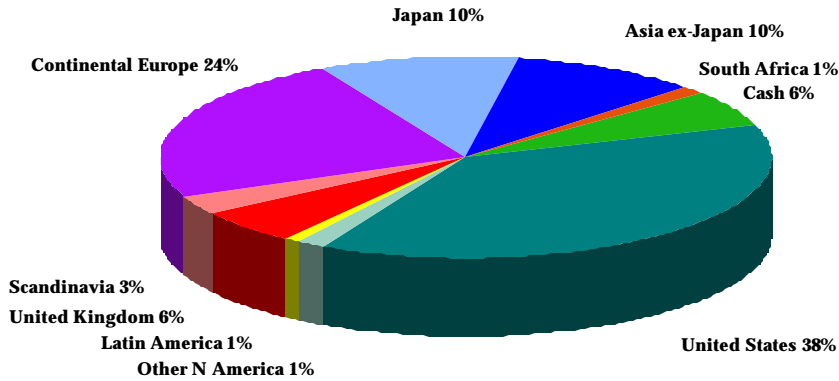


HARDING, LOEVNER MANAGEMENT, INC.

GLOBAL AND INTERNATIONAL INVESTING

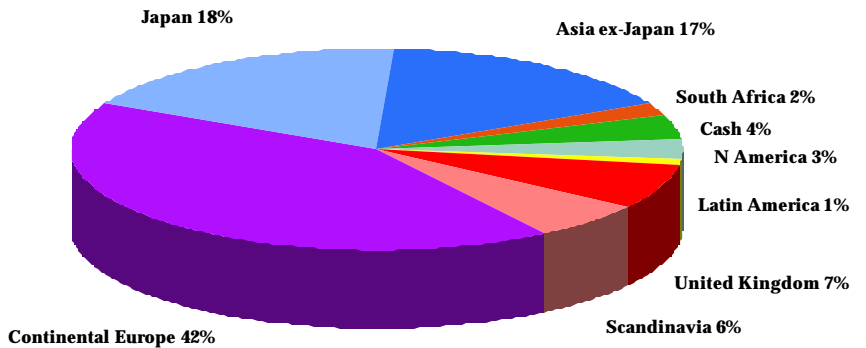
1997 Second Quarter Report

GLOBAL EQUITY PORTFOLIO



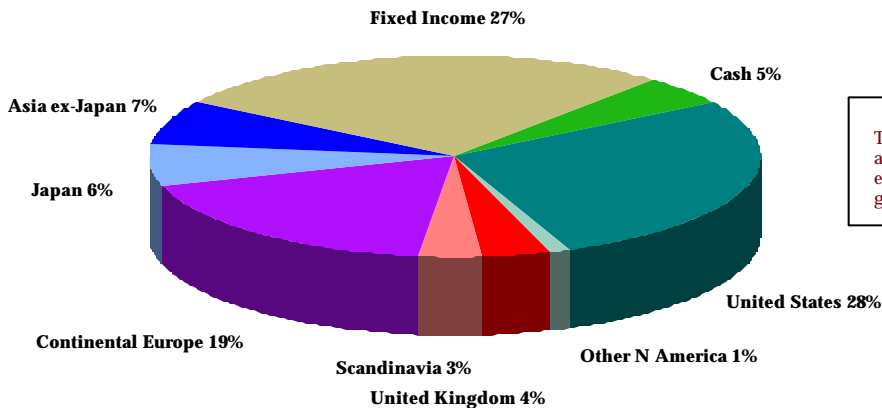
The *Global Equity Portfolio* seeks long-term capital appreciation through investments in equity securities of companies based both inside and outside the US.

INTERNATIONAL EQUITY PORTFOLIO



The *International Equity Portfolio* seeks long-term capital appreciation through investments in equity securities of companies based outside the US, including large & small companies in mature markets and established companies in emerging markets.

MULTI-ASSET GLOBAL PORTFOLIO



The *Multi-Asset Global Portfolio* seeks long-term capital appreciation and current income through investments in equity and fixed income securities of companies and government bodies throughout the world.

The charts above provide a 'snapshot' of the portfolios at June 30, 1997. See inside for details of performance.

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HARDING, LOEVNER MANAGEMENT, L.P.

Harding, Loevner Management, L.P. (“HLM”) is a registered investment advisor providing global investment management to private and institutional clients since 1989. Based in Somerville, New Jersey, the firm is independent and employee owned. It manages in excess of \$1.6 billion in assets for private investors and institutions.

Investment Approach

HLM’s seeks to achieve consistent absolute returns while limiting the potential for substantial loss. HLM’s investment approach is *bottom up*. It focuses on companies and their securities, restricting its attention to companies that it knows well and whose businesses it understands. It seeks to identify companies with superior long-term growth prospects, and to select from among them those whose shares appear to offer attractive absolute returns. HLM’s investment criteria include both growth and value considerations. HLM favors companies with strong balance sheets, sustainable internal growth, superior financial returns, capable and forthright management, and enduring competitive advantages.

To determine *when* to invest in a company meeting its criteria, HLM uses valuation tests, including domestic market and cross-border comparisons. HLM invests with the view to being a long-term shareholder, but divests if a company’s business performance, management actions or changes in the external environment reveal a flaw in the underlying investment thesis, or if its shares become substantially overvalued.

Country and sector portfolio weightings reflect the results of stock selection, rather than the results of any country or sector allocation process. However, HLM’s outlook for various industries and national economies is important in individual company evaluation. Weightings are adjusted, if necessary, to ensure that portfolios remain well diversified, but no consideration is given to index weightings. HLM hedges foreign currency exposure only on those infrequent occasions when diversification is inadequate or when it has a strong negative view on the prospects for a particular currency. portfolio turnover is low – about 30-35% annually.

Investment Programs

HLM offers three related investment programs. Each is available on a separately-managed account basis or through mutual funds.

Global Equity is a conservative program intended to form the core of an investor’s equity portfolio, comprising common stocks and convertible securities of high-quality, growing companies, both US and non-US.

International Equity is a focused program for investors seeking long-term capital appreciation through investment in growing companies outside of the US, including large and small companies in mature markets as well as established companies in emerging markets.

Multi-Asset Global is a balanced program in which global equity, fixed income and cash equivalent securities are combined to meet the investor’s

particular requirements for income, growth, stability, and liquidity.

The following discussion of investment activities and results of HLM's three investment programs was excerpted from reports to clients of the firm.

GLOBAL EQUITY

Performance

The portfolio rose 11.2% in the quarter with performance leadership supplied by US and Japanese holdings. The FT World Index increased 15.1%, and the Lipper Global Fund Index returned 12.1%.

The US financial markets set the tone for equity markets worldwide. The S&P 500 Index had one of its best quarters ever, advancing 17.4%. Five consecutive monthly declines in the US Producer Price Index have helped ease fears of US inflationary pressures and rising interest rates. The resulting improvement in US economic and financial sentiment was hospitable to rising equity prices nearly all over the world. The Japanese market, reversing three consecutive quarters of absolute losses, returned 23.4% in US dollars.

Review and Outlook

Seventeen US companies represent 38% of the portfolio and have generated the bulk of the favorable second quarter returns. In the second quarter, the portfolio's US holdings returned approximately 18%, keeping pace with the astonishing 17.4% gain of the S&P 500 Index. The investments in the portfolio are well balanced by industry for diversification purposes, and reflect our bias towards financially strong, growing, often multi-national market leaders. So perhaps it is not surprising that our recent results have mirrored the gains of the market, led as it has been by large capitalization growth stocks. As bottom-up investors, however, we are more concerned with an individual company's ability to thrive in the globally competitive environment than we are in stock market fashion. We favor certain industries over others, to be sure, which is why you will find market leaders as representatives of the energy (**Exxon, Schlumberger**), capital goods (**Deere, Dover**), consumer growth (**Colgate, Abbott Labs**), and technology (**Motorola**) sectors in the portfolio, but not retailers, regulated utilities, or small 'niche players.' The former set of industries displays fundamental qualities that provide the best industry players with opportunities to establish clear advantages: high barriers to entry, the ability to garner dominating market share, and the capacity to maintain pricing flexibility and stable or rising margins in the face of competition. Together with underlying

management ability and dedication to shareholders, these criteria are cornerstones to our investment philosophy. We think they are hard to find in the latter set of industries and we therefore tend to avoid them.

This approach, coupled with an eye towards value and price risk, also explains why we do not presently include US banks and insurance companies in our portfolio, but rather **Fannie Mae** and **Allied Capital**. The government-sponsored Small Business Investment Company charter of Allied Capital and the 20% market share of the \$4 trillion mortgage debt market held by Fannie Mae — the largest financial institution by assets in the US — give these two institutions durable competitive advantages that enable them to generate continuing profitable returns to shareholders.

Is this as good as it can get for the US market? And if so, how long can it last? The S&P 500 has advanced for ten consecutive quarters, only one quarter short of its all time record. In that time, the index has almost doubled. The seemingly unending stream of good economic news continues to fuel a market well beyond the irrationally exuberant levels Mr. Greenspan warned of 1300 points on the Dow ago. Further, the market euphoria is engendering a worrisome investor complacency, and we find most all the noted 'bears' fully invested. Although high share prices are thus forcing discussions of the 'new global economy' and 'new valuation paradigms', we remain guardedly optimistic about overall market valuations. As Barton Biggs of Morgan Stanley recently observed, as long as the US economy continues to tread in the band between the 'fire' of exuberant, unsustainable growth, and the 'ice' of an overly restrictive monetary policy, the rare combination of low inflation, low interest rates and strong corporate profitability justifies the historically high valuations. In particular, we believe that the prices of the investments in the portfolio appropriately reflect their current and prospective profitability.

Many of the same forces driving the values of the US investments in the portfolio are beginning to be felt in the European holdings, as well. Relatively low interest rates, moderate inflation, and growth driven by global expansion are combining with a nascent though persistent trend toward shareholder friendliness to produce a stream of enhanced earnings and shareholder returns. The European companies constitute nearly one third of the portfolio, represented

by old favorites and global leaders such as **Royal Dutch** and **Wolters Kluwer**, companies restructuring to improve their returns to more demanding shareholders, such as **Daimler Benz** and recently-privatized **Railtrack**, and investment holding companies valued at attractive discounts, such as **Investor** and **Gaz et Eaux**.

Over the last ten years it has been European corporations, not governments, that have recognized the need to adapt to the realities of global competition, and to the requirements of global investors. We believe that the portfolio is well positioned for the political turbulence coming from the continuing corporation-led structural reformation of European economies. For example, companies in the portfolio such as **ABB** and **Nestlé** have transferred operations from high-cost Western Europe to low-cost Eastern Europe, South East Asia and the Americas. Others, such as Swiss-based **Surveillance**, have adopted international accounting standards and have instituted shareholder friendly policies such as share buybacks, incentive compensation and return on capital targets. The European companies we hold are global in scope, and were among the first to recognize that changes in management focus from the needs of *stakeholders* to those of *shareholders* were necessary to attract the capital needed to compete against their international rivals.

The exact structure, timing, and players of European Monetary Union are as confusing and uncertain as ever. It appears that the Euro (when it does come) may not be as strong as the Deutschemark has been, but that will probably bring welcome relief to Europe's exporters. Behind the headlines, of course, corporate reform keeps on, as Europe's most aggressive companies seek out growing markets, cut their costs, sharpen their management incentives, and generally seek to raise shareholder returns. Meanwhile, political angst grows as unemployment remains at post-war highs. The return of the Socialists to power in France reflects the unfortunate penchant in the French psyche for centralized solutions. We believe, however, that it is too late, even for the French, to turn back to yesterday's insufficient answers. Instead, we are heartened by the popular support with which the UK's Tony Blair has been greeted in Europe, and the fresh approach he is prepared to take towards the European economic malaise. The initial Blair reception gives hope that other European leaders will recognize that it is

statism that leads to the remarkably high levels of unemployment that now prevail throughout Continental Europe, and that deregulation, not more intervention, is what will cure the patient. While equity market valuations across the continent are full by historical benchmarks, particularly given the political uncertainties, the companies in the portfolio are not just the beneficiaries of the changes underlying the valuations, they are the leaders of the change.

Asian markets generated excitement of their own during the quarter. The last three months saw the return of Hong Kong to China, precipitous declines in the Thai, Malaysian and Philippine stock markets, and the apparent turn around of the long-moribund Japanese economy. Hong Kong is no longer a British Crown Colony, but is now a part of China and must be notionally reclassified from developed market to emerging market, the largest of all. The process whereby Hong Kong culture becomes less British and more Chinese began long ago and continues apace. What remains to be seen is whether Hong Kong, the paragon of unfettered capitalism, sets the example for the economic and political future of China, or whether the bureaucrats of Beijing stifle the freedoms integral to the alchemy of Hong Kong. We believe our Hong Kong companies, **Hutchison Whampoa** and **Johnson Electric**, are well positioned to continue prospering in either case, and trade at reasonable prices in spite of the speculative excesses surrounding mainland-based but Hong Kong-traded 'red chip shares'. We continue to see no better way to invest prudently in the growth of the emerging Chinese colossus than in the company that manages the ports through which the country's accelerating trade flows: Hutchison Whampoa. Johnson Electric, taking advantage of the low-cost manufacturing labor available in China, while tapping the deep engineering talent pool of Hong Kong, continues to enjoy success exporting its micromotor products around the world.

Thailand, which failed to balance the competing goals of an independent monetary policy with an exchange rate fixed to the US dollar, saw its stock market drop almost 30% in the quarter, as the government policy generated too much foreign denominated debt and continual speculation against the baht. We had not thought that our holdings would be immune from a severe market downturn, but we did think that their virtues of industry leadership, regional diversification and financial strength would save them from the worst

of it. We were wrong, and shares in **Siam Cement** fell by 32%. The holding in **Bangkok Bank** is via a convertible bond, which afforded some protection; still it fell 17%. Since the end of the quarter, on July 2, the Government has floated the currency, resulting in a 20% devaluation — but not before punishing foreign speculators who failed to force the devaluation according to their own timetable — and a dramatic rebound in share prices.

Japan presents a brighter picture than its southeastern neighbors, for the first time in years. The changes taking place in Europe are also being felt (finally) in Japan, and we are moving to take advantage. Japanese companies now represent 10.5% of the portfolio. The Japanese companies in the portfolio are not representative of the Japanese economy nor the broad stock market. Our investments are focused on the export sector with investment in globally competitive companies such as **Canon**, **Honda**, and **Mitsubishi Heavy Industries**. These are the kinds of Japanese companies that meet our investment criteria for profitability, financial strength, transparency, and reasonable valuation. Just as important, Japanese institutional shareholders are beginning to demand *financial* returns from their equity investments. Given the low returns available in Japanese fixed income securities (the long bond yields just 2.5%), Japanese financial institutions, as well as other shareholders, can no longer afford to be satisfied with the nebulous corporate relationship benefits derived from interlocking share ownership.

New portfolio holding **Hirose** sets itself return goals, based on return on equity, rather than revenue, targets. Our other new Japanese holding, trading company **Mitsubishi Corporation**, aims for a listing on the NYSE once it achieves return on equity levels commensurate with other foreign listed companies. These moves take place against a background of an improving economy, improving corporate earnings, and a stock market that is no longer wildly over-valued, after falling for seven years. Our valuation models show ample expected returns from Japanese stocks even without assuming the positive earnings 'surprises' that continued sound corporate governance should bring.

Outside South East Asia, and a single holding in Argentina, brewer **Quilmes**, our remaining emerging market holding is **Libsil**, the investment company of

Liberty Life that holds its stakes in South African Breweries, Standard Bank, and smaller stakes in retailer Premier Group, and mining house Goldfields of South Africa. We believe that this holding offers high quality exposure to high-risk markets, not just in South Africa, but also in the rest of sub-Saharan Africa. If the area does emerge as a more economically vibrant one, South African companies, chief among them SAB and Standard Bank, will play a leadership role.

Activity

We made four new investments and added to eight existing holdings with the proceeds of the sale of three investments. The net result of these transactions is to increase the portfolio's exposure to Japan, and to decrease that in South East Asia. These transactions also increase the exposure of the portfolio to the business cycle, as more of the companies' earnings are sensitive to the overall level of economic growth.

We bought:

- **Mitsubishi Corporation**, the leading general trading company in Japan and the parent of the Mitsubishi Group. Mitsubishi Corp. has weathered the prolonged slump in the Japanese economy well. Profits from traditional 'middleman' activities have been invested in growing, new businesses, and the company is well placed to exploit the opportunities of a changing Japanese economy. The shift in focus from growth to profitability and from parent results (domestic) to consolidated results (global) will highlight the strength and understated asset values in the group;
- **Hirose Electric**, a Japanese-based firm which specializes in manufacturing high-quality connectors for the electronics industry. Products include multi-pin connectors used in microwave and other high-frequency signal applications, and co-axial and optical fiber connectors used in computers, computer terminals, word processors, telecommunications, and broadcasting systems. 30% of sales come from products developed in the past three years;
- **Railtrack**, the company formed to acquire the track, signaling and stationing operations of British Rail. To end the drain on the public purse of a massively inefficient rail service, British Rail

has been carved up by the UK Government and sold to the investing public and to private companies. Passengers should respond enthusiastically to the well-run, efficient, and affordable train system that we think will ensue, and Railtrack will benefit, under its scheme of regulation, from that increased level of use; and

- **John Deere**, the world's leading producer of farm equipment, with the proceeds of the sale of **Cummins Engine**. Deere also makes machines for construction and forestry, home gardening equipment and diesel engines and powertrain parts for manufacturers in other industries. We are optimistic about the outlook for US farmers' income and believe that Deere will prosper along with its customers. We are less sanguine concerning demand for heavy trucks, on which Cummins's sales are dependent.

We added to:

Airgas and **Allied Signal**, on price; **Wrigley**, on improved confidence in faster growth; **Rio Tinto**, convinced this global mining concern has the character and staying power of a core holding; **Investor**, the holding company of the Wallenberg family of Sweden, where we are particularly cheered by the news of the appointment of Mr. Percy Barnevik to succeed Mr. Peter Wallenberg (We are fans and recall his successful transformation of ABB.); **Surveillance**, on price weakness reflecting the loss of contracts in Indonesia and Pakistan which will break the string of regular earnings increases (and growth stock status) from this still attractive and growing global inspection and certification business; **Atlantis Japan**, the well managed, closed-end investment fund specializing in smaller Japanese OTC companies; and **Canon**.

We sold:

- **Hong Kong & China Gas**, reflecting its less certain destiny and our fears of potential regulation by Hong Kong's new masters and mainland energy project entanglements;
- **Sime Darby**, which has benefited indirectly from the Malaysian Government's encouragement of consolidation in the banking industry. It is, as a result, an expensive stock at a time in which Malaysia has become a riskier

place in which to invest. A meeting with top management to discuss Sime Darby's long-term strategy might have provided us with insights to enable us to justify the high price, but new management has denied access to investors;

- **Cummins Engine**, as noted above.

INTERNATIONAL EQUITY PORTFOLIO

Performance

Returns were good in the second quarter. The portfolio rose by 9.2%. The Financial Times World (ex-US) Index, however, was even stronger, rising by 13.2%.

The portfolio is a collection of stocks of outstanding companies, selected to meet our criteria of growth, strong management, global competitiveness, and strong financial condition; we do not attempt to mimic the risk and return profile of an international index. We control risk through familiarity with our companies, through establishing confidence in their business prospects, and through being sensitive to stock prices. We also demand, however, that the portfolio be well diversified. Our investment objectives, of both return and risk, are couched in absolute terms, not relative to an index. Returns thus tend to be volatile relative to the index, and this is particularly the case when the biggest (24%) component of the index, the Japanese stock market, moves sharply in one direction. In the second quarter, the Japanese market moved sharply upwards — a rise in Yen of 14% translated to a rise of 23% in dollars as a result of currency strength.

The eclectic list of stocks that contributed to the quarter's good absolute returns was dominated by such global giants as Novartis, the largest non-US pharmaceutical company; ABB, the electrical equipment maker; Royal Dutch, the international oil company; and HSBC, the world's biggest bank. All returned over 25% in US dollars. The portfolio has significant holdings (17%) in South East Asia, where several markets—Thailand, Malaysia and Singapore—were weak. Our belief that owning companies of superior quality would insulate the portfolio from market declines was wrong.

Review and Outlook

Two elections in Europe brought two Socialist governments to power — in Britain, and in France. The difference between the new governments, however, could not be more marked. The new French Prime Minister, M. Jospin, appeared as surprised as President Chirac at his party's victory, and clumsily began to adapt electoral posturing to broader European political reality. Mr. Blair ('Tony'), on the other hand,

used his years in Opposition not only to plot a winning election platform, but also to formulate a series of reforms that have been put quickly into effect. Above all, the surprise announcement that the Bank of England — not politicians — will henceforth determine the appropriate level of interest rates helped to assure financial markets that this Labour Government makes monetary rectitude a high priority.

To long-time observers of British politics there is an extraordinary irony in Mr. Blair's lecturing other European leaders about the need to free labor, capital, and goods markets from heavy-handed state interventionism. Clearly, Lady Thatcher's influence has been more long-lasting on Labour than on her own party! The popular support which Mr. Blair has received in Europe, and the fresh approach he is taking towards European economic stagnation, give us hope that other European leaders will find the courage to acknowledge to their electorate that it is statism that has caused the remarkably high levels of unemployment that now prevail throughout Continental Europe, and that deregulation, not more intervention, is the medicine that will cure the sickness.

Most attention has focused on whether the plans for European Monetary Union under the Maastricht Treaty will be able to go ahead. Germany is struggling to meet the criteria that restrict the allowable size of the government budget deficit, while France's new leaders, having won an election based on promises of more spending to create jobs, appear unwilling to sign on to a regime that will penalize member countries that are fiscally profligate. French cravenness, however, comes too late. European Monetary Union will be consummated, because the German Chancellor demands it. The common currency, the Euro, will not be as strong as the Deutschemark has been, but a weaker Euro will bring welcome relief to Europe's manufacturers, struggling to lower costs and compete globally.

We believe the portfolio is well-positioned for such a muddle-through in Europe. Its European companies are global in scope, their fortunes not tied to any one economy, and they are leaders in making the changes necessary to compete successfully. They are companies, such as **Michelin** and **Daimler Benz**, that are not dramatic cyclical, or ex-statist, turnarounds, but are well on the way to renewed success, or they are companies that have simply continued their fine

records of international business growth — **IHC Caland, Rentokil, Wolters Kluwer, Nestlé and Novartis**, for example.

While Continental politicians have, unsurprisingly, lacked the courage to make wholesale changes in the way they govern, or the ways they regulate those they govern, Europe's companies have begun restructuring on their own initiative. **Asea Brown Boveri** was born out of the recognition that, in manufacturing, being big, cost-efficient, and global were prerequisites for survival. Over the last ten years ABB has transferred capacity from high-cost Western Europe to the low-cost East. For other companies, that recognition came later, but came nonetheless. **Michelin and Daimler Benz** compete in markets that have become increasingly dominated by fewer, larger, suppliers. They too needed to restructure their operations, to lower their costs. One cost that they can lower only indirectly is their cost of capital. More and more European companies, however, now recognize that a high stock price provides them with a key competitive advantage.

That recognition is also beginning to be felt in Japan. portfolio company **Denso**, part of the Toyota group, has bought back stock with excess cash; **Hirose**, an electrical connector maker, sets itself targets based on returns on shareholders' equity, not on sales. Other companies are now increasing their transparency to shareholders, and providing consolidated financial reports (sometimes in English!). For the first time, Japanese institutional shareholders are beginning to demand financial returns from the companies in which they invest, not just the nebulous benefits derived from interlocking corporate relationships. In Germany, the trend to new awareness of shareholder value was a combination of fear of takeover (Veba) and the competitive pressures facing companies such as **Deutsche Bank** and Allianz. Demand for radical change thus began with the blue chip, multi-national leaders in the financial sector, and is progressively working its way through the rest of the economy. So far politicians remain on the sidelines. In Japan, it is no coincidence that deregulatory plans are now focused on the 'Big Bang' — in which the entry of foreign rivals exposes insurers, banks and brokers to competition for the very first time. Given the low returns available in fixed-income securities (the Japanese long bond yields just 2.5%), Japanese

financial institutions, as well as other shareholders, will require that companies direct their attention to creating value for their equity owners, not to meeting some vaguely stated or irrelevant alternative corporate goal.

All this takes place against a background of an improving Japanese economy, and a stock market that, after falling for seven years, is no longer overvalued. Our valuation models show positive expected returns from Japanese stocks, even without the earnings 'surprises' that a good dose of sound corporate governance will bring. We have added holdings in **Kurita and Mitsubishi Corporation** this quarter, raising the number of Japanese holdings to 18.5%.

In South East Asia, markets were weak, and the portfolio suffered. The immediate problem began in Thailand, which failed to pull off the conjuring trick of running an independent monetary policy with an exchange rate linked to the US dollar. The result was too much liquidity, too much debt, and rampant property speculation, the cost of which only had to be borne when the US dollar began to appreciate earlier this year. We had not thought that our holdings would be immune from a severe downturn, but we did think that their superior quality would save them from the worst of it. We were wrong. Shares in **Siam Cement** fell by 32%, at a time when the market was down 28%. The holding in **Bangkok Bank** is via a convertible bond, which afforded some downside price protection relative to the common stock, but the result was still a drop of 17%. Since the end of the quarter, on July 2, the Government has floated the currency, resulting in a 20% devaluation — but not before punishing foreign speculators who failed to force the devaluation according to their own timetable.

There was a ripple effect from Thailand to other markets in South East Asia where there is a suspicion of excessive property speculation. Worst hit were the Philippines, where we have no holdings, and Malaysia, where we had two. We sold one, **Sime Darby**, the country's leading conglomerate. We believed the stock was expensive in light of the new risks in Malaysia, and in light of signals from the Government that the period of privatization of Government-owned assets is over. Insights gleaned from a meeting with top management to discuss Sime Darby's long-term strategy might have enabled us to justify the high price, but new management has denied access to investors.

At such times of regional turmoil, Singapore traditionally enjoyed the role of safe haven. Such a role still seems deserved, particularly as the Government presciently took action last year to prick the property bubble that was developing locally — a move for which they were much criticized at the time! This time, however, has been different: Singaporean stock prices have not been supported by capital flight to quality. Despite outstanding economic management by the Government, Singapore's public companies have not shown the same competence, notwithstanding the fact that many are partly Government controlled. Since its independence in 1963, a strong currency and Government exhortation have turned Singapore from a low-cost labor manufacturing country to one that is as 'high tech' as anywhere in the world, but local companies have been unresponsive to change and are struggling to generate attractive returns for shareholders. One of those is portfolio holding **Keppel**, whose shares are lowly priced relative to their excellent asset base, impeccable connections, and a very stable major shareholder (Temasek, the Government investment arm). We are reviewing the investment theses underlying our Singaporean holdings, to be sure that management of those we hold is dedicated to improving returns.

In emerging markets, we owned companies in South East Asia, and failed to see the emergence of a virtuous circle of capital inflows, and economic growth in Latin America. We have always been concerned that there was insufficient capital left in Mexico to finance debt repayments and economic growth. We underestimated the durability of the US bull market in mutual funds, and the willingness of emerging market investors to step into the breach left by the collapse in the banking system. Our skepticism remains, but we will be focusing our attention on Latin America in the second half of the year, as we also will be on another emerging market whose success has surprised us, in India.

Outside South East Asia, and a single holding in Argentina, **Quilmes**, the leading brewing company in the southern cone of South America, our emerging market exposure is a holding in **Libsil**, the investment company of Liberty Life, whose main stakes are in South African Breweries and Standard Bank. We believe that this holding offers high-quality exposure to high-risk markets, not just in South Africa, but also in the rest of sub-Saharan Africa. Africa has been the last

region to hold out against free markets and government withdrawal from the economy, and its population has suffered as a result. There is now evidence that that may be changing, as countries such as Uganda, that adopted a Western capitalist model for their economy several years ago, are now seeing the results — higher growth and lower inflation — and others are looking on enviously, and following suit. If the area does emerge as a more economically vibrant one, South African companies, chief among them SAB and Standard Bank, will play a leadership role.

In one sense, of course, the portfolio's emerging market exposure increased dramatically, at midnight on June 30, when sovereignty over Hong Kong passed from Britain to China. The portfolio owns three companies that are rare examples of Hong Kong at its best, whether it be entrepreneurial vision and global diversity in **Hutchison Whampoa**; high-quality management and long-term planning in a global niche business in **Johnson Electric**; or global leadership in banking through sticking to basic principles in **HSBC Holdings**. These are companies that have already reaped the benefits of Hong Kong's transformation over the last ten years, from manufacturing center to service entrepot, to become the financial center for Southern China. Together they make up nearly 6.6% of the portfolio. Speeches, flags and feasting aside, Hong Kong's return to the Chinese fold began to take place long before June 30. The remarkable economic successes that have ensued will be left untouched by the change of sovereignty. Changing political winds, however, will mean that the Hong Kong market will be volatile. Again, there is nothing new there, and the potential returns from access to China's emergence as a financial giant justify the risks.

Activity

We bought shares in four new companies, added to two holdings, and sold three. The net result of these transactions is to increase the portfolio's exposure to Japan, and to decrease that in South East Asia. In an industrial sense, it is an increase in the exposure to the economic cycle, as more corporate earnings are sensitive to overall levels of economic growth.

Stocks bought were:

- **Railtrack**, the company formed to acquire the track, signaling and stationing operations of

British Rail, as part of the railway's privatisation by the UK Government. Rail travel has taken second place to roads in Britain over the last 50 years, an inevitable trend given the poor quality, yet high cost, of the service offered by the nationalized railway system. As the roads have become more congested, and popular opposition to new construction has burgeoned, Government priorities have shifted to encouraging the use of trains. To that end, and to end the drain on the public purse of a massively inefficient rail service, British Rail has been carved up and sold, to the investing public, and to private companies. Passengers will respond enthusiastically to the well-run, efficient, and affordable train system that will ensue, and Railtrack will benefit, under its scheme of regulation, from that increased level of use;

- **Mitsubishi Corporation**, the leading general trading company in Japan and the 'parent' of the Mitsubishi group. Mitsubishi Corp. has weathered the prolonged slump in the Japanese economy. Profits from traditional 'middleman' activities have been invested in growing, new businesses and the company is well placed to exploit the opportunities of a changing Japanese economy. The shift in focus from growth to profitability and from parent (domestic) results to consolidated (global) results will highlight the concealed strength of the group;
- **Kurita**, the leading Japanese manufacturer of water treatment and environmental equipment, and of specialty chemicals used in water treatment processes. The company also operates water desalination systems in Japan. Kurita has built a leading position in the field of water treatment. This niche business requires modest amounts of capital that generate stable margins, and strong cash flows, in part because much of Kurita's business is now servicing existing water treatment facilities rather than building new ones. Demand for water treatment in Japan is underpinned by the expansion and modernization of the country's civil infrastructure, and the growing trend towards stricter environmental laws, particularly regarding industrial waste emissions; and

- **Investor**, the holding company of the Wallenberg family of Sweden. Its interests include a control stake in Scania, a world-leading producer of heavy trucks, plus strategic stakes that represent the "best of Sweden," and include companies such as Astra, Asea, Atlas Copco, Ericsson, Electrolux, and SKF. The companies within the portfolio have a combined turnover of \$75 billion and employ over half a million people. Ninety percent of sales and seventy percent of the employees are from outside of Sweden. Investor provides an attractive entry into this long list of Swedish multinational blue chips. The company's shares trade at a 20% discount to their net asset value, a peculiar feature given the company's long history of attractive earnings and dividend growth, shareholder friendliness and the acute business acumen of the Wallenberg family, now supplemented by the arrival of Percy Barnevik, after a very successful career at the helm of **Asea Brown Boveri**.

We also added to holdings in **Surveillance**, the trade certification company, headquartered in Switzerland.

We sold:

- **Astra**, to buy the holding in its parent, Investor, as described above;
- **Hong Kong Gas**, whose long-term record of double-digit growth and high shareholder returns are threatened by the increasing influence of politics on its business;
- **Sime Darby**, as described earlier;

MULTI-ASSET GLOBAL PORTFOLIO

Performance

The portfolio had good returns in the second quarter, rising 8.9%. The Lipper Global Flexible Fund Index rose 8.1% in the quarter, while a constructed passive index (60% Financial Times World Equity Index/40% Salomon World Government Bond Index) rose 10.1%.

The fixed income investments in the portfolio returned 3.6%, while the Lehman Aggregate US Bond Index rose 3.7%, and the Salomon World Government Bond Index rose 3.0%. Equities in the portfolio returned 12.2%. The Lipper Global Fund Index was up 12.1%, and the Financial Times World Index rose 15.1%.

Review and Outlook

Markets overcame the first quarter's preoccupation with a very strong US economy, and the Federal Reserve's single February boost in overnight interest rates; stocks moved to new highs, while bond yields once again retreated from 7% levels. A record five months of declining US producer prices, combined with strengthening economies in Japan and Europe, have re-established a positive tone for financial markets.

The asset allocation of the portfolio weights equities slightly more heavily than last quarter: 68.1% equities, 26.8% bonds, and 5.1% cash. That is despite the purchase of more bonds: appreciation of the stocks in the portfolio has outweighed the addition of bonds in the quarter. By our estimate, the expected returns from equities do not now far outdistance expected returns from bonds, which carry lower risk. As long as that remains the case, we will continue to increase the fixed income allocation in the portfolio, implemented gradually against rising equity market prices.

Bond markets have been steady but dull performers around the world, with the only excitement coming from a stronger Yen, which transformed a Japanese bond market decline into an 8% return in US dollars, and from emerging debt markets, which returned over 9% in dollars. Core European government bonds—German, French, and Dutch—had positive local returns, but negative returns when measured in dollars. High yielding, lower quality debt of nearly all varieties performed better than the highest quality bonds: Spain

outperformed Germany, mortgages outperformed governments, low grade corporate bonds outperformed investment grade debt. Yield spreads to compensate for risk have continued to narrow, but it is perilous to believe that downside risk in a portfolio is lower simply because the market is pricing credit or liquidity risks in bonds less generously.

The fixed income holdings in the portfolio are dominated by US dollar securities, with heavy weightings in Treasury and GNMA issues, along with a substantial group of high yielding corporate and sovereign emerging market bonds—with little in between on the credit spectrum. We want either no default risk, or meaningful additional yield for accepting such risk. Returns from this 'credit barbell' portfolio structure were solid and unexciting. The investments in emerging market debt, **South African Gilts** and **Argentine Brady Bonds**, performed well again this quarter, rising in price as well as accruing their high yields.

We have lengthened the average maturity of the bond portfolio by adding two bonds during the quarter. As an exception to our general worries about credit spreads, the nearly 9% yields on **Comcast 10.625% non-callable notes due 2012** attracted us because the company's cable infrastructure and installed base of customers will be valuable assets in the era of heavy Internet usage. The subsequent equity infusion in the company by Microsoft fortuitously confirmed our thesis, but also instantly rendered these high yielding, long maturity bonds a more credit-worthy (and higher priced!) investment. Credit risk is not a factor with the **GNMA 7.5% mortgage-backed notes due 2027** that we bought, since their principal is guaranteed by the US Government. They provide additional yield over Treasuries due to the prepayment option that American mortgage borrowers enjoy. The risk of getting paid back earlier than expected, however, is less troubling than most credit risks at prevailing spreads. That is especially true in a yield environment such as we are in, where interest rates are seemingly boxed into a range, supported below by robust economic activity, and capped above by financial liquidity and low inflation.

The European political backdrop has grown more tortuous this quarter, if that is possible. British voters have elected a Labour government whose deft leader, Tony Blair, has given full control of interest rates to

the Bank of England and has begun to lecture other European leaders on the virtues of freeing labor, capital, and product markets from heavy handed state interventionism—a lecture they might have expected from Lady Thatcher. The French electorate has voted out the conservative Gaullists who were looking for a continuation of their mandate for fiscal austerity in the final run-up to European Monetary Union (EMU), installing a Socialist prime minister who has allied with the French Communist Party around a platform of higher spending to create jobs. German Finance Minister Theo Waigel has been forced by a hailstorm of protest to retreat from his attempt to meet the strict budget deficit requirements of EMU through creative accounting at the sacrosanct Bundesbank. Still, the political imperative to achieve monetary union appears unshakable, and we are forced to draw one conclusion: the end result will *not* be a European economic policy built along German lines—a thing of strict fiscal and monetary beauty—but rather a complex muddle. In such a world, fiscal policy will be less austere, and bond investors will require a higher risk premium, especially as the European economy picks up steam. We sold our holdings of **German Government 6.75% Bunds due 2003**, and unwound the related Deutschemark hedge.

European equities, on the other hand, can benefit greatly in an environment where demand is supported by fiscal stimulus and currency values are less jealously defended by strict monetary policy, at least in the medium term. Companies in Europe continue to cut costs and improve their global competitiveness at a rapid pace. Indeed, over the past decade it has been corporations, not governments, that have recognized the need to adapt to the realities of the global marketplace, and the requirements of global investors. The companies in the portfolio are global in scope, with their fortunes not dependent on any one economy, and are among the leaders in making the changes necessary to compete successfully. We are impressed by the decision of **Investor**, for example, to appoint Mr. Percy Barnevik to succeed Mr. Peter Wallenberg as the holding company's first non-family chairman. His record in entirely reshaping the power generation business of **ABB** implies a continuance of **Investor**'s excellent record of active management of its company holdings, and possibly even the elimination of the large discount to their quoted value. Initial actions taken in his new role include a sweeping attack on manufacturing costs at Electrolux and a

restructuring of portfolio investments at Incentive, now entirely focused on healthcare. Old favorites—and global leaders—such as **Royal Dutch**, **Nestlé**, and **ABB**, continue to perform in line with our high expectations of their operations. European equities as a whole comprise about a quarter of the portfolio.

The fifteen large US companies that represent nearly 30% of the portfolio have generated the largest share of the positive second quarter returns. The portfolio companies have kept pace with the roaring, but narrowly focused, US market, returning 17% in the quarter. The US holdings are well balanced by industry, reflecting our belief that there are few pockets of significant under-valuation to be found in this late stage of the US bull market. Nine of these holdings returned 15% or more in the second quarter: **Abbott Labs**, **Colgate Palmolive**, **Deere**, **Union Pacific**, **Motorola**, **Schlumberger**, **Dover**, **Fannie Mae**, and **Wrigley**. The companies that fell shy of that hurdle—such as **Exxon** and **Boeing**—are for the most part similar in nature: large, multinational industry leaders. Not a single US holding posted a price decline in the quarter. The otherwise generally broad US industry diversification does not include banks or insurance companies, which we consider to be overvalued given their generally undifferentiated products, but rather **Fannie Mae** and **Allied Capital**. The government-sponsored Small Business Investment Company charter of Allied Capital and the 20% market share of the \$4 trillion mortgage debt market held by Fannie Mae — the largest financial institution by assets in the US — give these two institutions durable competitive advantages that enable them to generate continuing profitable returns to shareholders.

Is this as good as it can get for the US market? And if so, how long can it last? The S&P 500 has advanced for ten consecutive quarters, only one quarter short of its all time record. In that time, the index has almost doubled. These euphoric times are engendering understandable investor complacency, and we find most all the noted 'bears' fully invested. Whereas high share prices are forcing discussions of the 'new global economy' and new valuation paradigms, we remain guardedly optimistic about overall market valuations. As Barton Biggs of Morgan Stanley recently observed, as long as the US economy continues to tread in the band between the 'fire' of exuberant growth, and the 'ice' of an overly restrictive monetary policy, the rare combination of low inflation, low interest rates, and

strong corporate profitability justifies historically high valuations. In particular, we believe that the current valuations of the investments in the portfolio are an appropriate reflection of *their* fundamentals.

The Japanese companies in the portfolio are representative of neither the Japanese economy nor the broad stock market. Our investments in Japan—including **Canon**, **Honda**, and **Mitsubishi Heavy Industries**—boast some of the most respected managements in the country, and meet our criteria for profitability, financial strength, transparency and reasonable valuation. For the first time, Japanese shareholders are beginning to demand more out of the companies in which they invest. It is no coincidence that the deregulatory plans in Japan are now focused on the ‘Big Bang’—in which insurance companies, banks, and securities companies will be fully exposed to the competitive pressures of product prices of takeovers. Unleashed competition from foreign insurance companies combined with the low returns available in fixed income securities (the Japanese long bond yields just 2.6%), will force Japanese insurance companies, along with other shareholders, to require that companies direct their attention to creating value for their shareholders. Thus, some managements have begun publicly to eschew growth and size goals in favor of profitability targets. One such company, **Mitsubishi Corporation**, has gone so far as to target for sale assets that do not meet its return criteria—previously unheard of in Japan. We have added it to the portfolio. Japan still represents less than a tenth of the portfolio, a share that could rise as we become more convinced that the changes we see happening in Japan will accelerate and accrue to shareholders.

Our holdings focusing on small cap investments have performed well in the quarter, with **Atlantis Japan Growth Fund** up 14%, and **Royce Micro-Cap Trust** up 18%. Both performed better than the Financial Times index for small cap companies, which was up 11.6% globally and 9.5% excluding the US. This good performance comes after a long period of poor performance for small caps, and, although the stocks act well, it is too early to say if there is a break in that trend. We own them as defensive, undervalued investments. The Royce Trust’s manager focuses on the smallest ‘value’ stocks in the US, and trades at a 15% discount to the net asset value of its holdings. In Japan, the OTC index remains more than 35% below its 1994 level. We note the strength of the Japanese

economy and broad stock market, but are mainly attracted by the idea that small, innovative companies, the primary focus of Atlantis, should profit disproportionately from the deregulation of that economy. We have added to the holding in Atlantis Japan, which trades at a 9% discount to its net assets.

Emerging market equities in the portfolio performed poorly, because the two markets we owned, Thailand and Malaysia, both in Southeast Asia, were very poor performers, down 30% and 14% respectively in the quarter. Our holding of **Bangkok Bank** through convertible bonds protected us from nearly half of Thailand’s decline, but **Siam Cement** fell by 32%, proving us wrong in our belief that superior quality would insulate us at least partially from the worst of the carnage. **Sime Darby**, which we have sold, did garner some protection in the decline in the Malaysian market from its blue chip quality and liquidity. But Sime’s stock is expensive in light of the heightened risks in Malaysia, and the signals from the government that their program to privatize assets is ending. Typically, Singapore has acted as a safe haven when the less developed markets in Southeast Asia have experienced turmoil, but this has not been the case this time around, and our holding there, **Keppel**, has performed badly.

In one sense, of course, the portfolio’s emerging market exposure increased dramatically, at midnight on June 30, when sovereignty over Hong Kong passed from Britain to China. The portfolio owns two companies that are examples of Hong Kong at its best, whether it be entrepreneurial vision and global diversity in **Hutchison Whampoa**, or global leadership in banking through sticking to basic principles in **HSBC Holdings**. These are companies that have already reaped the benefits of Hong Kong’s transformation over the last ten years, from manufacturing center to service entrepot, and the financial center for Southern China. Speeches, flags and feasting aside, Hong Kong’s return to the Chinese fold began to take place long before June 30. The remarkable economic successes that have ensued will be left untouched by the change of sovereignty. Political bumps, however, will mean that the Hong Kong market will be volatile. Again, there is nothing new there, and the potential returns from access to China’s emergence as a financial giant justify the risks.

Activity

The one change made to the US equity holdings was the sale of **Cummins Engine**, replaced with **John Deere**, an upgrade in quality and industry leadership. We are enthusiastic about the prospects for agriculture, with government subsidies under pressure around the world at a time of low grain reserves and steadily rising consumption. Deere will prosper along with its customers.

In Japan, we bought **Mitsubishi Corporation**, the leading general trading company and the 'parent' of the Mitsubishi group. Mitsubishi Corp. has weathered the prolonged slump in the Japanese economy. Profits from traditional 'middleman' activities have been invested in growing, new businesses and the company is well placed to exploit the opportunities of a changing Japanese economy. The shift in focus from growth to profitability and from parent (domestic) results to consolidated (global) results will highlight the

concealed strength of the group. We also added to the holding in **Atlantis Japan**.

We sold **Sime Darby**, in Malaysia, as previously described.

Also as noted earlier, we bought **Comcast Corporation 10.625% non-callable notes, due 2012**; and **GNMA 7.5% mortgage-backed notes, due 2027**; and sold the **Federal Republic of Germany 6.75% notes, due 2003**.

GLOBAL EQUITY HOLDINGS

as of June 30, 1997

Company	Country	Weight	Description
Royal Dutch	NETH	5.2%	Premier oil company operating worldwide
Schlumberger	US	3.8%	Premier supplier of technical services & equipment to the petroleum industry
Dover	US	3.3%	Diversified capital goods manufacturer
Hutchison Whampoa	HK	3.3%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Fannie Mae	US	3.2%	Government-sponsored agency that buys & repackages mortgages
ABB	SWITZ	3.1%	Leading worldwide capital goods company with focus on power generation
Nestlé	SWITZ	3.1%	World's largest food company
Investor	SWE	3.1%	Holding company for Wallenberg family interests in Swedish industrial concerns
Abbott Labs	US	3.0%	Producer of broad range of health care products including pharmaceuticals
Surveillance	SWITZ	3.0%	Worldwide provider of trade certification, testing & loss adjustment services
Exxon	US	2.7%	Premier global oil company
Rio Tinto	UK	2.7%	One of world's largest & most diversified mining companies
Deutsche Bank	GER	2.5%	One of Europe's premier universal banks
Thermo Electron	US	2.5%	World leader in environmental monitoring, analysis instruments & biomedical products
Daimler-Benz	GER	2.5%	One of Europe's largest industrial concerns
Colgate	US	2.3%	Leading global consumer products company
Union Pacific	US	2.2%	Second largest railroad & fourth largest trucking company in US
Motorola	US	2.2%	Electronics company producing semiconductors, communications equipment & computers
Gaz et Eaux	FRA	2.2%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Allied Signal	US	2.2%	Aerospace, auto, chemical & fibre manufacturing company
Wrigley, Wm. Jr.	US	2.1%	World's largest producer of chewing gum
Wolters Kluwer	NETH	2.1%	Dutch publisher of legal, tax, medical & business information
Mitsubishi Heavy	JAP	2.1%	Leader of the industrial segment of the Mitsubishi group
Canon	JAP	2.0%	World's leading producer of wide range of visual image & information equipment
Mitsubishi Corp	JAP	2.0%	One of Japan's leading trading companies
Deere & Co	US	1.9%	World's leading producer of farm equipment
Rentokil Initial	UK	1.9%	Provider of wide range of services to commercial sector
Honda	JAP	1.9%	World leader in automobile production & largest manufacturer of motorcycles
Airgas	US	1.9%	Largest independent distributor of industrial, medical & specialty gases in the US
Johnson Electric	HK	1.8%	Manufacturer of small precision motors used in cars & consumer products
Bangkok Bank	THAI	1.8%	Thailand's largest & strongest bank
Boeing	US	1.8%	World's largest manufacturer of jet aircraft, & America's largest exporter
Electronic Data Systems	US	1.5%	Computer services company & "solutions provider"
Atlantis Japan	JAP	1.4%	Closed-end fund invested in smaller Japanese companies
Nestlé Malaysia	MAL	1.2%	Importer & manufacturer of branded food products such as coffee, cereals & candy
Keppel	SING	1.2%	Conglomerate with main interests in ship repair, ship building, banking & property
Libsil	S AFR	1.2%	Holding company with investments in South African Breweries & Standard Bank
Partner Re	BERM	1.2%	Bermuda's most strongly capitalized property reinsurer
Hirose Electric	JAP	1.1%	Leading Japanese manufacturer of electrical connectors & components
Allied Capital	US	0.9%	Financial institution making equity linked loans to small businesses
Quilmes	ARG	0.9%	Leading producer of beer & soft drinks in Latin America
Railtrack	UK	0.9%	Owner of UK's railway infrastructure
Union Pacific Resources	US	0.7%	Domestic oil & gas exploration & production company
Siam Cement	THAI	0.6%	Thailand's largest industrial group
Scania	SWE	0.1%	World class heavy-duty truck & bus manufacturer

GLOBAL EQUITY PERFORMANCE SUMMARY

as of June 30, 1997

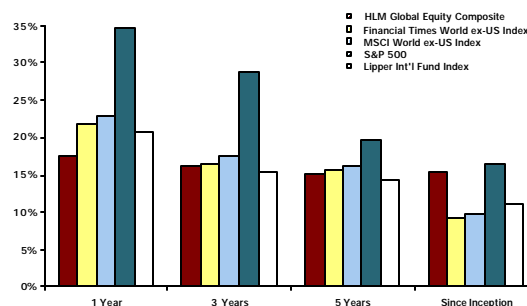
	Calendar Year Returns (%)							
	YTD							
	1997	1996	1995	1994	1993	1992	1991	1990
HLM Global Equity Composite	11.4	17.3	19.0	-0.1	24.2	9.1	31.6	3.6
<i>Financial Times World Index</i>	15.2	13.2	19.6	5.9	22.6	-5.1	19.6	-17.0
<i>Morgan Stanley Capital International World Index</i>	15.6	14.0	21.3	5.6	23.1	-4.7	18.7	-16.4
<i>S&P 500</i>	20.5	23.0	37.5	1.3	10.1	7.7	30.2	-3.1
<i>Lipper Global Fund Index</i>	13.9	16.3	14.0	-2.2	32.8	0.1	20.3	-9.1

	Annualized Returns (%) for Periods Ending 06/30/97				Volatility
				Since	Annual Standard Deviation (%)
	1 Year	3 Years	5 Years	Inception*	Since Inception*
HLM Global Equity Composite	17.5	16.2	15.2	15.5	11.4
<i>Financial Times World Index</i>	21.7	16.4	15.6	9.3	14.3
<i>Morgan Stanley Capital International World Index</i>	22.8	17.6	16.2	9.8	18.5
<i>S&P 500</i>	34.7	28.9	19.8	16.4	13.5
<i>Lipper Global Fund Index</i>	20.6	15.3	14.3	11.2	12.0

*Inception Date: 11/30/89

NOTES:

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



	Composite Information								
	1997 YTD	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	13	13	13	17	17	14	7	†	†
Total market value at year-end of accounts included in composite (\$M)	\$218.7	\$188.0	\$147.1	\$112.7	\$93.2	\$64.5	\$36.6	\$15.3	\$1.6
% of total firm assets represented by composite	13.6%	15.0%	23.4%	30.7%	38.2%	32.9%	20.0%	23.0%	5.5%
Internal dispersion: standard deviation of calendar year returns	N/A	1.0%	2.0%	1.3%	6.5%	1.9%	5.8%	†	†

† Five or fewer accounts

INTERNATIONAL EQUITY HOLDINGS

as of June 30, 1997

Company	Country	Weight	Description
Royal Dutch	NETH	5.3%	Premier oil company operating worldwide
Investor	SWE	4.1%	Holding company for Wallenberg family interests in Swedish industrial concerns
ABB	SWITZ	4.0%	Leading worldwide capital goods company with focus on power generation
Hutchison Whampoa	HK	3.5%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Bankinter	SPA	3.5%	High quality Spanish bank concentrating on services to individuals & small businesses
Nestlé	SWITZ	3.3%	World's largest food company
Rio Tinto	UK	3.3%	One of world's largest & most diversified mining companies
Michelin	FRA	3.2%	World's largest & most innovative tire manufacturer
Canon	JAP	3.0%	World's leading producer of wide range of visual image & information equipment
Deutsche Bank	GER	3.0%	One of Europe's premier universal banks
Surveillance	SWITZ	3.0%	Worldwide provider of trade certification, testing & loss adjustment services
Mitsubishi Heavy	JAP	3.0%	Leader of the industrial segment of the Mitsubishi group
Rentokil Initial	UK	3.0%	Provider of wide range of services to commercial sector
Bayer	GER	2.9%	World's fourth largest chemicals company & tenth largest pharmaceuticals company
DBS Bank	SING	2.8%	Singapore's largest & most diversified bank
Denso	JAP	2.7%	Global manufacturer of auto parts for Toyota & other leading car makers
Novartis	SWITZ	2.6%	Swiss multinational pharmaceutical & specialty chemicals company
Daimler-Benz	GER	2.4%	One of Europe's largest industrial concerns
Hirose Electric	JAP	2.3%	Leading Japanese manufacturer of electrical connectors & components
Wolters Kluwer	NETH	2.2%	Dutch publisher of legal, tax, medical, & business information
ING	NETH	2.2%	Global financial service group with strong emerging market exposure
Kurita Water	JAP	2.2%	Large manufacturer of water treatment equipment & specialty chemicals in Japan
Imperial Oil	CAN	2.1%	Canada's largest integrated petroleum company
Mitsubishi Corp	JAP	2.1%	One of Japan's leading trading companies
Norsk Hydro	NOR	2.0%	Norwegian producer of North Sea oil & gas, aluminum & petrochemicals
Libsil	S AFR	2.0%	Holding company with investments in South African Breweries & Standard Bank
Johnson Electric	HK	1.9%	Manufacturer of small precision motors used in cars & consumer products
Bangkok Bank	THAI	1.9%	Thailand's largest & strongest bank
Gaz et Eaux	FRA	1.9%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Honda	JAP	1.9%	World leader in automobile production & largest manufacturer of motorcycles
Keppel	SING	1.8%	Conglomerate with main interests in ship repair, ship building, banking & property
IHC Caland	NETH	1.8%	World's premier manufacturer of dredging vessels & mooring equipment
Atlantis Japan	JAP	1.3%	Closed-end fund invested in smaller Japanese companies
Nestlé Malaysia	MAL	1.2%	Importer & manufacturer of branded food products such as coffee, cereals & candy
Siam Cement	THAI	1.2%	Thailand's largest industrial group
Partner Re	BERM	1.2%	Bermuda's most strongly capitalized property reinsurer
HSBC	HK	1.2%	Hong Kong's leading bank with a global spread of business
Quilmes	ARG	1.1%	Leading producer of beer & soft drinks in Latin America
Railtrack	UK	0.9%	Owner of UK's railway infrastructure
Keppel FELS	SING	0.8%	Leading contractor for offshore oil & power businesses
Acer Computer	SING	0.4%	Distribution arm of Taiwan's Acer Inc., for sales, marketing & technical service of PCs

INTERNATIONAL EQUITY PERFORMANCE SUMMARY

as of June 30, 1997

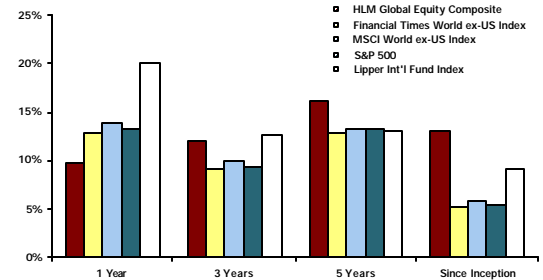
	Calendar Year Returns (%)							
	YTD							
	1997	1996	1995	1994	1993	1992	1991	1990
HLM International (non-US) Equity Composite	5.9	17.0	13.2	2.5	46.3	9.9	21.9	-12.9
<i>Financial Times World ex-US Index</i>	11.3	6.5	10.4	8.4	32.1	-13.1	13.3	-23.1
<i>Morgan Stanley Capital Int'l World ex-US Index</i>	11.4	7.2	11.8	7.6	32.6	-11.9	12.4	-22.8
<i>Morgan Stanley Capital Int'l EAFE Index</i>	11.4	6.4	11.6	8.1	32.6	-11.9	12.5	-23.2
<i>Lipper International Fund Index</i>	14.0	14.4	9.3	-0.9	39.2	-4.3	13.2	-12.4

	Annualized Returns (%) for Periods Ending 06/30/97				Volatility
					Annual Standard Deviation (%)
	1 Year	3 Years	5 Years	Since Inception*	Since Inception*
HLM International (non-US) Equity Composite	9.8	12.1	16.2	13.1	13.2
<i>Financial Times World ex-US Index</i>	12.9	9.1	12.9	5.3	18.6
<i>Morgan Stanley Capital Int'l World ex-US Index</i>	13.9	9.9	13.2	5.8	17.7
<i>Morgan Stanley Capital Int'l EAFE Index</i>	13.2	9.4	13.2	5.5	18.5
<i>Lipper International Fund Index</i>	20.0	12.6	13.1	9.2	13.2

*Inception Date: 09/30/89

NOTES:

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



	Composite Information								
	1997 YTD	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	67	54	14	†	†	†	†	†	†
Total market value at year-end of accounts included in composite (\$M)	\$1,168.1	\$882.2	\$347.1	\$110.4	\$23.0	\$12.1	\$6.7	\$10.6	\$10.9
% of total firm assets represented by composite	72.7%	70.3%	55.3%	30.1%	9.4%	6.2%	3.7%	15.9%	37.8%
Internal dispersion: standard deviation of calendar year returns	N/A	1.0%	2.0%	†	†	†	†	†	†

† Five or fewer accounts

MULTI-ASSET GLOBAL - EQUITY HOLDINGS

as of June 30, 1997

Company	Country	Weight	Description
Royal Dutch	NETH	4.2%	Premier oil company operating worldwide
Exxon	US	3.3%	Premier global oil company
Investor	SWE	3.1%	Holding company for Wallenberg family interests in Swedish industrial concerns
Dover	US	2.8%	Diversified capital goods manufacturer
ABB	SWITZ	2.6%	Leading worldwide capital goods company with focus on power generation
Deutsche Bank	GER	2.5%	One of Europe's premier universal banks
Fannie Mae	US	2.5%	Government-sponsored agency that buys & repackages mortgages
Hutchison Whampoa	HK	2.5%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Colgate	US	2.5%	Leading global consumer products company
Nestlé	SWITZ	2.4%	World's largest food company
Schlumberger	US	2.2%	Premier supplier of technical services and equipment to the petroleum industry
Rio Tinto	UK	2.2%	One of world's largest & most diversified mining companies
Abbott Labs	US	2.1%	Producer of broad range of health care products including pharmaceuticals
Surveillance	SWITZ	2.1%	Worldwide provider of trade certification, testing & loss adjustment services
Thermo Electron	US	1.9%	World leader in environmental monitoring, analysis instruments & biomedical products
Gaz et Eaux	FRA	1.9%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Bayer	GER	1.8%	World's fourth-largest chemicals company and tenth-largest pharmaceuticals company
Union Pacific	US	1.8%	Second largest railroad & fourth largest trucking company in US
Mitsubishi Heavy	JAP	1.7%	Leader of the industrial segment of the Mitsubishi group
Deere & Co	US	1.5%	World's leading producer of farm equipment
Honda	JAP	1.5%	World leader in automobile production & largest manufacturer of motorcycles
Bangkok Bank	THAI	1.4%	Thailand's largest & strongest bank
Canon	JAP	1.3%	World's leading producer of wide range of visual image & information equipment
Rentokil Initial	UK	1.3%	Provider of wide range of services to commercial sector
Boeing	US	1.3%	World's largest manufacturer of jet aircraft, & America's largest exporter
HSBC	HK	1.3%	Hong Kong's leading bank with a global spread of business
Partner Re	BERM	1.2%	Bermuda's most strongly capitalized property reinsurer
Keppel	SING	1.1%	Conglomerate with main interests in ship repair, ship building, banking & property
Michelin	FRA	1.1%	World's largest & most innovative tire manufacturer
US West Communications	US	1.1%	Traditional bell telephone company with large dividend yield
Wrigley, Wm. Jr.	US	1.0%	World's largest producer of chewing gum
Allied Capital	US	1.0%	Financial institution making equity linked loans to small businesses
Atlantis Japan	JAP	1.0%	Closed-end fund invested in smaller Japanese companies
Royce Micro-Cap Trust	US	1.0%	Closed end investment fund focused on very small companies
Mitsubishi Corp	JAP	1.0%	One of Japan's leading trading companies
Motorola	US	0.9%	Electronics company producing semiconductors, communications equipment & computers
Electronic Data Systems	US	0.8%	Computer services company & "solutions provider"
Keppel FELS	SING	0.7%	Leading contractor of offshore oil and power businesses
Siam Cement	THAI	0.4%	Thailand's largest industrial group
Scania	SWE	0.1%	World class heavy-duty truck & bus manufacturer

MULTI-ASSET GLOBAL PERFORMANCE SUMMARY

as of June 30, 1997

	Calendar Year Returns (%)							
	YTD							
	1997	1996	1995	1994	1993	1992	1991	1990
HLM Multi-Asset Global Composite	10.2	17.9	21.4	1.7	25.6	7.9	25.6	3.4
<i>60/40 Global Balanced Index**</i>	8.4	9.7	19.5	4.6	18.8	-0.9	18.3	-6.0
<i>Lipper Global Flexible Fund Index ***</i>	9.0	14.7	16.9	-4.5	23.0	2.2	16.1	-2.8
<i>Lipper Balanced Fund Index</i>	11.2	13.0	24.6	-2.5	11.7	7.3	25.8	0.7

	Annualized Returns (%) for Periods Ending 06/30/97				Volatility	
					Annual Standard Deviation (%)	
	1 Year	3 Years	5 Years	Since Inception*	Since Inception*	
HLM Multi-Asset Global Equity Composite	17.3	17.1	16.2	14.7	9.2	
<i>60/40 Global Balanced Index**</i>	14.9	13.0	12.5	9.7	10.2	
Financial Times World Index	21.7	16.4	15.6	9.5	14.2	
Salomon World Government Bond Index	3.9	7.4	7.6	9.5	6.6	
<i>Lipper Global Flexible Fund Index</i>	17.3	13.5	11.8	9.4	7.3	
<i>Lipper Balanced Fund Index</i>	20.5	16.9	13.0	11.7	8.3	

*Inception Date: 08/31/89

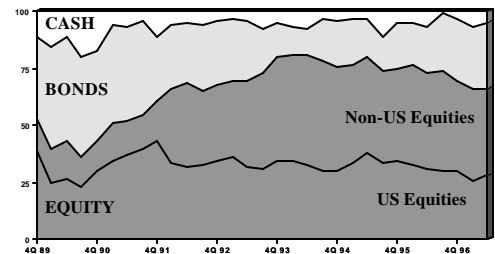
**60/40 Global Balanced Index is the weighted sum of 60% FT World Equity Index & 40% Salomon World Government Bond Index

***Lipper Global Flexible Portfolio Average used from 08/31/89 to 12/31/89; Index commences 01/01/90

	Calendar Year Returns (%)							
	YTD							
	1997	1996	1995	1994	1993	1992	1991	1990
HLM Multi-Asset Global: Equity Component	13.1	21.1	21.8	2.5	29.9	8.1	34.6	-6.0
Financial Times World Index	15.2	13.2	19.6	5.9	22.6	-5.1	19.6	-17.0
HLM Multi-Asset Global: Bond Component	5.2	8.6	26.7	-2.5	14.6	5.6	18.7	11.5
Salomon World Government Bond Index	-1.2	3.6	19.0	2.3	13.3	5.5	15.8	12.0

NOTES:

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



	Composite Information								
	1997 YTD	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	8	8	9	9	†	†	†	†	†
Total market value at year-end of accounts included in composite (\$M)	\$79.6	\$74.5	\$46.5	\$26.4	\$7.2	\$4.5	\$4.3	\$1.1	\$1.1
% of total firm assets represented by composite	5.0%	5.9%	7.4%	7.2%	3.0%	2.3%	2.4%	1.7%	3.8%
Internal dispersion: standard deviation of calendar year returns	NA	0.5%	2.7%	1.0%	†	†	†	†	†

† Five or fewer accounts

**This product was previously named 'Tax-Exempt Global Balanced'. The name of this product and its corresponding composite performance series has been changed to reflect more accurately the product's broadly diversified nature; no change in the product's content or historical performance record has been made.