



Global Equity

Performance & Attribution

The Composite outperformed its benchmark in the third quarter.

Stock selection in Industrials was a key driver.

Portfolio Review

We have been adding Japanese stocks.

Our technology holdings have done well.

Outlook

The bias towards Asia—and away from the US continues.

Activity

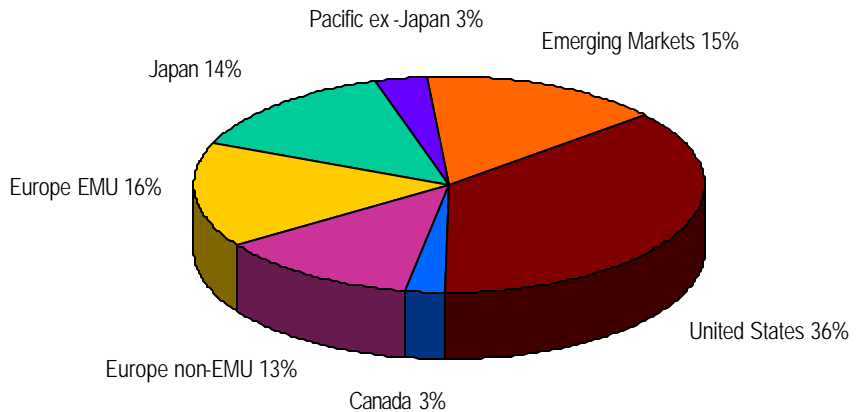
Bought: BEA Systems, Comcast, Denway Motors, Qualcomm, Standard Chartered, Yukos.

Sold: AOL Time Warner, Oracle, Pfizer, Securitas.

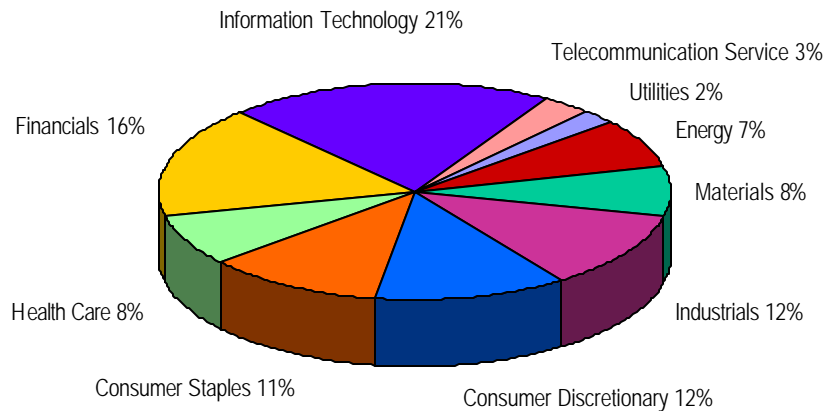
2003 Third Quarter Report

The equity rally continued. The portfolio has performed well in an environment where stocks of lower quality companies have outperformed—not a climate in which our style tends to do well. The portfolio is positioned to benefit from the better economic environment, but we are becoming wary of just how much of the recovery has been discounted.

Region Distribution



Sector Distribution



The charts above provide a 'snapshot' of the Model Portfolio at September 30, 2003.

Stocks of low-quality companies outperformed those able to survive the worst conditions.

Risk appetite whetted by perception of global synchronized growth.

Executive Summary

- The Composite outperformed its benchmark for the quarter.
- Lower quality companies continue to outperform.
- We continue to be underweight the US, and overweight emerging markets.
- The migration of manufacturing to Asia is creating favorable investment potential.

Performance and Attribution

The rally that began with the invasion of Iraq continued through the third quarter. The Composite rose by 6.3% in the third quarter, while the MSCI All Country World Free Index rose by 5.3%, led by a 22% rise in the Japanese stock market, and by powerful upward moves in the more cyclical sectors throughout nearly all equity markets. For example, Basic Materials rose 13%, Information Technology rose by 13%, and Industrials by 9%. On the other hand, Telecom Service stocks and Health Care stocks actually fell 2% in the quarter.

The embrace of riskier sectors and companies that characterized the second quarter continued in the third. ‘Risky business’ was the watchword for the best places to be invested in an environment in which investors were—for the time being—untroubled by fears of recession and financial failure on the one hand, or higher interest rates on the other. We thus again faced a market where stocks of lower-quality companies, whose prospects are much improved by an end to the harsh economic environment, have outperformed those of companies able to survive the worst of conditions. For example, the smallest companies by market capitalization outperformed the largest by approximately 600 basis points. Ranked by return on equity, the least profitable companies in Europe outperformed the most profitable by about 1100 basis points. Within the US, stocks priced below \$5 per share (deemed too speculative by the Fed to allow use as margin collateral) returned more than twice what the S&P500 returned. One of the best performing groups in a world looking for low quality and high risk were the Japanese banks, where we have no exposure. Japanese banks in aggregate last year had negative core capital (which excludes deferred tax assets) and are still dangerously exposed to fluctuating stock prices. The group’s shares rose by over 100% in the quarter, accounting for about 300 basis points of the rise in the Japanese market.

Investors’ risk appetite has been whetted by their perception that the world is embarking on a new, synchronized growth path: the US consumer was carrying on consuming; Germany, the sick man of Europe, was showing signs of recovery; and Japan appeared to be emerging from years of disappointing performance. But by the end of the quarter, some basis for doubt about this rosy scenario had emerged, as the G7 countries called for a weaker dollar (to the detriment of the European and Japanese exporters), OPEC announced lower production targets (leading to fears of a higher oil price), and US consumer confidence began to fall in the face of an

We have embraced a number of vectors of risk: geographic, sector, cyclical, and company specific.

US companies do not always deserve the valuation premium accorded them for superior corporate governance and transparency.

economic recovery characterized by the absence of new jobs. We doubt that the short-term direction of economies and financial markets will continue to appear so one-way, and consequently believe that a more wary approach to risk taking will favor a portfolio of financially strong, growing and profitable companies.

Review

In our view, managers have had to take on large risks to match or beat the benchmark indices in the past two quarters, given the embrace of risk that has characterized the market rise this year outlined above. Given our longstanding preference for companies with high financial quality, growing profits, and managements who are working primarily for shareholders, we are pleased that the portfolio has done as well as it has in such a hostile environment for our style. The fact is, however, that we have embraced a number of vectors of risk in the portfolio, without sacrificing the core principles of our investment philosophy. We have taken risks with our geographic exposure, and with our sector weightings, and even, with regions and sectors, have opted for more cyclical and company specific risk.

We have been underweight the US market relative to our benchmark for two years now, a result of concluding that in the wake of the Enron and WorldCom scandals, companies domiciled in the US did not deserve the valuation premium that investors had accorded them for their supposed premier corporate governance and transparency. Instead, we chose to hold substantial positions in companies domiciled in non-US markets, particularly in emerging markets. We knew, from long and continuous contact, that there were companies located in less fashionable countries whose managements were at least as trustworthy as the average US management, but whose stock prices reflected a less well-developed equity culture and a strong aversion to emerging market exposure on the part of most large US and European investors, still stung by their experiences with the Asian crisis in 1997, and then Russian default in 1998. We also took a jaundiced view of the prospects for the US to continue to have its excess consumption—as measured by its current account deficit—financed by others on favorable terms. This caused us to view the strong US Dollar with suspicion. The S&P500 Index has trailed non-US stock returns by 1400 basis points over that two years; our bias against US stocks in favor of emerging markets has added nearly 350 basis points to our annualized performance over those two years, and it added more than one percent to this quarter's returns.

More recently, in the last year, we began adding more Japanese companies to the portfolio, and now have the largest exposure to Japanese companies that we have ever had. Japan, as we have written many times before, has been stuck in a mire of financial distress and political paralysis. But we have found companies that were making headway with growing revenues and profits even without clear answers forthcoming to the greater issues facing the economy as a whole. **Mitsubishi Corporation**, while in the midst of refocusing its disparate businesses into three more coherent and manageable divisions, has managed to have five years of rising operating profits from those food, resource, and energy businesses it laid out as

***We moved too early
to own more
technology
companies, but the
bet has paid off in
the last two
quarters.***

‘core,’ reaching record operating profits this past March, and buying back shares. **Nomura Securities**, despite its fortunes being closely tied to the Japanese financial markets, has completely overhauled its retail customer business around wealth management while devoting its enormous energies to providing corporate clients with a direct and more transparent financing alternative to the Japanese banking system. Nomura has dramatically improved its capital management discipline, returning capital to shareholders not only through rapid dividend growth, but also with a large and ongoing share buyback. With the strong performance of the stocks (though behind the Japanese index this quarter), our Japanese holdings have grown to be more than an eighth of the overall portfolio, and roughly 150% of the benchmark weighting.

We moved to own more technology companies too early, but in the last two quarters have benefited from the strong appreciation of holdings that now approximate 150% of the benchmark weight and about a fifth of the overall portfolio. Companies in this sector tend to have high operating leverage, products that become obsolete very quickly due to rapid innovation, and fleeting competitive advantages. We have owned only the very highest-quality companies, not only the leaders in their markets—implying more durable competitive advantages—but very profitable and financially strong. For example, we currently own five separate producers of semiconductors, none of which are direct competitors of each other in their primary business. We own the dominant producer of DRAM memory chips, **Samsung Electronics**, whose 29% market share and low costs allowed it to earn operating profits of \$2.5 billion last year, while all of its competitors combined to lose more than \$3 billion. We have owned **Taiwan Semiconductor Manufacturing Co. (TSMC)**, the largest foundry producer of integrated circuits to others’ designs, continuously for over four years. TSMC earned nearly a billion dollars last year, while the rest of the foundry sub-industry lost money, repeating the pattern that the industry leader remains profitable throughout the cycle while all others falter. (This pattern was established by the industry behemoth and former portfolio holding Intel, which earned twice in operating profits last year what the rest of the entire semiconductor industry *lost!*) **Qualcomm**, a new holding and one such chip designer that farms out its production to TSMC, was the single most profitable ‘fabless’ chip company in the world last year, earning more than \$1bn in operating profits, three times the next largest competitor. We also own the two largest companies in the ‘mature’ end of the semiconductor industry, **Rohm** and **Analog Devices**. Both make chips that help devices cross the divide from digital data to analog (read voice/sound) inputs and outputs. Both remained profitable through the downturn, in Rohm’s case, highly profitable, earning nearly \$900m and a 29% operating margin. We have embraced the volatility and product risk of technology companies, embraced the cyclical nature of the semiconductor industry, but eschewed the operating leverage inherent in the industry’s weaker players, who would, if everything went well (and as the recent rises in their share prices seem to assume), swing from loss to profit in a strong rebound in spending for technology.

Genentech has shown the potential to convert research expenditures into approved products.

In Asia, the flipside of production migration from the US is a favorable condition for financial assets.

We are underweight the Health Care sector, dismayed by the prospects for the major pharmaceutical companies converting research expenditure into approved products, and maintaining earnings growth in the face of patent expiries, aggressive generic competition, and political pressures to cap or regulate prices. One company where we found potential for such conversion and earnings growth was **Genentech**. This pioneer in biotechnology is focused on addressing critical unmet medical needs, and as a result, the company is less subject to the competitive and regulatory pressures that affect the large ethical pharmaceutical companies. We believed that the company's research and development portfolio would be at least as productive as other efforts several times its size, and that the drugs it produced would have a bigger impact on the company's revenues and earnings than a similar new drug at a larger company. That said, the company's shares a year ago sported a very high multiple of earnings, even if down from the heady days of only two years prior when it traded at more than a hundred times earnings. We bought the shares after Avastin appeared to be falling out of the pipeline in the wake of inconclusive trials for a similar drug by AstraZeneca—embracing risk in valuation and in research pipeline, but not in management quality nor industry position nor financial strength. The stock surged in the second quarter after the company announced positive clinical results for Avastin, and extended its strong performance in the third quarter as investors recalibrated the option value of the company's pipeline. We further reduced our holding this quarter, purely on price grounds.

Outlook

So, where should we take risks going forward?

Our view on the US remains unchanged: the risk is that, as economist Al Wojlinower says, "So long as the dollar retains its primacy, employment in the US will be less than full." Many jobs that have been performed by US-based workers are increasingly being transferred, to Mexico and to Asia; workers there are not as productive, but work for far less pay. Many US industries face extinction, not just the textile business, but parts of the chemical industry, much of the auto industry, and with it, the steel industry. One of our holdings, **Johnson Electric**, has acquired entire subsidiaries of US manufacturing companies, only to close down their production in the US while continuing to supply their existing customers from its facilities in China and Thailand. This migration of manufacturing to Asia is a longstanding trend that has been at the core of our worldview for many years, and is reaching a crescendo that has as an echo the beginnings of a weakening of the political consensus in the US in favor of free trade, as well as the current manifestation of that weakening, the US jawboning of Asian countries to allow their currencies to rise to reflect their competitive superiority.

Meanwhile, in Asia, the flip side of production migration and policy jawboning holds manifold implications. More jobs are being created, interest rates are low, economic growth has resumed, balance sheets have returned to health, and foreign assets are rising dramatically. Monetary authorities, if they don't keep increasing their hoards

***We are increasing
our exposure to
Asian companies . . .***

***. . . and US
companies with
heavy proportion of
overseas earnings.***

of American IOUs, are faced with the choice of allowing their currency to strengthen substantially and reducing export competitiveness, or else sending interest rates to negative territory, to encourage capital (and consumption) to flow out rather than into their economies. Those are favorable conditions for domestic consumption and financial asset price inflation, and we are actively seeking to increase our exposure to this potential. We own **AIG**, now the US's largest insurance company, but which was actually founded in Shanghai in 1919. Fully 30% of AIG's revenues come from Asia, with roughly 25% of its assets invested there and nearly half of its profits last year earned there. Its American International Assurance subsidiary is the largest insurance company in Southeast Asia, while its local subsidiaries in Thailand, Malaysia and the Philippines are the largest insurance companies in their respective countries. It is the largest foreign insurer in both Japan and China, and the only one to have been granted a license to operate in China without a local 'partner' taking half the profits. This quarter we bought **Denway Motors**, the joint venture partner of Honda Motors in China, which earns half the profits from Honda's production and sales of the Civic, Accord, and Odyssey models there. Car sales in China have taken wing this year, doubling last year's sales as incomes have risen beyond the tipping point and as prices have fallen as a result of China's entry into the World Trade Organization and its timetable for scrapping tariffs. We have long admired Honda, its visionary management and its engineering prowess, and are happy to follow it into the fastest-growing car market in the world. **POSCO**, formerly Pohang Iron & Steel and still Korea's largest steelmaker, is a key beneficiary of this booming market for autos, along with commercial building and other large users of high-grade steel. POSCO is operating at full capacity, with a large percentage of its exports going to neighboring China. We also bought **Standard Chartered Bank**, the UK-domiciled commercial bank whose operations span across Asia from its main markets in Hong Kong and Singapore to India, China, Malaysia, Thailand and into the Middle East and Africa, with an emphasis on consumer banking. One of the few banks to remain profitable during the years of crisis in Asia, Standard Chartered's large pool of retail customers and diversified local currency assets is very difficult to replicate, and should command a premium price given the likelihood of rising consumer prosperity and activity in the region.

The portfolio's bias toward Asia finds expression even within the US holdings, where we continue to favor companies with a heavy proportion of overseas earnings, both export and multinational. **Caterpillar** and **Emerson** are two of the largest US-based industrial goods producers with sales in Asia, albeit only 10-15% of total revenues, with non-US revenues now roughly half of Caterpillar's total sales. **Air Products** garners 17% of revenues from Asia, and more than half outside the US. **Coca-Cola** earns nearly 26% of its revenues from Asia, including Japan, while **Colgate**'s large operations in China and India deliver 18% of its revenues, and both companies now earn less than one third of total sales from the US. We start the new quarter at the very limits of our risk tolerance, with just over 35% of equities in the US (versus 54% for the benchmark), and fully 15% of the portfolio invested in emerging markets (versus 4% for the global index). In the months ahead, we will be

The prices of European Consumer Staples stocks discount almost no earnings growth, a highly unlikely outcome.

We have been gravitating towards basic industry and industrial exposure.

looking to add more exposure to US companies with overseas earnings, and maintain a bias against the domestic consumer.

We find Europe still weighed down by its structural problems stemming from its over-generous social programs, and in particular by worries about the effect of demographic aging on its mostly unfunded pension systems. That said, there were some little-noted positive changes over the summer. In Germany, IG Metall, its most fearsome trade union, staged a strike that ended without achieving a single one of its objectives, something that has not happened in almost 50 years. Likewise, pension reform proposals in both France and Austria withstood active resistance from labor unions, and were passed unchanged. In the meanwhile, ten countries from the old Communist bloc have now voted and been accepted to join the European Union in May of next year. This will increase the population within the free trade area by 20%, and certainly spark changes in both individuals' travel habits as well as in companies' investment plans, all of which is good for increasing the flexibility of the European economy. We bought our first company domiciled in Russia this quarter, with the addition of **Yukos**, Russia's largest oil company. We had spent the previous year becoming familiar with the company's management, with its recent record of strong corporate governance, and the company's experience with applying Western technology to achieve surprising production increases from its Siberian oilfields. The government's headline-grabbing investigation of Yukos's largest shareholders, apparently politically inspired, afforded a decline in the company's share price that went some way towards discounting what is still a non-trivial risk of *de facto* expropriation. We remain heavily underweight the cyclical sectors in Europe, and overweight the Consumer Staples sector. These companies have been forsaken by investors hungry for cyclical earnings recovery, and now discount as a group almost no earnings growth, a prospect that we find unlikely in our holdings, **Nestlé**, **L'Oreal**, and **Heineken**.

From a sector risk standpoint, we have been gravitating more towards basic industry and industrial exposure, rather than towards more technology exposure, which remains substantial as discussed above. A recent meeting with **Rio Tinto** has convinced us that mining stocks will continue to strive for successive price increases where they can, to offset currency movements that have adversely affected their costs. The broad strength of demand combined with the specific voraciousness of China will allow them to flex the bargaining power that consolidation confers on their industry. Within the financial sector, we have largely avoided the retail bank segment, which forms the largest portion of the industry and the benchmark weighting. Retail banking outperformed throughout the three-year bear market, since in most countries the consumer sector has largely remained stable, but faces slower growth and still-high competition. This combination of factors drives our relatively small holdings in the financial sector. Instead, we favor the wholesale, corporate side of the industry, because that is where capacity and competition have been reduced, and where the strongest participants, both in wholesale banks such as **JPMorgan** and **Deutsche Bank**, and in reinsurance companies, such as **Berkshire Hathaway** and

***During the quarter,
we added six new
companies and sold
four.***

Munich Re, are well placed to benefit from a cyclical recovery in demand for their services.

We remain convinced that the policy stimulus engineered by the authorities, along with the rapid growth from Asia and particularly China, will continue to foster economic growth. The portfolio has been and remains appropriately positioned to benefit from the better environment, but the sharp rise in the most cyclical and the most speculative share prices leads us to be increasingly wary of just how much of the recovery has been already discounted. We are unlikely to add to the cyclical risk in the portfolio, and on the contrary, are more likely to be reducing some of the geographic and cyclical risks we currently have if current risk-seeking investor behavior continues apace.

Activity

We purchased:

Yukos, one of the world's largest oil companies in terms of proven reserves and also one of the most profitable, as measured by EBITDA margins. The company is, after merging with Sibneft, the largest oil producer and the largest refiner of oil in Russia. It has set a new standard in Russia for employing Western technology to achieve rapid production increases. It has also been at the vanguard amongst Russian companies in improving its transparency and corporate governance. Yukos's low valuation, relative to its gigantic reserves of oil and gas, reflect the large risk premium warranted for the wretched history in Russia of government expropriation and management malfeasance, a history that is less likely to repeat itself in the new era of cooperation with the US after September 11.

Denway Motors, the Chinese producer of automobiles and buses, and Honda's joint venture partner in China through its 47% stake in Guangzhou Honda. Honda has high long-term ambitions in China, and early successes with the Accord suggest it will apply its competitive edge in design and manufacturing to this potentially very large and fast-growing market. GZ Honda is one of the few companies well positioned to sustain both its profitability and its growth as the Chinese auto market grows, yet the valuation of Denway is as cheap as those of auto companies in mature markets.

Comcast, the largest cable operator in the US, with 22 million subscribers. The company is approaching the end of a decade-long capital investment program to upgrade its physical network. Comcast's dominant size (after the acquisition of ATT Cable) and its upscale subscriber base should enable it to roll out bundles of advanced services on the back of its upgraded cable. New services such as digital cable, high-speed Internet access, video on demand and cable telephony, will drive long-term earnings growth. We foresee robust growth in free cash flow and rapid improvement in balance sheet strength.

Sales include three large US blue chip stocks.

Qualcomm, the inventor of the CDMA protocol for wireless communications. Not only does the advent of third generation wireless broaden the potential market for its most sophisticated products, but also various telecom operators in developing countries are adopting its older products, extending their profitability. Telekom Indonesia, for example, is using low-grade fixed wireless CDMA for new residential customers at a fraction of the installation costs of the traditional copper phone line for which it substitutes

Standard Chartered Bank, the world's leading emerging markets bank. The company is managed on best-practice, Western standards and has a highly diversified global loan book that helps minimize individual country risk. Despite the volatility in emerging markets over the past few years, the bank has remained profitable and delivered growing dividends, testimony to their experienced management, business diversity, and demonstrated ability to measure and control risk. The Asian crisis in the late 1990's offered it the chance to make several significant acquisitions, which it is in the process of integrating and which we expect will augment its earnings growth.

BEA Systems, the pioneer in developing next generation Internet standard software development and integration technologies. BEA has the potential to become the software standard for the development and integration of software applications supporting Internet transactions of all kinds. The company is the first to combine software development and integration into one integrated, open standards-based platform—offering customers a better way to develop and maintain their applications.

We sold:

Securitas, the Swedish security service company. Securitas has missed both its volume growth and profit margin targets in more than one of its divisions, calling into question our thesis that its unique (and branded) blend of surveillance technology and manned guarding was a winning formula

Oracle, the global leader in database management software. The company's recent bid for PeopleSoft, coupled with its inability to grow revenues rapidly in the application servers division suggests to us that Oracle is running out of organic growth opportunities, yet its shares are still very highly priced.

AOL Time Warner, the world's largest media company. AOL shares have rebounded sharply and now appear fairly priced, given the deterioration in AOL subscribers and questionable outlook for the company's broadband operations.

Pfizer, the world's largest pharmaceutical company. We underestimated the competitive pressures on Pfizer. The introductions of new drugs (Crestor and Levitra) competing with two of its largest drugs (Lipitor and Viagra) will force Pfizer to spend more money defending these franchises.

Global Equity Holdings as of September 30, 2003

Company	Country	Weight (%)	Sector	Description
Johnson Electric	HK	3.4	Industrials	Maker of small precision motors
Vodafone	UK	3.0	Telecommunication Svc	Telecommunication services provider
Mitsubishi	JAP	3.0	Industrials	Trading company
Taiwan Semiconductor	TAIW	2.8	Information Technology	Dedicated IC foundry
TJX Companies	US	2.7	Consumer Discretionary	Off-priced name brand stores
Caterpillar	US	2.6	Industrials	Producer of earthmoving equipment
Colgate-Palmolive	US	2.5	Consumer Staples	Consumer products company
EnCana	CAN	2.4	Energy	Producer of natural gas
Canon	JAP	2.4	Information Technology	Maker of image & information equipment
Samsung Electronics	KOR	2.4	Information Technology	The world's largest DRAM manufacturer
Rohm	JAP	2.4	Information Technology	Custom chip producer
Dassault Systemes	FRA	2.3	Information Technology	CAD/CAM software designer
Keyence	JAP	2.3	Information Technology	Detection devices & measuring control equipment mfg.
Deutsche Bank	GER	2.3	Financials	Universal bank
Kinder Morgan	US	2.3	Utilities	Natural gas transportation & logistics company
American Int'l Group	US	2.2	Financials	Insurance holding company
Novartis	SWITZ	2.2	Health Care	Multinational life sciences company
Munich Re	GER	2.1	Financials	Largest provider of reinsurance worldwide
Analog Devices	US	2.1	Information Technology	Analog mixed-signal computer chip maker
Rio Tinto	UK	2.1	Materials	Diversified mining company
Merck	US	2.0	Health Care	Pharmaceutical company
Air Liquide	FRA	2.0	Materials	Industrial gas company
Berkshire Hathaway	US	2.0	Financials	Auto insurer & general reinsurer
JPMorgan Chase	US	1.9	Financials	Large money center bank
L'Oreal	FRA	1.9	Consumer Staples	Personal care products manufacturer
Pearson	UK	1.8	Consumer Discretionary	Education & publishing company
Viacom	US	1.7	Consumer Discretionary	Leading media and entertainment group
Heineken	NETH	1.7	Consumer Staples	International brewing company
Wal-Mart de Mexico	MEX	1.6	Consumer Staples	Consumer goods & food retailer
Qualcomm	US	1.5	Information Technology	CDMA wireless communications technology firm
Emerson Electric	US	1.5	Industrials	Global industrial & electronics controls company
WPP Group	UK	1.4	Consumer Discretionary	Advertising & marketing services company
Nomura Holdings	JAP	1.4	Financials	Brokerage firm
Abbott Labs	US	1.4	Health Care	Health care products & pharmaceuticals producer
Sasol	S AFR	1.4	Energy	Refined petroleum products producer
Yukos	RUSS	1.3	Energy	Integrated oil company
Genentech	US	1.3	Health Care	Therapeutic biotechnology research company
Coca-Cola	US	1.3	Consumer Staples	World's largest soft drinks company
Bangkok Bank	THAI	1.3	Financials	Large commercial bank
Hirose Electric	JAP	1.3	Information Technology	Manufacturer of electrical connectors & components
CVRD	BRAZ	1.2	Materials	Iron ore exporter & private railway operator
Nestlé	SWITZ	1.2	Consumer Staples	World's largest food company
Denway Motor	CHINA	1.1	Consumer Discretionary	Automobile & bus producer
Fanuc	JAP	1.1	Industrials	Global producer of CNC machines & robots
Schlumberger	FRA	1.1	Energy	Oil services company
Posco ADR	KOR	1.1	Materials	The world's largest steelmaker
Television Francaise	FRA	1.1	Consumer Discretionary	Dominant French television channel
Comcast	US	1.1	Consumer Discretionary	Cable operator
Air Products & Chemicals	US	1.1	Materials	Leading industrial gases company
Allied Capital	US	1.0	Financials	Financial institution providing small business loans
Standard Chartered	UK	1.0	Financials	Emerging markets bank
Exxon Mobil	US	1.0	Energy	Global oil company
Bayerische Motoren Werke	GER	1.0	Consumer Discretionary	Manufacturer of luxury automobiles & motorcycles
BBVA Bancomer	MEX	1.0	Financials	Leading commercial bank in Mexico
Wrigley	US	0.9	Consumer Staples	World's largest chewing gum maker
BEA Systems	US	0.9	Information Technology	Internet software developer
Johnson & Johnson	US	0.8	Health Care	Consumer health care & pharmaceutical company

Global Equity Composite Performance as of September 30, 2003

	Annualized Returns for Trailing Periods (%)					Volatility ²					
	1 Year	3 Years	5 Years	10 Years	Since Inception ¹	Since Inception ¹					
Global Equity (gross of fees)	28.4	-6.6	5.5	7.1	9.6	13.9					
Global Equity (net of fees)	28.0	-7.2	4.8	6.3	8.8	13.8					
<i>MSCI All Country World Free Index³</i>	26.8	-9.2	1.2	6.0	5.7	14.5					
<i>MSCI World Index</i>	26.0	-9.7	0.8	6.3	5.8	14.5					
	¹ Inception Date: 11/30/89 ² Annual Standard Deviation (%) ³ Benchmark Index										
	Calendar Year Returns (%)										
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Global Equity (gross of fees)	18.6	-19.4	-14.9	1.3	38.9	2.3	11.0	17.3	19.0	0.0	24.3
Global Equity (net of fees)	18.3	-19.8	-15.5	0.1	38.2	1.6	10.1	16.3	18.0	-0.9	23.2
<i>MSCI All Country World Free Index³</i>	17.7	-19.0	-15.9	-13.9	26.8	22.0	15.0	13.2	19.5	5.0	24.9
<i>MSCI World Index</i>	17.0	-19.5	-16.5	-12.9	25.3	24.8	16.2	14.0	21.3	5.6	23.1
	Composite Information										
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Total market value of accounts (\$M)	\$114	\$118	\$152	\$108	\$96	\$179	\$251	\$188	\$147	\$113	\$80
Total firm assets (\$M)	\$1210	\$1082	\$1154	\$1392	\$1423	\$1372	\$1521	\$1247	\$635	\$369	\$252
% of total firm assets	9%	11%	13%	8%	7%	13%	17%	15%	23%	31%	32%
Number of accounts	†	6	7	†	†	11	15	13	13	17	16
Dispersion: asset-weighted standard deviation	NA	0.6%	0.4%	†	†	0.5%	0.6%	0.2%	0.6%	0.4%	1.1%

† Five or fewer accounts

Portfolio Characteristics

Weighted Average Market Cap (\$ million)	\$38,000
Price/Earning (forecasted)	16.4 times
Price/Earning (trailing)	29.1 times
Price/Cash Flow	15.7 times
Growth Rate	9.8%
Price/Book	2.4 times
Yield	1.5%
Return on Equity	21.9%
Number of Holdings	57
% annual turnover (5 year average)	40%

Ten Largest Holdings

	% Portfolio
Johnson Electric (Hong Kong)	3.4
Vodafone (United Kingdom)	3.0
Mitsubishi Corp (Japan)	3.0
Taiwan Semiconductor (Taiwan)	2.8
TJX Companies (United States)	2.7
Caterpillar (United States)	2.6
Colgate-Palmolive (United States)	2.5
EnCana (Canada)	2.4
Canon (Japan)	2.4
Samsung Electronics (South Korea)	2.4

Global Equity Composite contains fully discretionary U.S. dollar-based global equity accounts and for comparison purposes is measured against the MSCI All Country World Free Index (gross dividends). Effective October 31, 2001, MSCI has discontinued the original version of the All Country World Index series in favor of the 'Free' version of the series, which excludes a portion of the market capitalization of several emerging markets that is restricted to foreign investors, but is otherwise identical. Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg; prior to January 1, 1997 it was Reuters.

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

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

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

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

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

Balanced portfolio segments are not included, nor is this composite a sub sector of a larger portfolio. Leverage is not used in this composite.

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