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- The Composite performed in line with its benchmark for the quarter.
- Emerging markets was one of the best 'regional' markets.
- High quality companies turned in high returns.

Composite Performance (as of June 30, 2005)

	Last Quarter	Last 12 Months	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ²	Volatility ³
Global Equity (gross)	0.9%	10.5%	9.3%	(0.7%)	7.0%	10.0%	13.6%
Global Equity (net)	0.8%	9.8%	8.8%	(1.3%)	6.3%	9.1%	13.5%
MSCI ACW ⁴	0.8%	11.7%	11.2%	(1.3%)	7.3%	7.0%	14.2%
MSCI World	0.6%	10.6%	10.6%	(1.6%)	7.5%	7.0%	14.2%

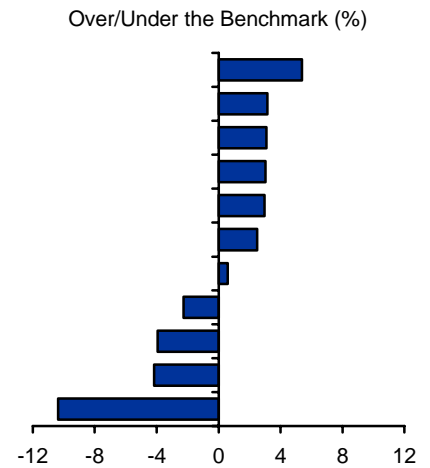
¹Annualized Returns, ²Inception Date: November 30, 1989; ³Annual Standard Deviation ⁴The Benchmark Index
Please read the above performance in conjunction with the footnotes on the back page of this report.

Outlook

- Risk premiums likely to rise.
- Corporate balance sheets flush with cash.
- Capital spending and M&A activity likely to rise.

Current Portfolio Sector Exposure¹

Sector	HL Global	MSCI ACW
Info Technology	17.0%	11.6%
Materials	8.7%	5.6%
Industrials	13.1%	10.0%
Energy	12.6%	9.5%
Consumer Staples	11.3%	8.3%
Cash	2.5%	--
Cons Discretionary	12.4%	11.8%
Telecom Services	2.7%	5.0%
Health Care	6.3%	10.2%
Utilities	--	4.2%
Financials	13.4%	23.8%



Composite Activity

Purchases	Sector	Sales	Sector
Orascom Telecom	Telecom Services		
Roche	Health Care		

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.

¹The current portfolio sector exposure is shown as supplemental information only and complements the Global Equity Composite presentation which is located on the front and back covers of this report.

The Composite performed in line with its benchmark.

Market Review

In the second quarter of 2005 the Composite rose in value by 0.9%, just ahead of the return of its benchmark, the MSCI All Country World Index, which rose 0.8%.

Regional effects were significant given the small nominal returns in the quarter. The US market outperformed the developed non-US world, as measured in dollars by MSCI US (+1.6%) vs EAFE (-0.8%). Emerging Markets stocks rebounded from the first quarter correction, and once again turned in the highest returns of any 'region', with the MSCI Emerging Markets Index ending the quarter with a 4.2% gain. Japan was down in local currency, and was worse when counted in dollars, losing 4%, and is one of the worst performing markets for the year to date, down nearly 6%.

Market	Market Performance (% Total Return)			
	Trailing 12 Months		2Q 2005	
	USD	Local	USD	Local
Canada	29.5	18.3	2.6	3.9
Germany	12.8	13.4	-1.4	5.6
Japan	-1.3	0.2	-3.6	-0.1
United Kingdom	16.8	18.2	-0.4	5.0
United States	6.9	6.9	1.6	1.6
Europe EMU	18.0	18.6	-0.8	6.3
Europe ex-EMU	16.6	18.3	-0.2	6.0
Pacific ex-Japan	35.1	26.6	4.8	6.1
Emerging Markets	34.9	27.1	4.2	4.6

Source: Wilshire Atlas, MSCI

Currency and regional effects were significant.

Currency continued to hinder non-US equity returns in the second quarter, and was the most notable driver of portfolio returns in the quarter. Non-US market returns were generally much higher in local currencies than in US Dollar terms, as the Yen fell 3% and the Euro lost 6% against the Dollar in the quarter, lengthening losses for the year as a whole to 10%. One is tempted to point to the 'Non' vote in France (and 'Nee' in Holland) over the fraught new constitution for the European Union as the cause of the Euro's weakness, but the pattern was really one of US Dollar strength. Indeed, we could find just a small handful of currencies that appreciated against the Dollar. Former hyper-inflationists-turned-structural-stability-models Turkey and Brazil, along with Mexico and India, provided the main exceptions.

Real Estate, Utilities, Energy, Semiconductors, and Health Care stocks turned in the strongest performance among the industry groups. On the downside, Media, Materials and Transportation were weakest. No single factor seems to explain the various sector movements, but it does appear that the market, having been priced for perfection, has decided that \$60 oil is not likely to usher in nirvana.

Sector Performance of the MSCI All Country World Index (%Total Return in USD)

	Trailing 12 Months	2Q 2005
Consumer Discretionary	5.8	-1.5
Consumer Staples	6.4	-0.7
Energy	38.7	4.6
Financials	13.5	1.5
Health Care	7.4	4.2
Industrials	10.8	-2.3
Information Technology	-2.5	1.6
Materials	17.2	-5.1
Telecom Services	12.7	-1.4
Utilities	32.0	6.4

Source: Wilshire Atlas, MSCI

Investment style effects had almost no impact on returns, nor did market capitalization. ‘Growth’ (i.e., highly valued) stocks outperformed ‘value’ stocks in the US by 100 basis points, but the difference was negligible outside the US. Small-cap stocks outperformed large-cap indices in all non-US geographies, but trailed inside the US.

Quality factor effects, on the other hand, strongly favored stocks of higher quality companies, confirming the glimmers we saw in the first quarter. For just the second time in three years, *all* of the factors we use as objective proxies for business quality (return on assets, operating margin, volatility of returns, debt/equity ratio, and return on equity) showed a positive performance bias in favor of higher quality in the quarter, as you can see from the table below, although the effect was strongest in non-US markets.

Top vs Bottom Quintile of Stocks in MSCI AC World ex-US Index (% Total Return in USD)

	9/30/02-12/31/04			12/31/04-6/30/05		
	Top	Bottom	Difference	Top	Bottom	Difference
Return on Assets	47.1	100.0	-52.9	3.2	-3.6	6.8
Return on Equity	51.9	90.8	-38.9	2.3	-4.8	7.1
Std Dev of ROE (5 Yr) ¹	13.1	13.5	-0.4	-0.4	-2.0	1.6
Debt/Equity Ratio ¹	71.6	77.7	-6.1	-0.4	-1.1	0.7
Profit Margin	50.3	96.6	-46.3	0.5	-3.0	3.5

¹ “Top” Quintile = lowest

Source: Wilshire Atlas, MSCI

Value and growth differences were negligible.

Business quality factors showed a positive performance bias.

Portfolio Attribution

While we remain somewhat underweight the US market, which outperformed the developed international markets, the performance drag from this allocation was minor and, given that the offsetting overweight is in emerging markets, not material. Once again, with emerging markets as a group outperforming developed markets, our

Strong performance throughout many of the sectors in the portfolio.

emerging stocks did better still, aided by **Sasol**, India's **HDFC Bank**, **Taiwan Semiconductor**, and **Wal-Mart de Mexico**. But good stock selection there merely offset the US, where our stock selection was poor, with blame shared by multinational industrials **3M** and **Tyco**, along with primarily domestic media companies **Viacom** and **Comcast**.

Stock selection was modestly additive in the quarter, but offset by industry group allocation effects, where the portfolio suffered from its hefty holdings in Industrials, Media, and Materials, along with its light positions in Utilities and Diversified Financials. Our holdings outperformed the benchmark sectors significantly in Energy and Telecom Services, but lagged significantly in Financials and Consumer Staples. Strong performance from mobile telecom stocks in emerging markets, **America Movil** and **Orascom Telecom**, were standouts in a poor sector. **Sasol**, the South African gas-to-liquids synthetic fuel producer and Canadian gas producer, **EnCana**, joined with continued strong performance from US gas pipeline operator **Kinder Morgan** to spur our Energy holdings even faster than the galloping sector. Outsourcing enablers **Li & Fung**—in our view a business service industrial, but classified by the index mavens under Retailing—rescued our performance in the Consumer Discretionary sector.

Our emphasis on high-quality businesses, that is, those with high and stable returns, strong operating margins and low leverage was additive to performance in the quarter, with the most pronounced factor effect once again being high return on assets. Curiously, drilling down into the numbers we find that two areas of significant poor stock selection for us this quarter are two areas where high-quality factors were not (yet?) significantly correlated with strong performance: the US market and the Financials sector globally.

Outlook

The seven increases in overnight interest rates by the US Fed we wrote of last quarter have now become nine, while conversely, the yields available on ten-year bonds around the world have fallen still further, creating an ever flatter yield curve. Oil prices, temporarily in the \$40's, are now hovering around \$60 per barrel, but inflation statistics remain in check. As we wrote last time, risk premiums implied in current stock prices and credit spreads don't appear to discount adequately the increasing probability of slower growth, and thus are likely to be on the rise. Free cash flow margins are at levels that coincided with peak levels in prior cycles in nearly every sector and region, suggesting little room for further improvement, but considerable downside if growth slows, rivalry increases, or managements just get more confident and return to prior rates of capital expenditure. During the quarter, a Brazilian bank issued the first subordinated perpetual bonds (which they are under no obligation ever to repay) to be issued by an emerging market company. We are tempted to opine that the outlook is the same...only more so.

As we write, we learn that terrorist bombs have exploded in the London Underground causing many casualties. Risk premiums should be higher.

Risk premiums seem not to reflect the probability of slowing growth.

Bold indicates companies held in the portfolio during the quarter. The percentage of currently held positions 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.

A key factor holding inflation in check is the continuous increase in capacity from the developing world, notably China, as under-employed populations join the world economy by courtesy of relatively unfettered global trade, and increasingly by the process of supply chain de-construction fostered by cheap and universal telecommunications and distributed computing power. Thomas Friedman has usefully popularized this paradigm in his current best-selling book, The World is Flat, but it is a process long exploited by multi-national managements and long since recognized by observant global investors. Friedman's thesis that broadband telecommunications accelerates the process and fragments (or democratizes) the supply chain, is merely a refinement of the argument.

Much has been made of the 'conundrum' of falling bond yields at a time of Federal Reserve hiking the Fed Funds rate in response to strong economic growth. Martin Wolf of the Financial Times, and former Fed Governor Ben Bernanke have written about the glut of savings flooding the investment world from emerging markets, as governments, companies, and households alike defer investment or spending in order to build savings or pay down debt, a long-lasting behavioral result of the debt crises of 1997-98. Wolf estimates this 'savings preference' by noting the \$400bn positive swing in the developing world's current account since 1996. Joseph Stiglitz has documented these countries' resentment of the IMF that resulted from its interventions at that time, so there may be long-term political motivations as well: independence from Western financial and political influence. But yet another source of this anomaly has been the de-leveraging of corporate balance sheets; analysts at JPMorgan estimate that the decline in net corporate indebtedness across the six largest economies has been in excess of a trillion dollars since 2000, far outstripping the effect of Asian central bank additions to FX reserves in that time.

Not only have companies used cash flows to pay down debt accumulated in the late 1990s, but managements have been extremely wary of making new, large commitments, either in terms of capital expansion or via acquisitions. Chastened by the technology and telecom investment excesses of the late 1990s and the fate of managements caught up in them, and perhaps spurred on by the loud demands of shareholders for a better assessment of risks attending the potential returns to expansion, managements have opted to devote less cash flow to expansion projects and more to debt repayment, with comparatively less returned as dividends or share buybacks. There is a paradox here: managers have set themselves high hurdle rates for investment, implying a high risk premium, while markets have priced very low risk premiums. It sounds awfully like Keynes' 'Paradox of Thrift' from his General Theory published in 1936, as Martin Wolf has pointed out.

It is possible to believe that the mystery of low bond yields in a growing global economy is explained by the same phenomenon that has sent free cash flow margins to record highs: profound pessimism that future returns to investment can match current ones. Friedman's stories of increasing fragmentation of deconstructed supply chains may touch on a significant factor in management behavior: they are nervous that any capital projects completed today will be uncompetitive tomorrow against another innovative producer that is assembling a disembodied but potent new business model

The impacts of the glut of emerging markets savings and corporate de-leveraging.

The worry that capital projects completed today will be uncompetitive tomorrow.

We favor companies that see growth opportunities and will risk capital spending or M&A activity.

Managements will have to find growth opportunities or return excess cash to shareholders.

strung together via the Internet. That is, they worry more now than they did five years ago that the returns do not outweigh the risks, and instead have been opting to pay down debt and increase dividends. In many industries, those managements could be right in the medium and longer term.

In the meantime, the return on capital is much higher than the cost of capital for expansion—a factor that leads us more than ever to favor companies who do see significant growth opportunities, with credible hopes of capturing them profitably due to capable management and strong competitive advantages. And it makes us believe that capital spending and M&A activity is likely to be more resilient (given the pessimism that suppresses it) than is consumer spending in developed economies. Indeed, the corporate balance sheet healing frenzy that is suggested by the numbers bears the seeds of its own unwinding, as events in Japan, the center of the most extreme collective pessimism and corporate de-leveraging, have begun to show. This year saw the first hostile takeover attempt in memory in Japan, an attempt that was defeated by the ‘establishment’. This defeat, however, has resulted in unaccustomed wrangling over corporate governance that we find very heartening. This quarter, a newly energized and crusading Japanese Pension Association campaigned against a whole series of anti-takeover provisions proposed by company managements. Just three such proposals were defeated, albeit all at well-known, highly regarded companies—but it is one more signal that the tide is turning on managing for the benefit of shareholders among Japanese companies. Combined with the dramatic increases in dividends being declared by Japanese companies, the prospects for shareholders seem brighter than they have in years. Managements will either have to find opportunities to invest for growth, or return excess cash to shareholders who can find managements who will, or face the threat of still more ambitious managements coming through the front door to acquire their businesses and their cash.

We don’t see why this scenario doesn’t fit in Europe or the US any less than in Japan. The first signs of it are already appearing in the European financial sector, with Italy’s Unicredito mounting a multi-country bid for Germany’s HypoVereinsbank and its Austrian and Polish listed subsidiaries. Cross border mergers were always part of the long-term plan for Europe as viewed by the architects of the European Monetary Union. Deregulation and merger efficiencies were supposed to be the mechanisms that allowed various regional differences to adjust to a one-size-fits-all monetary policy. But regulations in particular have slowed, rather than increased, economic flexibility, and thus regional differences in economic performance have caused political discontent with the monetary policy. Thus, the twin defeats last month of the constitution and of German Chancellor Schroeder’s party in a key state election have raised the question of whether Europe is hopelessly mired in flawed policies and politics that are preventing it from addressing the competitive realities of the global economy. There is now a non-zero probability that the Euro experiment, along with EU enlargement, will be scrapped. Just last week, a coalition partner in the Italian Government called for the re-introduction of the Lira. For now, we take the other side of this argument, believing that these kinds of wrenching political twists are likely to help foment faster labor and regulatory reform as the populations get fed up with policies that haven’t worked.

We can't help but contrast this turmoil with the relative aplomb that Mexican capital markets sailed through the political unpleasantness witnessed in its capital this quarter, where the leading candidate for president, the current mayor of Mexico City, was indicted on corruption charges and stripped of political immunity by Congressional impeachment, then had charges dropped at the behest of his political opponent, current President Fox—who saw that the legal campaign was only increasing the mayor's popularity. Not too many years back, this sort of imbroglio would have sent the markets and the currency reeling, but as noted earlier, the currency was among the strongest in the world this quarter, while equity and fixed income markets turned in very positive returns. In our view, there is not only a growing political maturity in Mexico (recall that not long ago the country solved political battles by assassination), but there is a lessening of dependence on outside investors for capital, which makes markets more stable. Indeed, on many measures, Mexico displays stronger macroeconomic measures than does the United States: Debt/GDP, Government budget deficit/GDP, Current account deficit/GDP, just to name three. But Mexico illustrates two larger points that we have made before. Emerging market economies, due to their earlier conversion to financial conservatism—or 'savings preference,' have become much safer places to invest, and just at a time when developed markets are fundamentally more risky than their prices suggest. Moreover, the companies within those economies are higher quality than is perceived, and some are demonstrably higher quality than the average company in developed markets. In the longer run, high saving emerging markets could turn out to be the safe haven investment, not the risky one.

Portfolio Structure

We have long aimed to identify companies that are either enablers or beneficiaries of the deconstructed supply chain of Friedman's 'flat world', or else companies within industries that are sheltered from the most ravaging effects of this process. Under the category of enablers, we would include a number of our Asian holdings. **Li & Fung**, first owned as the Asia crisis was ending, and bought back last quarter after a three-year absence from the portfolio, is a Hong Kong trading house that has evolved its business into a model of virtual manufacturing. The company not only operates as a buying office for US and European retailers by contracting manufacture of agreed-on designs but assumes quality control management responsibility. It has pushed further up the value chain into the design process itself, winning contracts with brand owners such as Disney and Levi Strauss to take over entire product lines from conception to shipping. It stands to benefit from the elimination of quotas that have limited textile imports from India and China, due to the many cross currents that the elimination will entail. Another enabler is **China Merchants**, the Chinese port operator and part owner of the world's largest container manufacturer. The company is embarked on a major expansion of its capacity, an expansion encouraged by the Chinese government as critical to its effort to reduce bottlenecks in the integration of the Chinese economy with the rest of the world, not just for exporting the goods produced by the growing manufacturing capacity that is absorbing surplus labor, but for importing the food, energy, raw materials, and capital goods that China lacks in order to keep the economy humming. **Standard Chartered**, the London-incorporated but Asia-centric bank (its

Emerging markets economies have become much safer places in which to invest.

Companies that are enablers or beneficiaries of the globally deconstructed supply chain.

first branches were in Calcutta and Shanghai, opened in 1858), is often noted for its emerging market retail client base, but half the bank is focused on corporate customers and regional trade finance, and is particularly well placed to facilitate business between companies newly expanding regionally within its Asian, Middle Eastern, or African network. The bank has been particularly active in arranging and financing the spate of large Chinese raw material transactions in Africa over the past two years, and is now seeing early benefits of its acquisition of Korea First Bank from its branches in the Middle East, where Korean engineering companies are active in large LNG and petrochemical projects. Further afield we own another enabler of this de-constructed supply chain. French software company **Dassault Systemes** has disentangled the design process for even the most complex and sophisticated products such as autos or airliners from the engineering expertise residing in a single center of the largest manufacturers, and making powerful design processes available to any buyer with the computing power to use it. This is facilitating the use of design engineers dispersed among far-flung locations—Moscow, Mumbai, Seattle, Detroit—to be involved on facets of the same project, and is most compelling when the component suppliers of large manufacturers—wherever they are located—are enjoined to adopt the same design tools to speed coordination of the process.

On the other hand, there are industries where the threats from a ‘flat world’ are more distant, because of complexity, price insensitivity, or regulations that limit competition. We tend to eschew the latter, since governments are prone to change policies in a fickle manner. Occasionally, there are natural barriers to de-construction, a case that applies to **Kinder Morgan**, the US gas pipeline operator. The consistent share of the US energy consumption that comes from gas, both due to its cleaner burning nature relative to coal and its relative abundance next to oil, is driving increasing transmission volumes within the US. Pipelines are by far the most efficient means of consistent land transport of gas, and it is very difficult to supplant the existing pipeline operators, who not only have low marginal costs, but have the best insights to where additional capacity is needed and thus which new fixed capacity are most rewarding to build. Kinder Morgan’s track record of meeting that demand growth with the greatest returns to shareholders is unmatched. More typical of our investment philosophy is the case of Swiss drugmaker **Roche**, a new holding this quarter, whose oncology franchise, centered in its majority (55%) ownership of US biotech heavyweight (and former portfolio holding) Genentech, has blossomed with breathtaking speed over the past two years. The success of Genentech’s Avastin in starving cancer cells is now fairly well known, as is its potential application to multiple forms of cancer, including breast, colon, and lung. Less well known is Roche’s contractual arrangement with Genentech that gives Roche the marketing rights outside the US for all drugs that Genentech brings to market, so that it shares twice in each of Genentech’s successes. We continue to admire Genentech’s business, but have been (prematurely) put off by its high stock price; Roche provides an attractive back door. The market value of its Genentech stake is worth \$33bn, or one third of Roche’s total market cap, making Roche’s own business look cheaply priced indeed. Just one part of that, Roche’s diagnostics business, is the leader in the industry, and has strong growth coming from the molecular diagnostic segment—the very area that has led to Genentech’s success and the ‘must have’ of every research department. (In a similar

The competitive advantages that come with the control of pipelines.

vein, we also own **Qiagen**, which makes both testing consumables and equipment for molecular diagnostic research.) We believe that competition in this corner of the drug industry from a de-constructed supply chain is some years off, constrained by a combination of complexity and regulation (e.g. patents, approvals).

In other industries, it is the power of brand and distribution that limits the incursion of new business models or newly enabled supply chains. The availability of Spanish sparkling wines or California fortified ones has barely diminished the appeal of the original ‘methode champenoise’ or Cognac from France nor **LVMH** subsidiary Moët Hennessy’s pricing power, especially among the ‘newly arrived’ wealthy amongst the developing and developed world alike. More mundanely, **Nestlé’s** water, chocolate, and ice cream brands face steady demand growth, especially in developing countries, and resistance to imitation due to their familiarity, the research standing behind the consistent quality of the taste, and to the small bite they take out of consumers’ wallets. We are also impressed by the successful investments the company has made over the years in non-food businesses, which are highlighted in the large market values of two of its publicly quoted affiliates. **L’Oreal** (25% owned) is the world’s largest cosmetics company, whose success at creating and capturing new business in markets as diverse as China and Russia has been remarkable, but whose brands represent everywhere a standard of quality and allure. Less well recognized is 75% owned Alcon, the eye care business that Nestlé floated three years ago, the world leader in ophthalmic pharmaceuticals and in consumer eye care products. Together, these two companies’ public market values account for 35% of Nestlé’s market cap.

We retain our large holdings in emerging market companies, impressed by the quality of their businesses and their growth prospects, and have a large weight in Mexico, with our holdings of **Wal-Mart de Mexico** and **America Movil**. We also maintain substantial holdings in Japan—more than the benchmark weight. We have crossed a watershed of conviction that strong business franchises are now being matched with stronger corporate governance and attention to shareholders, which will mean, at the least, rapid dividend growth to attract the domestic Japanese investor. Combined, these two geographic sectors (Japan and Emerging Markets) represents roughly a fifth of the portfolio. Along industrial sector lines, our largest emphases are on Industrials and Information Technology, while we retain zero holdings in Utilities, and the large underweight in Financials—which remain almost a quarter of the benchmark, but only one seventh of the portfolio.

The power of brands and distribution.

Japan and Emerging Markets represent roughly a fifth of the portfolio.

Global Equity Holdings as of June 30, 2005
Supplemental Information

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Comcast	United States	1.2	Cable operator
	Li & Fung	Hong Kong	2.5	Trading company
	LVMH	France	1.1	Luxury goods group
	Pearson	United Kingdom	1.5	Education & publishing company
	Sony	Japan	0.9	Electronics & entertainment media company
	TJX Companies	United States	2.3	Off-priced name brand stores
	Viacom	United States	1.5	Media & entertainment group
	VNU	Netherlands	1.8	Market research company
Consumer Staples	Coca-Cola	United States	1.1	Soft drinks company
	Colgate-Palmolive	United States	2.4	Consumer products company
	Estee Lauder	United States	1.0	Manufacturer & marketer of skin care, makeup & fragrances
	Heineken	Netherlands	1.1	International brewing company
	L'Oreal	France	2.1	Personal care products manufacturer
	Nestlé	Switzerland	1.9	Global food company
	Wal-Mart de Mexico	Mexico	1.9	Consumer goods & food retailer
Energy	EnCana	Canada	4.5	Producer of natural gas
	Exxon Mobil	United States	1.4	Global oil company
	Kinder Morgan	United States	3.0	Natural gas transportation & logistics company
	Sasol	South Africa	1.5	Refined petroleum products producer
	Schlumberger	France	2.6	Oil services company
Financials	American Int'l Group	United States	3.3	Insurance holding company
	Bangkok Bank	Thailand	0.9	Commercial bank
	Bankinter	Spain	1.2	Small Spanish bank
	Berkshire Hathaway	United States	0.9	Auto insurer & general reinsurer
	Erste Bank	Austria	1.1	Savings & retail bank
	Kookmin Bank	South Korea	1.1	Retail-oriented bank
	Nomura Holdings	Japan	0.9	Brokerage firm
	Standard Chartered	United Kingdom	2.2	Multinational commercial bank
	Swiss Re	Switzerland	1.2	Large reinsurer
	Wells Fargo	United States	0.9	Super regional bank
Health Care	Abbott Labs	United States	1.3	Health care products & pharmaceuticals producer
	Medco Health Solutions	United States	1.4	Pharmaceutical benefits manager
	Novartis	Switzerland	1.4	Multinational life sciences company
	Qiagen	Netherlands	1.2	Laboratory equipment supplier
	Roche	Switzerland	1.2	Pharmaceutical company
Industrials	3M Co.	United States	1.7	Industrial technology
	Caterpillar	United States	3.0	Producer of earthmoving equipment
	China Merchants	China	2.3	Global port operator
	Emerson Electric	United States	2.4	Global industrial & electronics controls company
	General Electric	United States	1.4	Diversified products & services company
	Mitsubishi Corp.	Japan	1.2	Trading company
	Tyco Int'l	United States	1.3	Industrial products manufacturer
Information Technology	ADP	United States	0.9	Payroll and tax-filing processor
	Analog Devices	United States	1.6	Analog mixed-signal computer chip maker
	Canon	Japan	1.1	Maker of image & information equipment
	Dassault Systemes	France	1.6	CAD/CAM software designer
	Hirose Electric	Japan	1.2	Manufacturer of electrical connectors & components
	Keyence	Japan	2.5	Detection & measuring control equipment maker
	Oracle	United States	3.8	Software company
	Qualcomm	United States	1.7	CDMA wireless communications technology firm
	Samsung Electronics	South Korea	1.4	Electronic equipment maker
	Taiwan Semiconductor	Taiwan	1.6	Dedicated IC foundry
Materials	Air Liquide	France	1.3	Industrial gas company
	Air Products & Chemicals	United States	1.2	Industrial gas company
	JSR	Japan	2.6	Specialty chemicals manufacturer
	Praxair	United States	1.3	Industrial gas company
	Rio Tinto	United Kingdom	2.5	Diversified mining company
Telecom Services	America Movil	Mexico	1.4	Cellular service provider
	Orascom Telecom	United States	1.4	Cellular services provider

Specific securities, portfolio holdings and sector/region weights are subject to review and adjustment in accordance with our investment strategy, may vary in the future, and should not be considered recommendations to buy or sell any security.

The portfolio holdings shown are supplemental information only and complement the Global Equity Composite presentation which is located on the front & back page of this report.

Contributors to Returns

Largest Holdings	GICS Sector	Region	Return	Average Wt.	Contribution
EnCana	Energy	Canada	12.7%	3.9%	0.48%
Oracle	Info Technology	United States	5.8%	3.5%	0.21%
Caterpillar Inc.	Industrials	United States	4.7%	3.0%	0.13%
Kinder Morgan	Energy	United States	10.9%	2.8%	0.29%
American Intl Group	Financials	United States	5.1%	2.7%	0.25%
Positive Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
EnCana	Energy	Canada	12.7%	3.9%	0.48%
Li & Fung	Cons Discretionary	Emerging Markets	18.4%	2.4%	0.42%
Kinder Morgan	Energy	United States	10.9%	2.8%	0.29%
Orascom Telecom*	Telecom Services	Emerging Markets	33.2%	0.8%	0.26%
American Intl Group	Financials	United States	5.1%	2.7%	0.25%
Negative Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
3M	Industrials	United States	(15.2%)	1.9%	(0.31%)
Swiss Re	Financials	Europe ex-EMU	(12.6%)	1.7%	(0.29%)
L'Oreal	Cons Staples	Europe EMU	(9.2%)	2.3%	(0.22%)
Qualcomm	Info Technology	United States	(9.7%)	1.7%	(0.16%)
Nomura Holdings	Financials	Japan	(14.6%)	0.9%	(0.16%)

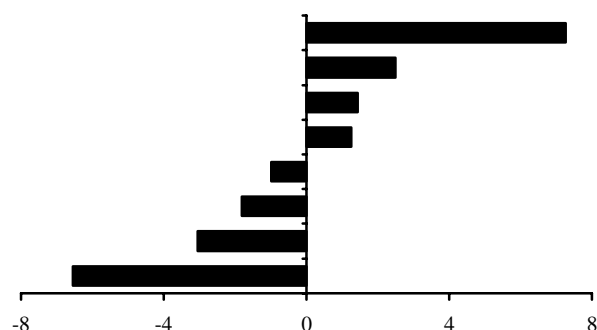
All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. The portfolio is actively managed; therefore holdings may not be current.

*Security owned for partial period; return shown is for the actual period owned in the portfolio.

Current Composite Regional Exposure

Region	HL Global Equity	MSCI ACW Index
Emerging Markets	13.1%	5.8%
Cash	2.5%	--
Canada	4.4%	3.0%
Japan	10.2%	8.9%
Pacific ex-Japan	2.4%	3.4%
Europe EMU	12.2%	14.0%
Europe ex-EMU	11.5%	14.6%
United States	43.7%	50.3%

Over/Under the Benchmark (%)



Portfolio Characteristics

Characteristics	HL Global	ACW	Characteristics (3 Years)	HL Global	ACW
Avg Wtd Market Cap (\$B)	\$47.8	\$64.4	Alpha	(1.34)	0.00
Price/Earnings (Trailing)	23.6x	18.4x	Beta	1.03	1.00
Price/Cash Flow	12.9x	11.0x	R-Squared	0.96	1.00
Price/Book	3.1x	2.5x	Sharpe Ratio	0.18	0.21
Dividend Yield	1.5%	2.2%	Standard Deviation	14.84	14.11
Return on Equity	20.3%	19.2%	Correlation	0.98	1.00
Number Holdings	58	2644	Turnover (Average)	42.0%	---

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.

The above portfolio attribution, region weights and statistics are shown as supplemental information only and complement the International Equity Composite presentation which is located on the front and back covers of this report.

Global Equity Composite Performance Summary 2005 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
2005 ³	1.4%	1.2%	0.0%	(0.4%)	NA ⁴	†	76	1611	5
2004	9.0%	8.5%	15.8%	15.3%	†	†	82	1529	5
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%	(14.0%)	(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

¹Benchmark Index; ²Asset-weighted standard deviation (gross of fees); ³The 2005 returns reflect the partial period January 1, 2005 through June 30, 2005; ⁴NA used for internal dispersion less than a 12 month period. †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. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

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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