1247.3	\$635.1	\$369.1	\$252.1	\$161.1
% of total firm assets	11.5%	13.2%	7.7%	6.7%	13.1%	16.5%	15.1%	23.4%	30.5%	31.8%	39.3%
Number of accounts	7	7	†	†	11	15	13	13	17	16	14
Dispersion: asset-weighted standard deviation	NA	0.4%	†	†	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)	\$42,730
Price/Earning (2002 forecasted)	23.3 times
Price/Earning (2001 historical)	22.8 times
Price/Cash Flow	12.2 times
Growth Rate	13.7%
Price/Book	2.4 times
Yield	1.7%
Return on Equity	11.4%
Number of Holdings	46
% annual turnover (5 year average)	33%

Ten Largest Holdings

	% Portfolio
Wrigley (United States)	4.7%
Air Liquide (France)	3.4%
Oracle (United States)	3.3%
American Intl Group (United States)	3.3%
Taiwan Semiconductor (Taiwan)	3.1%
Suez (France)	3.1%
Hutchison Whampoa (Hong Kong)	3.0%
Imperial Oil (Canada)	2.9%
Royal Dutch (Netherlands)	2.9%
Teva Pharmaceutical (Israel)	2.8%

Global Equity Composite contains fully discretionary U.S. dollar-based global equity accounts and for comparison purposes is measured against the MSCI All Country World Free Index. Effective October 31, 2001, MSCI has discontinued the original version of the All Country World Index series in favor of the 'Free' version of the series, which excludes a portion of the market capitalization of several emerging markets that is restricted to foreign investors, but is otherwise identical. Returns include the effect of foreign currency exchange rates. Information regarding the benchmark, including the percentage of the composite invested in countries or regions not included in the benchmark, is available upon request.

Harding, Loevner Management, L.P. has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the US and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report. Ashland Accounting, LLP has verified firmwide compliance since October 31, 1989.

Harding, Loevner Management, L.P. is an independent registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this composite. Composite performance is presented gross of foreign withholding taxes. Past performance is not indicative of future results.

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Actual returns will be reduced by custodial fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

No balanced portfolio segments are included, nor is this composite a sub sector of a larger portfolio. Leverage is not used in this composite.

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

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