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Review

- The Composite underperformed its benchmark for the quarter.
- Overweights in Emerging Markets and Semiconductor industry hurt returns.
- Echo of last year's global low-quality rally impacts Japanese market.

Performance (as of June 30, 2004)

	Last Quarter	Last 12 Months	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ²	Volatility ³
Global Equity (gross)	-2.9%	18.9%	0.4%	2.7%	7.5%	9.9%	13.8%
Global Equity (net)	-3.1%	18.4%	-0.1%	2.0%	6.7%	9.1%	13.7%
MSCI ACW ⁴	0.5%	24.9%	1.8%	-1.1%	7.2%	6.7%	14.4%
MSCI World	1.0%	24.6%	1.3%	-1.3%	7.6%	6.8%	14.4%

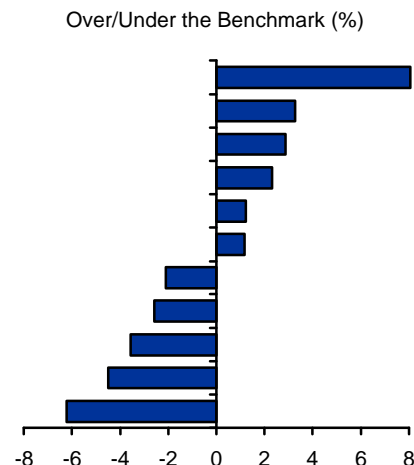
¹Annualized Returns, ²Inception Date: November 30, 1989; ³Annual Standard Deviation ⁴The Benchmark Index
Please read the above performance in conjunction with the footnotes on the back page of this report.

Outlook

- Recent performance of portfolio share prices has disappointed, performance of underlying businesses has not.
- With policy stimulus reversing, continued robust private sector growth is not assured.
- Quality companies delivering on growth remain underappreciated by the market.

Current Portfolio Structure

Sector	HL Global	MSCI ACW
Info Technology	21.1%	13.0%
Cons Discretionary	15.4%	12.2%
Consumer Staples	11.9%	9.0%
Materials	7.6%	5.3%
Cash	1.2%	--
Energy	8.9%	7.7%
Telecom Services	3.0%	5.1%
Industrials	7.5%	10.1%
Utilities	--	3.5%
Health Care	6.2%	10.7%
Financials	17.2%	23.4%



Portfolio Activity

Purchases	Sector	Sales	Sector
Anhui Conch Cement	Materials	BMW	Cons Discretionary
Oracle	Information Technology	Johnson & Johnson	Health Care
Sumitomo Mitsui Financial	Financials	Reliance Industries	Energy
VNU	Cons Discretionary	Television Francaise	Cons Discretionary

All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. A complete list of holdings appears on page 9 of this report.

European shares paced the market, while Emerging Markets and Japan lagged.

Review

Equities ended the quarter barely changed in dollar terms, after facing a difficult first six weeks that included the worst bond market performance in a decade, along with a sharp correction in emerging markets. The Global Equity Composite fell by 3.0%, behind the 0.5% increase of its benchmark, the MSCI All Country World Index.

European shares did better than those in other markets, managing a gain of 3% within the EMU zone, and 2% in the countries outside the monetary union. Japanese shares actually fell in the quarter, by 4%, but retain the highest returns in the year to date, still up 11%. The broad Emerging Markets index dropped almost 10%. The US rose slightly more than the overall index. Global value stocks again outperformed growth and now are 200 basis points ahead year to date.

Table 1. Market Performance (% Total Return)				
Market	Trailing 12 Months		2Q 2004	
	USD	Local	USD	Local
Canada	26.0	24.3	-1.8	0.4
Germany	35.1	27.5	4.1	5.2
Japan	46.2	32.9	-3.8	0.9
United Kingdom	26.4	15.0	1.5	2.8
United States	18.7	18.7	1.7	1.7
Europe EMU	29.8	22.5	2.8	3.9
Europe ex-EMU	29.0	18.2	2.1	2.7
Pacific ex-Japan	28.6	25.0	-4.7	1.7
Emerging Markets	33.7	30.3	-9.6	-8.1

Source: Wilshire Atlas, MSCI

Globally, the strongest sectors were Energy and Industrials, while Telecom Services and Financials were the weakest.

Energy and Industrials were the best performing sectors.

Table 2. Sector Performance (% Total Return)		
Sector	Trailing 12 Months	
	USD	USD
Consumer Discretionary	26.0	0.5
Consumer Staples	22.4	1.7
Energy	30.1	5.1
Financials	26.5	-2.1
Health Care	11.3	3.2
Industrials	34.2	4.0
Information Technology	27.2	-0.9
Materials	37.6	-1.4
Telecom Services	14.6	-2.4
Utilities	21.7	0.3

Source: Wilshire Atlas, MSCI

Intermediate US Treasury yields rose by a full percentage point as stronger growth, employment, and inflation became evident, leading other bond prices lower and anticipating the eventual short-term interest rate hikes by UK, Swedish, Canadian

Emerging markets reversed the gains of the first quarter.

The reaction says more about recent investors than fundamentals of the companies.

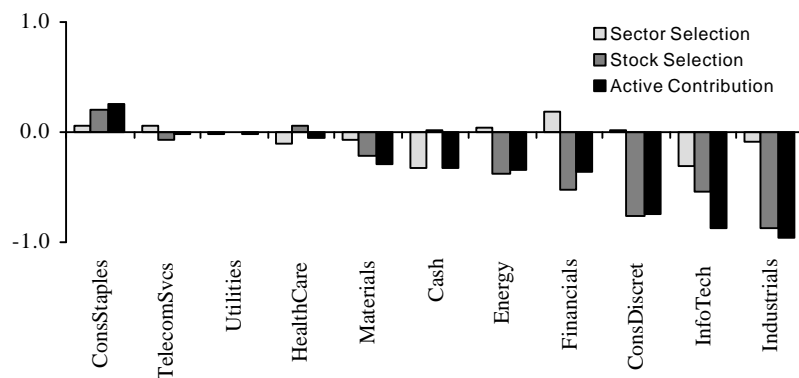
central banks, and now—on the final day of the quarter—by the US Federal Reserve.

Emerging markets had very poor returns, more than reversing the sharp gains of the first quarter, a result of several factors. The bond market rout and anticipated Fed tightening raised the specter of squeezed liquidity conditions adversely affecting speculators, and a series of negative developments in various markets triggered sell-offs. Foremost were the administrative attempts begun late last year to slow down the overheating economy in China, which took hold this quarter. Investors also had to contend with a surprise change of government resulting after national Indian elections, and renewed worries over Russian commitment to the rule of law and property rights as the Putin government’s vendetta against Yukos and its largest shareholders intensified.

Portfolio Attribution

We have been overweight both emerging markets—the worst performing region in the quarter—and the semiconductor industry—the worst performing industry group—continuously over the past year of rising markets and recovering economic growth. Indeed, given our holdings of both **Samsung Electronics** in Korea and **Taiwan Semiconductor Manufacturing**, the two areas of emphasis have a strong degree of overlap, so that an academic analysis of performance attribution highlights two explanations for performance this quarter that, in part, derive from a single pair of holdings. While our stance on emerging markets is of long standing and has been discussed before, we have remained overweight the ‘region’ as well as the semiconductor group more recently due to their exposure to faster growth in the global economy and, in the case of semiconductor stocks, to their historical imperviousness to rising interest rates. Emerging markets reacted violently to falling debt markets, which we believe says more about the type of investors who have recently joined the asset class than it does about the fundamental attraction of emerging markets companies.

Graph 1. GICS Sector Value Added Relative to MSCI ACW Index (%) 2Q 2004



Source: Wilshire Atlas

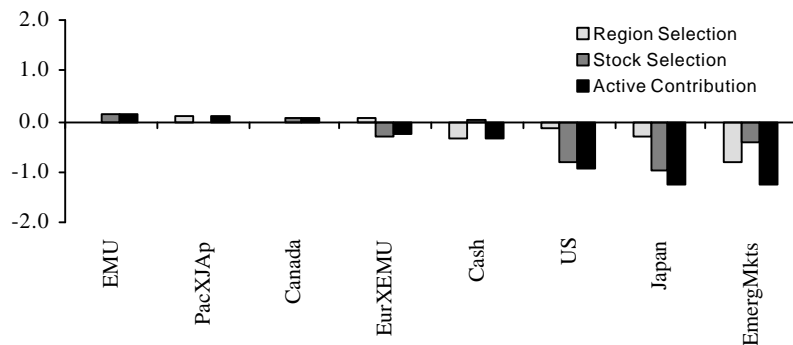
Bold indicates companies held in the portfolio. The percentage of each position appears on page 9 of this report. Although these holdings, as well as others mentioned in this report, were viewed favorably at the end of the reporting period, all holdings are subject to review and adjustment in accordance with our investment strategy and may vary in the future; and are not recommendations to buy or sell any security.

Japanese flight from quality echoes last year's global impact.

As mentioned, the government efforts to slow the Chinese economy started to bite this quarter, and shares of our lone Chinese holding, **Denway Motors** (Honda's joint venture partner), fell victim to a Draconian halt in auto loans being advanced by Chinese state-owned banks, and by announcements of significant new capacity plans by GM and VW. We continue to be very optimistic for the long-term growth of automobile ownership in China, and bought more stock after it declined by almost half.

With regard to our Japanese stock selection, we believe that there has been a continuation in that market of the flight from quality that bedeviled us in other markets last year. It is the dross of the domestic economy, no longer pricing a likelihood of bankruptcy or stasis, and finally yielding to restructuring, that have been the strongest performers there over the past year, while many of our holdings of well-managed, profitable and growing companies have seen their stocks ignore sterling financial results. However, we also were hurt by our holding of **Mitsubishi Corporation**, which not only has exposure to China via its iron ore, coal, and equipment distribution businesses, but also agreed to help bail out ailing Mitsubishi Motors, in a reminder that the old keiretsu ties in Japan are still potent. We continue to hold Mitsubishi Corporation because the changes that are occurring there are, on balance, overwhelmingly in the positive direction of greater efficiency, better capital allocation, and improving returns to shareholders.

Graph 2. Region Value Added Relative to MSCI ACW Index (%)
2Q 2004



Source: Wilshire Atlas

Current Portfolio Structure

Harding, Loevner invests in companies that meet high standards in terms of competitiveness, financial strength, management quality and integrity, and earnings growth prospects. We invest with the objective of owning such businesses for long periods, and generally do so as long as their share prices remain within reasonable bounds of our estimates of their values. It is through the application of this straightforward philosophy that we have built our record of long-term out-performance of the broad global market index, and its growth stock sub-component in particular. While the recent performance of the share prices of the companies in our portfolio has disappointed, the recent performance of their businesses—as

The recent performance of portfolio companies has disappointed, but the recent performance of their financial results has not.

Monetary and fiscal stimulus is reversing.

manifest in their financial results—has not. We are as confident as ever in their prospects for further growth in revenues and earnings.

We have become less sanguine about the economic outlook. The monetary and fiscal stimulus that we have noted (and relied on) in the depths of the bear market—especially the massive stimulus from US authorities—has begun to reverse, with the first Fed interest rate hike in four years, and with the ebbing trend of military expenditure in Iraq and Afghanistan coinciding with improving tax revenues from the more profitable business environment and rising personal incomes globally. That policy stimulus has been replaced by strong private sector growth in most global economies, just as was intended. Nevertheless, we are skeptical about the sustainability of that growth as long as the structural issues of consumer and government indebtedness, along with the yawning US current account—itself a symptom of excess consumption within the US—have not been resolved. As a result, our portfolios retain significant holdings of both cyclical—with semiconductors the key exhibit—and non-cyclical businesses, such as our food, beverage, personal care, and health care companies. In light of this skepticism regarding the robustness of growth, along with the lagging share prices of many of our favorite companies, we are more confident than usual in their prospects for providing superior risk-adjusted returns to shareholders.

For instance, the fundamental strengths of our energy holdings remain compelling and not adequately reflected in share prices. **Sasol**, the South African-based producer of synthetic diesel fuel and chemicals from both coal and natural gas, has doubled its sales and trebled its earnings per share over the past five years. Its committed plans to expand its gas-to-liquid facilities in South Africa, Qatar, Trinidad, and Nigeria give us confidence that its future looks as bright as the recent past, yet the stock trades at ten times current 2004 earnings. Canadian gas producer **EnCana** grew its production volume by 14%, and announced increases in their production targets for both 2004 and 2005. It also found a use for its strong operating cash flow, acquiring a Colorado-based independent gas producer with properties complementary to its own. Closer to home, **Exxon** has enjoyed higher volumes and expanding refining margins, increasing its return on capital employed above 20%, and its hefty cash accumulation will cause it to swing to a net cash balance sheet this year—giving scope for increased dividends and share buybacks.

The imbalance between energy reserves and global demand.

These stocks do not register among the cheapest in our universe relative to fair value, but neither have we incorporated high-energy prices in our earnings forecasts. We believe there is already a long-term imbalance between an investment- and discovery-constrained global energy reserve and a steadily rising global demand, which is likely to underpin pricing power in the Energy sector. Any disruption of the Middle Eastern oil supply would exacerbate this imbalance, and remains a key risk to growth and price stability in the global economy. Most of our energy holdings are not linked to that region, which lends their shares both a diversification benefit and an insurance value that is not, in our view, fully recognized by the market.

Similarly, our semiconductor holdings, two of which are domiciled in emerging markets, a third in Japan, along with a fourth in the US, are fundamentally strong and also apparently cheap. In trying to assess the fair value of these businesses, we

***Semiconductor
stocks appear cheap.***

use high-risk premiums in both emerging markets and in Japan, reflecting historical market volatility and continuing, if receding, corporate governance worries.

Despite their consequently high-required rates of return, these companies' shares show up in our models as worth substantially more than their current prices.

Samsung Electronics is set to grow its sales by more than 30% this year, and earn a return on shareholders' equity ('ROE') in excess of 30% despite net cash on its balance sheet hampering those returns. It continues to gain market share in flat panel displays, cell phone handsets, and DRAMs. Its record of consistent profitability throughout the technology recession notwithstanding, Samsung's shares trade at eight times 2004 earnings. **Taiwan Semiconductor** is facing down new competitors from both China and Japan. This year it will be among the first semiconductor fabricators to move up to the next level of silicon wafer size, and down to the next level of circuit miniaturization. Operating at full capacity, it will increase sales by almost 40% this year (and 15% next year), and nearly double its earnings thanks to a shift to higher-price, higher-value products and lower marginal costs. The company continues to earn an ROE in the teens—and yet is trading at only fifteen times 2004 earnings, already discounting, it would seem, a severe downturn in the semiconductor cycle that we do not foresee. **Rohm**, in Japan, a leader in digital/analog conversion devices, is poised to exploit the transformation of the consumer electronics industry to feature rich digital product platforms. Its revenues and earnings are set to grow in double digits this year, yet it trades at a P/E discount to the semiconductor sector and to the Japanese stockmarket. **Analog Devices**, the largest maker of analog chips for an extremely diverse customer base, will expand its margins to new highs this year, as its revenues grow by half, creating earnings growth that justifies its higher stock price multiple.

***Our overweight in
Japanese companies
is a divergence from
our history.***

Our over-market weight of Japanese companies remains a significant divergence from our history. We have arrived at this position stock by stock, through the application of our unvarying fundamental investment process: identifying companies that are formidable competitors in growing businesses, whose stock prices do not adequately reflect their intrinsic values. Those intrinsic values are ultimately tied to long-term expectations for cash returns to shareholders, i.e., dividends. In this regard, Japanese companies are undergoing an important change: they are raising their dividends rapidly, in some cases much faster than their earnings. Japan remains a low-yielding market (the dividend yield of the companies in the Topix Index averages about 1%), and the proportion of earnings paid out by Japanese companies remains below that of those in other developed regions. Nevertheless, the Nikkei news service reports that one in five non-financial companies listed on major exchanges in Japan will have hiked (or reinstated) their dividend this year. Bloomberg data put the average rate of dividend increase for Japanese companies at more than 14%, faster than the 12% increase it calculates for the US, and the 9-10% for European companies.

The increase of dividends by Japanese companies indicates a re-birth of an equity culture.

Our Japanese holdings are leading the way in this sea change, as can be seen from this list of their dividend increases:

	2003	2004	% increase
Rohm	¥22	¥55	150%
Canon	¥30	¥50	66%
Mitsubishi Corp	¥8	¥12	50%
Nissan Motor	¥19	¥23	24%
Sharp	¥15	¥18	20%
Matsushita Electric	¥12.5	¥15	20%
Keyence	¥18	¥20	11%
Kao	¥30	¥32	6%**
Sumitomo Mitsui Financial	¥3000	¥3000	0%***
Nomura	¥15	¥15	0%***
Japanese average (Topix)			14%

*¥38 proposed for FY2005, +18%

**¥4000 committed for 3/2005, +33%

***10% share buy back executed

These increases are not random, nor do they represent—at least for our companies—a recognition of fewer re-investment opportunities. We believe that they are indicative of the re-birth of an equity culture in Japan, not the one-off result of a cyclical recovery in profits. Last year, the Japanese Government reduced the rate of tax on dividends and capital gains to 10% through 2008. Accordingly, Nissan has publicly committed to double its dividend in stages by 2008 from the 18 yen it paid this year to 40, which implies annual increases of 20% or more.

We think that a beneficial side effect of this widespread dividend focus will be a sustained improvement in management attention to capital allocation and shareholder returns. We believe the increasing level of profitability, combined with management confidence implied by the dividend increases, is aimed at gaining the attention of the Japanese retail saver/investor, and is one reason behind our holding in **Nomura Securities**, which remains the dominant retail and institutional broker in Japan, and which will benefit as individuals wean themselves from their safe but ultra-low-yielding deposits and (now declining) fixed income investments.

We are not the first to observe that financial services now account for more than a quarter of the world stock market capitalization. But financials' share of total corporate profits is greater still—and financials thus trade at a discount to the market multiple. We can't be sure that one quarter of value (or one third of profits) is too much, but it has been our experience that the leverage and lack of transparency within financial companies periodically causes small problems to become large ones. In other words, we believe the discount is justified. Moreover, the fragmented nature of the industry, along with the commoditized nature of its products, leave us skeptical about its ability to consistently earn high returns, given that sustained high returns inevitably draws additional competitors. We remain underweight banks and financial services. However, we believe that banks whose customers are young, with rising incomes and aspirations, are more likely to see

We remain underweight banks and financial services.

***Technology shifts
within the media and
advertising industry
inform our holdings.***

sustained revenue growth—that is, they can grow more rapidly for longer—than are those whose customers are middle aged, with most of their car and housing acquisitions behind them. Accordingly, we have sought companies whose customers are either in Asia or, more generally, in emerging markets—where both demographic and socio-economic factors are long-term positives for revenue growth. We own **Standard Chartered Bank**, with longstanding consumer and corporate banking franchises across Asian markets, both developed and emerging; its steady revenue and earnings growth are complemented with good cost and credit controls, and its valuation, at 2.6 times book value, is fair given its rising ROE and durable growth prospects. Portfolio holding **Bangkok Bank** in Thailand, and **Kookmin Bank** in Korea are further obvious examples of this orientation, while less obvious is Austria’s **Erste Bank’s** Eastern European franchise.

Last quarter, we wrote about the consumer electronics products and components emphasis within the portfolio, comprising companies that are poised to exploit the unfolding transition to digital consumer entertainment equipment. Related technology shifts within the media and advertising industries inform our holdings within these groups as well. The rise of the personal digital video recorder and the proliferation of broadband connections are shifting bargaining power from both the creators and distributors of media content to its consumers. The proliferation of entertainment alternatives, such as internet-based entertainment and computer games, continues to fragment the target markets for advertisers, resulting in ad spending being diverted to media channels other than television. Broadcast television, whose historic proposition is based on delivering large numbers of viewers at certain time slots, is being hit particularly hard. Advertising agencies, such as portfolio holding **WPP**, are well positioned to withstand this fragmentation and bargaining power shift. While ad agencies will be affected by declining TV ad spend, clients will almost certainly reallocate advertising budgets to other categories (e.g. online, radio, print, and billboard) not affected by time shifting and commercial skipping. Meanwhile, advertisers will demand more ‘below-the-line’ services aimed at better measuring the effect of advertising spend, services that only the largest agencies can offer. Better positioned still, we believe, is new holding **VNU**, owner of AC Nielsen, which measures media reach and analyzes its impact for buyers and sellers of advertising. We are attracted by the company’s dominant position in these fields, by its stable contractual revenue stream, and by its recent investments in automated audience measurement tailored to the trends we observe. The temporary impact of that heavy investment on VNU’s earnings has weighed on its share price, providing a compelling entry point for our investment.

***Ethical drug
companies are
fighting generic
competition.***

The growing penetration of the drug markets by generic alternatives has spelled slower growth and lower margins for the big ethical drug producers as a whole. Now fighting back, the ethical companies have begun to license ‘authorized’ generic versions of their drugs as they approach the end of their patents. Thus they participate in the cannibalization of their own products, but deny profits to the generic predators. Nevertheless, we are still attracted to the demographic trends and non-cyclical nature of the health care industry, and try to find companies that are growing despite the hostile competitive environment. Among large drug companies, **Novartis** has delivered some of the best revenue growth over the past four years. With sales compounding at 13%, operating income has grown over the same period only by the same rate. Management has chosen to invest heavily in

**Portfolio companies
are delivering
anticipated earnings
growth.**

marketing and R&D, trying to ensure Novartis' long-term growth, rather than trying to boost profit margins in the near term. We think that Novartis' long-term earnings growth rate is at least 8%, with far less cyclicalities around that trend than the average company. We also own **Qiagen**, which provides diagnostic equipment and consumables (synthetic RNA) to the biotech industry, and **Medco Health Services**, the largest prescription benefits manager in the US—a beneficiary of the increasing use of generic drugs by consumers and the pressure on prices (and costs) by health insurers.

We believe that, over the multi-year time frames that are relevant for our clients, it will be the business success of the companies in which we invest that will generate the returns that we seek for them; in this sense, our investment philosophy remains constant. Our investment process—the means by which we identify companies most likely to triumph competitively, and assess the price that we should pay for their shares—has evolved over the years, and will continue to do so. Our recent period of underperformance relative to our benchmark has prompted us to review that process more critically, but resulted in our making only minor adjustments to it. The fact is, when we look today at the companies in the portfolio, nearly all the businesses are delivering the earnings growth that we anticipated, though for many the rate and duration of that growth are as yet unrecognized in their stock prices. Thus we observe the potential for significant out performance in coming years.

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Comcast	United States	1.2	Cable operator
	Denway Motors	China	2.3	Automobile & bus producer
	Pearson	United Kingdom	1.6	Education & publishing company
	Sharp	Japan	1.0	Consumer & industrial electronics manufacturer
	Sony	Japan	1.0	Electronics & entertainment media company
	TJX Companies	United States	3.0	Off-priced name brand stores
	VNU	Netherlands	2.0	Market research company
	Viacom	United States	1.8	Media & entertainment group
	WPP Group	United Kingdom	1.5	Advertising & marketing services company
Consumer Staples	Coca-Cola	United States	1.4	Soft drinks company
	Coca-Cola Femsa	Mexico	1.1	Soft drink bottler
	Colgate-Palmolive	United States	1.2	Consumer products company
	Estee Lauder	United States	1.3	Manufacturer & marketer of skin care, makeup & fragrances
	Heineken	Netherlands	1.3	International brewing company
	L'Oreal	France	2.0	Personal care products manufacturer
	Nestlé	Switzerland	2.1	Global food company
	Wal-Mart de Mexico	Mexico	1.5	Consumer goods & food retailer
Energy	EnCana	Canada	2.6	Producer of natural gas
	Exxon Mobil	United States	1.1	Global oil company
	Kinder Morgan	United States	2.3	Natural gas transportation & logistics company
	Sasol	South Africa	1.6	Refined petroleum products producer
	Schlumberger	France	1.3	Oil services company
Financials	Allied Capital	United States	0.9	Financial institution providing small business loans
	American Int'l Group	United States	2.5	Insurance holding company
	Bangkok Bank	Thailand	1.3	Commercial bank
	Bankinter	Spain	1.0	Small Spanish bank
	Berkshire Hathaway	United States	1.1	Auto insurer & general reinsurer
	Deutsche Bank	Germany	2.2	Universal bank
	Erste Bank	Austria	1.3	Savings & retail bank
	JPMorgan Chase	United States	1.5	Money center bank
	Kookmin Bank	South Korea	1.3	Retail-oriented bank
	Nomura Holdings	Japan	1.2	Brokerage firm
	Standard Chartered	United Kingdom	1.1	Multinational commercial bank
	Sumitomo Mitsui Financial	Japan	1.0	Commercial bank
Swiss Re	Switzerland	0.9	Large reinsurer	
Health Care	Abbott Labs	United States	1.2	Health care products & pharmaceuticals producer
	Medco Health Solutions	United States	1.0	Pharmaceutical benefits manager
	Merck	United States	1.7	Pharmaceutical company
	Novartis	Switzerland	1.4	Multinational life sciences company
	Qiagen	Netherlands	1.0	Laboratory equipment supplier
Industrials	ABB	Switzerland	1.3	Engineering conglomerate
	Caterpillar	United States	2.7	Producer of earthmoving equipment
	Emerson Electric	United States	1.6	Global industrial & electronics controls company
	Mitsubishi Corp.	Japan	1.9	Trading company
Information Technology	Analog Devices	United States	2.8	Analog mixed-signal computer chip maker
	BEA Systems	United States	0.6	Internet software developer
	Canon	Japan	1.2	Maker of image & information equipment
	Dassault Systemes	France	2.8	CAD/CAM software designer
	Hirose Electric	Japan	1.2	Manufacturer of electrical connectors & components
	Keyence	Japan	2.2	Detection & measuring control equipment maker
	Oracle	United States	2.0	Software company
	Qualcomm	United States	2.4	CDMA wireless communications technology firm
	Rohm	Japan	2.0	Custom chip producer
	Samsung Electronics	South Korea	2.6	Electronic equipment maker
Taiwan Semiconductor	Taiwan	1.3	Dedicated IC foundry	
Materials	Air Liquide	France	1.1	Industrial gas company
	Air Products & Chemicals	United States	1.1	Industrial gases company
	Anhui Conch Cement	China	0.7	Cement producer
	JSR	Japan	1.4	Specialty chemicals manufacturer
	Praxair	United States	1.2	Industrial gas company
	Rio Tinto	United Kingdom	2.1	Diversified mining company
Telecom Services	Vodafone	United Kingdom	3.0	Telecommunication services provider

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Ten Best Stocks by Absolute Return

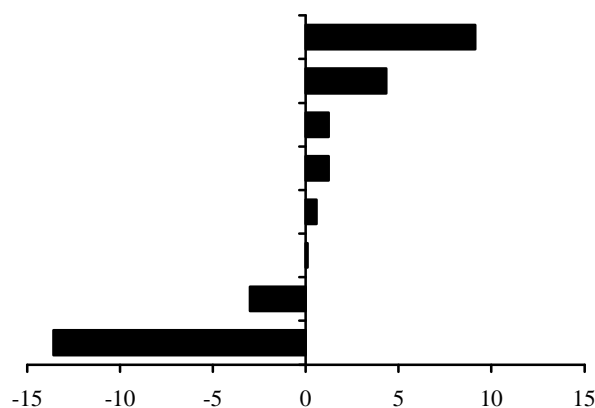
HOLDING	GICS SECTOR	REGION	RETURN	AVERAGE WEIGHT
Dassault Systemes	Information Technology	Europe EMU	12.7%	2.4%
Medco Health Solutions	Health Care	United States	10.3%	0.9%
Qualcomm	Information Technology	United States	10.0%	2.2%
Estee Lauder	Consumer Staples	United States	10.0%	1.2%
Pearson	Consumer Discretionary	Europe ex-EMU	9.4%	1.9%
Air Liquide	Materials	Europe EMU	9.3%	1.0%
Merck	Health Care	United States	8.3%	1.6%
Praxair	Materials	United States	8.0%	1.0%
Exxon	Energy	United States	7.5%	1.1%
Emerson Electric	Industrials	United States	6.8%	1.5%

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Active Regional Exposure

REGION	HL Global Equity	MSCI ACW Index
Emerging Markets	13.7%	4.5%
Japan	14.0%	9.7%
Cash	1.2%	--
Europe EMU	14.6%	13.3%
Europe ex-EMU	15.0%	14.4%
Canada	2.6%	2.6%
Pacific ex-Japan	--	3.0%
United States	38.9%	52.5%

Over/Under the Benchmark (%)



Portfolio Characteristics

Characteristic	HL Global	ACW	Characteristic	HL Global	ACW
Avg Wtd Market Cap (\$B)	\$41.5	\$66.3	Alpha	0.30	0.00
Price/Earnings (Trailing)	24.5x	20.6x	Beta	1.01	1.00
Price/Cash Flow	13.4x	11.9x	R-Squared	0.92	1.00
Price/Book	2.7x	2.5x	Sharpe Ratio	0.01	0.03
Dividend Yield	1.5%	2.1%	Standard Deviation	4.84	4.59
Return on Equity	16.8%	18.6%	Correlation	0.96	1.00
Number Holdings	62	2407	Turnover (5-Year Average)	44%	---

Source: Wilshire Atlas

Average Weighted Market Capitalization is the product of a security's price and the number of shares outstanding. *Price/Earnings* is the ratio of a firm's closing stock price and its trailing 12 months' earnings per share. *Price/Cash Flow* is the ratio of a firm's closing stock price and its fiscal year end cash flow per share. *Price/Book* is the ratio of a firm's closing stock price and its fiscal year end book value per share. *Dividend Yield* is indicated dividend rate divided by current price, expressed as a percent. *Return on Equity* is the net income divided by total common equity outstanding, expressed as a percent.

Alpha is a measure of risk-adjusted return. *Beta* is a measure of the portfolio's sensitivity to the market. *R-Squared* is a measure of how well a portfolio tracks the market. *Sharpe Ratio* is the return over the risk free rate per unit of risk. *Standard Deviation* is the statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. *Correlation* is the statistical measure of the degree to which the movements of two variables are related. *Turnover* is the ratio calculated by dividing the lesser of purchases or sales by average capital, expressed as a percent.

Global Equity Performance Summary 2004 Second Quarter Report

	HL GLBL EQ (Gross)	HL GLBL EQ (Net)	MSCI ACW ¹	MSCI WORLD	Internal Dispersion ²	Number of Accounts	Composite Assets (\$M)	Firm Assets (\$M)	% Firm Assets
2004 ³	0.1%	-0.1%	3.6%	3.8%	NA	†	79	1276	6
2003	32.5%	32.0%	34.6%	33.8%	†	†	127	1357	9
2002	-19.4%	-19.8%	-19.0%	-19.5%	0.6	6	118	1082	11
2001	-14.9%	-15.5%	-15.9%	-16.5%	0.4	7	152	1154	13
2000	1.3%	0.1%	-13.9%	-12.9%	†	†	108	1392	8
1999	38.9%	38.2%	26.8%	25.3%	†	†	96	1423	7
1998	2.3%	1.6%	22.0%	24.8%	0.5	11	179	1372	13
1997	11.0%	10.1%	15.0%	16.2%	0.6	15	251	1521	17
1996	17.3%	16.3%	13.2%	14.0%	0.2	13	188	1247	15
1995	19.0%	18.0%	19.5%	21.3%	0.6	13	147	635	23
1994	0.0%	-0.9%	5.0%	5.6%	0.4	17	113	369	31

¹Benchmark Index; ²Asset-weighted standard deviation (gross of fees); ³The 2004 returns reflect the partial year January 1, 2004 to June 30, 2004.

† Five or fewer accounts

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 Index (gross dividends). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg; prior to July 1, 1997 it was Reuters.

The MSCI All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 49 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 developed market countries. You cannot invest directly in this Index.

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 Partners & Company, LLP has verified firmwide compliance since October 31, 1989, one quarter in arrears.

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 investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate global equity accounts is 1.00% annually of the market value of assets up to \$20 million; 0.50% of amounts from \$20 million to \$100 million; negotiable for amounts over \$100 million. 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.

Balanced portfolio segments are not 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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