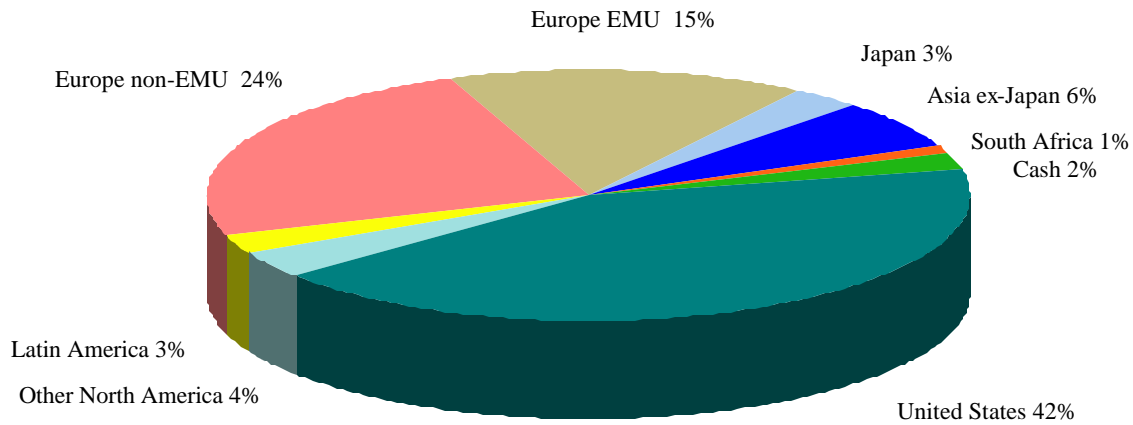


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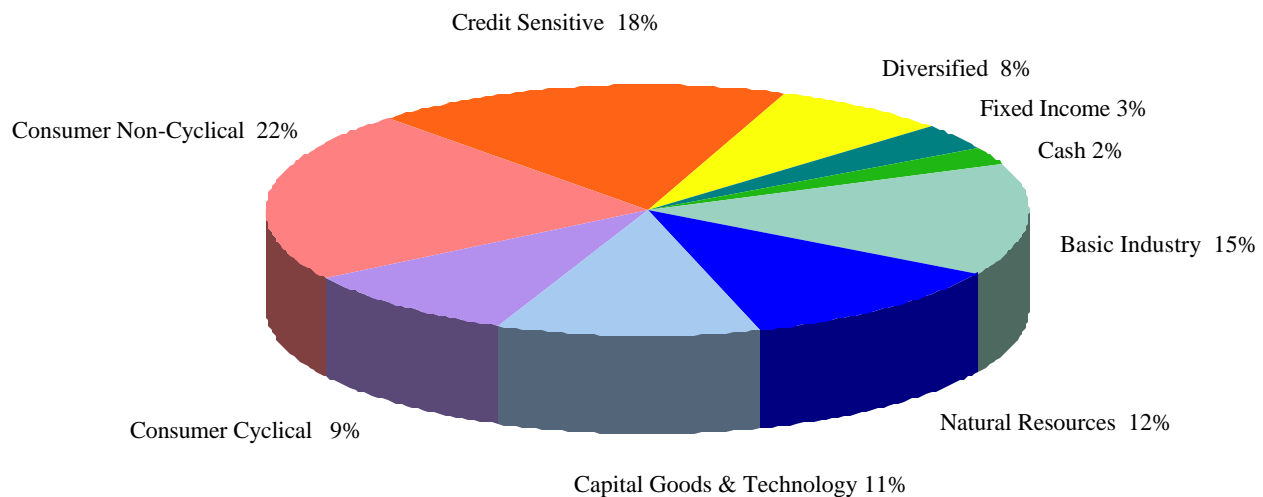
1998 Second Quarter Report

GLOBAL EQUITY PORTFOLIO

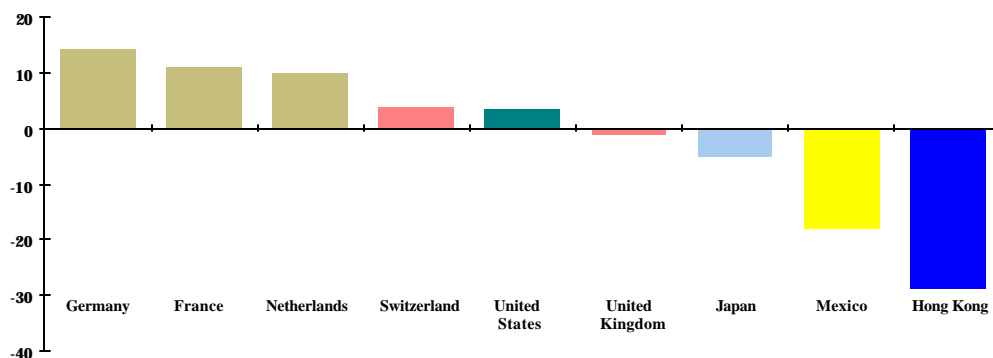
Geographic Distribution



Sector Distribution



Second Quarter 1998 Performance of Selected Stock Markets in US\$



The charts above provide a 'snapshot' of the Portfolio at June 30, 1998. See inside for details of performance.

GLOBAL EQUITY PORTFOLIO

PERFORMANCE

The portfolio fell 3.1% in the quarter while the MSCI All Country World Index increased 0.6%. The decline in the value of the portfolio was the result of the poor returns from our US stocks, and, to a lesser extent, to emerging market exposure.

Markets in Europe were generally robust — economic news has been positive, and investors enthusiastic about the increased focus that company managements are giving to profitability. Japan's stock market fell 5%: worries intensified that its politicians would be unable to form a credible strategy for solving the related problems of recession and the fragile banking system. Emerging markets were terrible, with Thailand falling by 60%, Mexico 18%, Brazil 29%, and Russia by 53%. Hong Kong and Singapore were afflicted by their neighbors' problems and fell by 29% and 36%, respectively. The US market rose 3%, led by banks and consumer growth stocks.

REVIEW

The quarter was dominated by continued bad economic news from Asia. The Japanese economy shows no signs of recovery, the Yen — even after currency intervention — remains weak versus the Dollar, and remedial and simulative efforts on the part of politicians have been insufficient to give investors confidence. A weak Japan delays economic recovery in the rest of Asia.

Excess factory capacity and slumping local demand in Asia have begun to weigh on Western economies. Pricing has eroded in more and more industries and, with it, the ability of corporations to maintain profit margins. Companies selling directly to Asian customers, or those competing against Asian imports, are feeling this profit squeeze most directly. Asia has had an impact on profit margins in a wide range of businesses, from semiconductors, to haute couture, to oil, where the price for Brent Crude has fallen by over 20% this year. One result of this disinflationary environment was the highest incidence of quarterly profit warnings and disappointments we have seen in years in the US — without apparent impact on stock market sentiment.

In an environment where prices are under pressure, companies that still manage to improve profit margins are accorded high prices. This environment forces corporations to focus on those businesses where they have a competitive advantage, to measure precisely their cost of capital and rate of return thereon, and to reduce costs. In order to grow profits, companies must offer their clients innovative or superior products for which clients will be willing to pay premium prices, or restructure themselves so that profitability is enhanced.

OUTLOOK

We build portfolios from the 'bottom up', seeking companies that can grow earnings and dividends over economic cycles. Today, in the portfolio, four sources of growth predominate: global brands, European companies running their businesses better, financial services, and innovation. A fifth portfolio theme is that of value — good-quality companies selling at compelling valuations. The latter, of course, are now more likely to be found in emerging markets, given their performance relative to developed markets in the last four years.

Brands

About a quarter of the portfolio companies grow through selling branded goods on a global basis. Brands permit unit growth to be achieved through winning market share, through expanding the geographical reach of a company's products, and through lending credibility to newly-introduced products. At the same time, brands provide protection against price competition. The ability of companies like **Nestlé**, **Colgate**, **Wrigley** and **Wolters Kluwer** to grow sales by a combination of small price hikes and increased volumes is more

valuable in a disinflationary world. Their shares appear expensive but are appropriately priced in light of low discount rates, and the high degree of confidence associated with their prospective rates of growth.

New European Focus on Shareholders

European corporations are being run more and more efficiently. They now have to compete in a pan-European market, not just in selling goods and services, but also in attracting capital. The imminent, and now certain, start of Monetary Union is heightening cross-border competition. As a result, fewer and fewer companies are run with ideas of serving multiple ‘stakeholders’ — including employees, customers, lenders, or communities — but rather to maximize the returns to shareholders. Around 10% of the portfolio is invested in companies consistent with this theme.

This re-orientation of European corporate focus is similar to that which emerged in the US ten to fifteen years ago, and in the UK more recently. Evidence of the re-orientation is the widespread adoption of financial goals, such as return on assets or on capital employed; tying management compensation to financial results; higher levels of employee share ownership; better financial disclosure; and more imaginative financial structures. In many of our portfolio companies — **Bayer**, **Deutsche Bank**, and **Swiss Bank Corp.**, for example — all of these apply.

One result of this alignment of management and shareholder interests has been the sale or spin-off of capital-destroying businesses, and a sharper definition of those businesses where a company’s core strengths lie. **Pearson**, a new holding in the first quarter, illustrates this trend. Pearson was, for a long time, a hodge-podge of unrelated assets. CEO Marjorie Scardino recognized that the company’s strengths lie in its core media businesses. She has sold, or announced her intention to sell, its leisure interests, while strengthening its educational publishing business through the acquisition of Simon & Schuster.

Financial Services

Hand in hand with the increased attention of European companies to returns to their shareholders is increased interest by Europeans in shares. European savers now have reason to regard equities as attractive long-term investments, especially in contrast with long-term bonds, whose nominal yields have fallen to under 5%. This is important, as Europe faces a huge retirement funding crisis, which mandates a much greater commitment by European households and corporations to higher-returning assets, i.e., equities. Growing pools of equity investments present an enormous investment management opportunity for properly-positioned financial intermediaries.

We bought holdings in two new companies, **Zurich Insurance** and Swiss Bank Corp. — companies which, along with long-time holding, Deutsche Bank, are leaders in creating and distributing financial services, including equity products, to Europeans. Zurich is one of the world’s largest insurance companies, but with a significant presence in other financial services, including US-based asset management businesses Scudder and Kemper. Zurich’s CEO, Rolf Huppi, has transformed the company, establishing clearer incentives for staff, setting ambitious divisional and regional targets for returns on capital and bringing Zurich’s financial reporting in line with International Accounting Standards. Swiss Bank Corp. has now merged with Union Bank of Switzerland, creating **UBS**, the largest bank in Europe. This ‘in-market’ merger will create enormous opportunities for increased efficiencies in its over-banked domestic market, and capital thus freed will be re-allocated to higher return initiatives. The new institution will be the largest investment manager in the world, with over \$1 trillion in assets under discretionary management, and is ideally positioned to capture a good portion of the secular increase in European demand for investment products.

Innovation

Companies can grow earnings through selling more of their existing products, through raising prices, through cost cutting — or through introducing genuinely new products. By selling new products, they earn returns on

the intangible capital created by their investment in research and development. An innovator's growth is a function of the effectiveness of this investment: it is not their MBAs who determine their success, but their scientists and engineers! A number of the holdings in the portfolio — including oil service leader **Schlumberger**, software-maker **Aspen Technologies**, and pharmaceutical company **Pfizer** — fall into this category, as do three new purchases:

CBT, the global leader in the creation and delivery of computer-based training products for new users of software from firms such as Cisco, IBM, Microsoft, Oracle, and SAP. Companies that make large investments in computer software have great incentive to derive the maximum potential benefit from them. CBT products provide training that is more cost-effective than traditional, teacher-based methods. Its strong relationships with the most innovative software companies, and its large library of existing products provide the basis for a durable business model, and for the growth in earnings required to justify the apparently high share price;

Monsanto, a company at the forefront of the commercial application of genetic research. Monsanto's first-generation, genetically-altered seeds are resistant to its own, universally-accepted herbicide Round-Up. A farmer can spray a field sown with these resistant seeds without killing his crop. The benefit to the farmer is a higher yield; the benefit to Monsanto is a higher price for its seeds, and higher sales of Round-Up. The company will introduce, in 2000, new grain varieties with higher nutritional content, and, by 2003, grains that will lower cholesterol levels. The company's pharmaceutical division, Searle, is another source of new products; it has, for example, developed a revolutionary oral anti-inflammatory, Celebra, which we believe will be highly successful upon introduction in 1999. In June, a proposed merger with American Home Products was announced. This marriage will join Monsanto's considerable new product development capability with AHP's distribution system and financial resources; and

SGL Carbon, the world's largest producer of carbon and graphite products. Strong cash flows from this mature business finance the development of an array of new products that address the needs of the semiconductor, advanced aerospace, automotive and consumer goods industries for high performance, lightweight and heat-resistant materials.

Emerging Markets Bargains

Successful investing depends upon close attention to the relation between a company's intrinsic value and its share price. The preceding four themes represent alternative routes to increasing intrinsic value by growing earnings. Our fifth theme relates to the investment opportunities created by the sharp falls in share prices in emerging markets — falls which, in many cases, are out of proportion with the decline in intrinsic value caused by near-term earnings problems. Our objective is to identify companies that have the franchise and financial strength to enable them to survive the current economic crisis and resume long-term growth, but where markets are pricing their shares as if such outcome is impossible. **DESC** and **Hutchison Whampoa** are good examples:

DESC, a new portfolio holding, is a diversified conglomerate and the largest independent autoparts manufacturer in Mexico. The company is also a leading producer of industrial and consumer-based chemicals, involved in food processing, and develops premium property from a low-cost landbank in Mexico City. Management is focused on building leading market positions in its core areas and takes a global approach to business development. Dollar exports now account for over one third of total group revenues while a large element of domestic sales are also Dollar-linked. DESC's largest and fastest-growing division — autoparts — is being driven by a number of strong themes: the NAFTA-driven shift of autoparts production from the US to Mexico, the related establishment of auto production plants in Mexico by global automakers, and the global trend towards greater outsourcing of auto components. The company's strong competitive advantages underpin long-term growth and provide business stability in the face of the

emerging market crisis. The share price has declined by over 50% in the last year, and is now less than eight times estimated 1998 earnings. We are projecting a five-year earnings growth rate of 15%.

Hutchison Whampoa's listed securities alone account for over two thirds of the value the stock market puts on the entire company, attributing little worth to the rest of the company's assets — residential and commercial property in Hong Kong, direct investments in China, North American oil holdings, container terminals around the world — let alone to the less-easily quantified, but nonetheless very significant, option value of its financial strength in a region starved of liquidity. Judging from his record, chairman and controlling shareholder Li Ka-Shing is the man possibly best able to profit from these difficult times.

The contrast between the prices of leading emerging market companies such as these, and prices of their developed market counterparts, is stark.

TRANSACTIONS

There was a fair amount of activity in the quarter, manifesting the five themes cited above. We have already addressed above the six new purchases — of Monsanto, Swiss Bank Corp., Zurich Insurance, CBT, SGL Carbon, and DESC.

We sold:

Motorola, which saw profit margins decline because of its failure to innovate and offer clients competitive products. Its strategic error — not adopting digital cellular technology rapidly enough — coincided with a slowdown in Asian demand for Motorola's semiconductor and paging products. With no turnaround in view, and eroded confidence in the leadership, we sold the shares.

Aided by a weak Yen, **Canon** has been a successful investment in a weak Japanese market, but its high share price does not reflect increased risks to its business from heightened competition — from Korean and Japanese companies, as well as from a newly-energized Xerox. We also fear that Canon's pace of technological innovation, once its distinguishing strength, has slowed.

Sime Darby, the Malaysian conglomerate, whose purchase of a bank had led them into difficulties that appeared to have been solved by the subsequent sale of the bank to another local financial institution. This is now in some doubt, the sale having become mired in typically unattractive and dangerous Malaysian politics. We sold the small position.

Airgas, a US-based industrial gas company, whose growth strategy failed. The company had attempted to sell a wider range of goods to its existing customers, and found that the dynamics of distributing industrial goods — from control valves to flowmeters — is very different from selling pure oxygen or nitrogen. After two years of losses, the company remains committed to a strategy in which we no longer have confidence.

We reduced positions in **Pfizer** (to fund Monsanto), **Allied Capital** (to fund Swiss Bank Corp.) and **Wrigley**. We added to our position in **Siam Cement**, taking advantage of a price decline, and swapped our position in **Bangkok Bank**'s convertible bonds for its common shares.

HLF GLOBAL EQUITY PORTFOLIO

as of June 30, 1998

Company	Country	Weight	Description
Fannie Mae	US	4.4%	Government-sponsored agency that buys & repackages mortgages
Royal Dutch	NETH	3.9%	Premier oil company operating worldwide
Allied Capital	US	3.8%	Financial institution making equity linked loans to small businesses
Nestlé	SWITZ	3.4%	World's largest food company
Deutsche Bank	GER	3.4%	One of Europe's premier universal banks
Investor	SWE	3.3%	Holding company for Wallenberg family interests in Swedish industrial concerns
Rentokil Initial	UK	2.9%	Provider of wide range of services to commercial sector
Exxon	US	2.8%	Premier global oil company
Colgate	US	2.8%	Leading global consumer products company
Gaz et Eaux	FRA	2.8%	Investment company in Lazard Group, holding strategic stakes in major listed
Dover	US	2.7%	Diversified capital goods manufacturer
Schlumberger	US	2.7%	Premier supplier of technical services & equipment to the petroleum industry
Baxter International	US	2.6%	Leading medical products supplier focused on blood transfusions & kidney dialysis
Hutchison Whampoa	HK	2.5%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Allied Signal	US	2.5%	Aerospace, auto, chemical & fibre manufacturing company
Thermo Electron	US	2.5%	World leader in environmental monitoring, analysis instruments & biomedical products
ABB	SWITZ	2.4%	Leading worldwide capital goods company
Surveillance	SWITZ	2.2%	Worldwide provider of trade certification, testing & loss adjustment services
Pearson	UK	2.2%	UK print & broadcast media company
Rio Tinto	UK	2.2%	One of world's largest & most diversified mining companies
Pfizer	US	2.1%	US pharmaceutical, veterinary, specialty chemical & toiletries company
Railtrack	UK	2.0%	Owner of UK's railway infrastructure
Royal Bank of Canada	CAN	1.9%	Canada's largest bank, asset manager & broker
Wrigley, Wm. Jr.	US	1.9%	World's largest producer of chewing gum
Wolters Kluwer	NETH	1.8%	Dutch publisher of legal, tax, medical & business information
Wisconsin Central	US	1.7%	Railroad operator in US & overseas
Mitsubishi Corp	JAP	1.7%	One of Japan's leading trading companies
CBT Group	IRE	1.7%	World leader in computer-based software training
Deere & Co	US	1.7%	World's leading producer of farm equipment
Bayer	GER	1.6%	German chemical company with important life sciences & consumer businesses
Partner Re	BERM	1.6%	Bermuda's most strongly capitalized property reinsurer
Johnson Electric	HK	1.5%	Manufacturer of small precision motors used in cars & consumer products
Boeing	US	1.4%	World's largest manufacturer of jet aircraft, & America's largest exporter
Swire Pacific	HK	1.3%	Diversified Hong Kong conglomerate
SGL Carbon	GER	1.3%	Leading global producer of value added carbon & graphite products
Union Bank of	SWITZ	1.3%	Europe's largest bank, & world's largest asset management firm
Aspen Technology	US	1.2%	Leading provider of process optimization software
Monsanto	US	1.1%	Life sciences company with leadership position in genetic engineering
Libsil	S AFR	1.0%	Holding company with investments in South African Breweries & Standard Bank
Wellman	US	0.9%	Producer of chemical-based polyester fiber & fibers from recycled plastics
Kimberly-Clark Mex.	MEX	0.8%	Mexican subsidiary of US-based Kimberly-Clark Corporation
DESC	MEX	0.8%	Leading Mexican auto parts exporter
Zurich Insurance	SWITZ	0.8%	Global provider of insurance & asset management services
Hirose Electric	JAP	0.8%	Japanese manufacturer of electrical connectors & components
Quilmes	ARG	0.7%	Leading producer of beer & soft drinks in Latin America
Atlantis Japan	JAP	0.6%	Closed-end fund invested in smaller Japanese companies
Bangkok Bank	THAI	0.6%	Thailand's largest & strongest bank
Siam Cement	THAI	0.5%	Thailand's largest industrial group
Scania	SWE	0.0%	Premium heavy-duty truck & bus manufacturer

GLOBAL EQUITY COMPOSITE PERFORMANCE SUMMARY

as of June 30, 1998

	Annualized Returns for Trailing Periods (%)					Volatility
						Annual Standard Deviation (%)
	1 Year	3 Years	5 Years	8 Years	Since Inception*	Since Inception*
HLM Global Equity Composite	7.6	13.9	14.4	13.6	14.8	11.5
<i>Financial Times World Index</i>	16.0	18.7	15.2	11.6	10.1	14.2
<i>Morgan Stanley Capital Int'l All Country World Index</i>	13.1	17.7	15.0	11.5	10.0	13.7
<i>Lipper Global Fund Index</i>	16.5	17.4	15.3	11.5	11.6	12.4

*Inception Date: 11/30/89

	Calendar Year Returns (%)									
	YTD 1998	1997	1996	1995	1994	1993	1992	1991	1990	1990
	HLM Global Equity Composite	8.2	11.0	17.4	19.0	-0.1	24.2	9.1	31.6	3.6
<i>Financial Times World Index</i>	15.7	15.4	13.2	19.6	5.9	22.6	-5.1	19.6	-17.0	
<i>Morgan Stanley Capital Intl All Country World Index</i>	14.6	14.7	13.1	18.2	5.4	25.5	-4.3	19.5	-17.2	
<i>Lipper Global Fund Index</i>	14.4	14.0	16.3	14.0	-2.2	32.8	0.1	20.3	-9.1	

	Composite Information									
	YTD 1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
	Number of accounts included in the composite	13	15	13	13	17	17	14	7	†
Total market value of accounts included in composite (\$M)	\$243.0	\$249.3	\$188.0	\$147.1	\$112.7	\$93.2	\$64.5	\$36.6	\$15.3	\$1.6
% of total firm assets represented by composite	13.9%	16.3%	15.0%	23.4%	30.7%	38.2%	32.9%	20.0%	23.0%	5.5%
Internal dispersion: standard deviation of calendar year returns	NA	1.6%	0.8%	2.1%	1.4%	6.8%	3.5%	5.8%	†	†

† Five or fewer accounts

NOTES :

- Composite includes all fee-paying global equity accounts under discretionary management, including accounts no longer in existence. Accounts are included from the first full month following the date on which the account is deemed to be fully invested.
- Returns shown are time-weighted total returns in US\$, and reflect reinvestment of dividends and interest. Returns are weighted by account size in the composite.
- All cash equivalents, bonds and/or convertible securities used in place of equities are included in return calculations.
- Composite returns 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.

Annualized Returns for Trailing Periods (%)

