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Review

- The Composite underperformed its benchmark for the quarter.
- Emerging markets and developed Asia paced global returns.
- Growth stocks again underperform value.

Composite Performance (as of September 30, 2004)

	Last Quarter	Last 12 Months	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ²	Volatility ³
Global Equity (gross)	-3.3%	8.2%	5.1%	2.0%	6.7%	9.5%	13.7%
Global Equity (net)	-3.4%	7.6%	4.6%	1.3%	5.9%	8.7%	13.6%
MSCI ACW ⁴	-0.5%	18.0%	7.2%	-0.9%	6.8%	6.5%	14.4%
MSCI World	-0.9%	17.6%	6.4%	-1.2%	7.3%	6.6%	14.3%

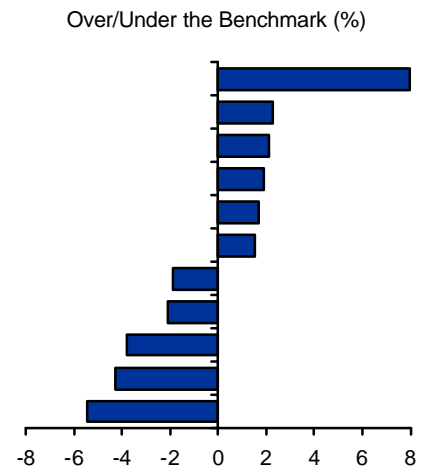
¹Annualized Returns, ²Inception Date: November 30, 1989; ³Annual Standard Deviation ⁴The Benchmark Index
Please read the above performance in conjunction with the footnotes on the back page of this report.

Outlook

- Our skepticism regarding consumer spending, outside of emerging markets.
- Unforeseen impact of increased telecommunication services consumption
- The deepening of inter-Asia regional trade

Current Composite Sector Exposure

Sector	HL Global	MSCI ACW
Info Technology	19.8%	11.8%
Consumer Staples	10.8%	8.6%
Materials	7.8%	5.7%
Cash	1.9%	--
Cons Discretionary	13.7%	12.0%
Energy	10.0%	8.5%
Telecom Services	3.4%	5.3%
Industrials	8.2%	10.2%
Utilities	--	3.8%
Health Care	6.1%	10.4%
Financials	18.3%	23.7%



Composite Activity

Purchases	Sector	Sales	Sector
Wells Fargo	Financials	Allied Capital	Financials
		Anhui Conch Cement	Materials
		Sharp	Cons Discretionary

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

Equity returns marked by wide disparities between sectors and regions.

Market Review

Equity markets overall showed a small decline in the quarter, as a burst of renewed strength late in the quarter partly erased early declines that were a carryover from the poor second quarter. Economic data in the US, Japan, and Germany continued to show evidence of a slackening of growth, but equities found support as bond yields reacted to the slowing growth and more subdued inflation. Bonds now sport yields lower than they began the year, in spite of two more hikes in overnight interest rates by the Federal Reserve during the quarter. Equity returns in the quarter were marked by wide disparities between sectors and across geographic regions. On the one hand emerging markets and developed Asian markets were strong, rising 8% and 10%, despite a poor start to the quarter, as the slowdown in China appeared to be shallower than had been feared. Japan, the world's top performing large market in the first half, was weak, losing 8% as economic data disappointed, and as a hostile takeover battle amongst major banks gave investors, who had believed managements had reformed to focus on shareholder returns, reason to ponder. Western European markets eked out small gains, but the US market fell more than the benchmark, with the S&P falling 2% and the technology heavy NASDAQ composite falling more than 7%.

Table 1. Market Performance (% Total Return)				
Market	Trailing 12 Months		3Q 2004	
	USD	Local	USD	Local
Canada	26.4	18.5	7.8	1.8
Germany	28.3	20.3	-1.8	-3.8
Japan	11.1	9.6	-7.5	-6.5
United Kingdom	25.6	15.3	2.8	3.0
United States	13.6	13.6	-1.8	-1.8
Europe EMU	26.4	18.5	0.3	-1.8
Europe ex-EMU	25.6	16.3	2.2	2.0
Pacific ex-Japan	27.0	21.0	9.7	6.5
Emerging Markets	26.6	25.2	8.3	7.9

Source: Wilshire Atlas, MSCI

Style influences on performance seem to be waning.

Within industry groups, the disparities were even larger. Semiconductors were once again one of the worst performing groups, as Intel's inventory woes cast a negative pall over the entire industry. The group fell 19%, while at the other end of the scale, energy stocks rose 10%, and within them oil service companies soared, as investors anticipated capital expenditures rising as the oil price remained stubbornly high, and the prediction 'stronger for longer' began to appear in headlines. The basic materials sector was also strong, another beneficiary of the 'soft' landing of China. Softer economic data along with higher energy prices hurt the prospects for consumers' wallets, and most of the consumer related groups were weak.

The 'value' half of the index outperformed the 'growth' half, by 430 basis points, for the sixth straight quarter of such divergence. Still, style influences on performance, which have been such a headwind for our quality and growth investment biases, appear to be waning, and perhaps even starting to reverse. This quarter was the second quarter in a row in which large capitalization companies outperformed smaller cap

In spite of last quarter's Emerging Markets woes, our overweight to the region was additive this quarter.

Table 2. Sector Performance (%Total Return)		
Sector	Trailing 12 Months	3Q 2004
	USD	USD
Consumer Discretionary	16.5	-2.3
Consumer Staples	11.7	-5.4
Energy	42.0	10.2
Financials	20.2	1.3
Health Care	10.4	-2.7
Industrials	23.6	0.3
Information Technology	1.6	-10.0
Materials	30.9	7.6
Telecom Services	20.2	3.0
Utilities	26.8	5.7

Source: Wilshire Atlas, MSCI

companies, implying that risk is being accorded more respect by investors. Stocks of companies in the highest quintile of profit margins outperformed those in the lowest quintile by more than six percentage points, reversing the pattern, if barely denting the cumulative effect, of the prior seven quarters, in which the least profitable beat the most profitable by a total of 67 percentage points.

Portfolio Attribution

Our determination to remain overweight in Emerging Markets in spite of last quarter's woes has been additive to performance this quarter. But our bias in favor of the more cyclically-gearred companies hurt us in most of the geographic regions in a period of softer economic data. We have remained overweight the technology sector and several groups within the consumer sectors (media, food & beverage, and personal products), so far with negative results from both the weightings and our stock selection within the groups.

Portfolio Structure

We are becoming increasingly skeptical of the consumer's willingness and ability to keep spending, outside of Asia and most emerging markets. The quarter just ended witnessed an unprecedented string of company announcements of shortfalls in sales and/or earnings growth by branded consumer staples companies, including portfolio holdings **Coca-Cola**, **Coke Fems**, **Colgate-Palmolive**, **Heineken**, **L'Oreal**, and **Nestlé**. This series of events caused the sector to be the second worst performing sector in the quarter, after technology. The group has had poor stock performance since the market rallied from its bear market lows, but the companies' businesses had not exhibited such widespread disappointments until now. We have argued before that these businesses were highly resilient, that demand for their products was steadily growing, especially in developing economies, and the power of their distribution network and their brands would ensure that prices would rise faster than costs, creating stable or rising profit margins, and mean that the companies with the most scale would continue to gain advantage over their smaller rivals. Such a wholesale set of profit warnings demands a reappraisal of the question of whether there is a secular shift in the competitive landscape afflicting these industries.

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

Do wholesale profit warnings by Consumer Staples companies indicate a shift in the competitive landscape?

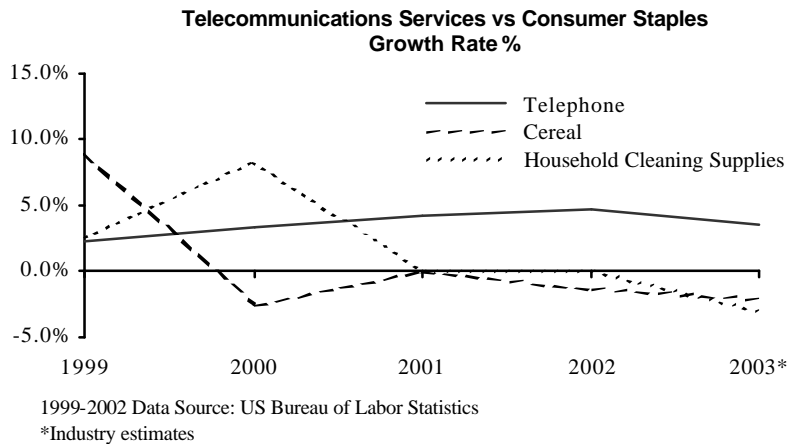
This question is especially pointed given that the poor stock price performance this year has taken place in a period of softer economic growth and falling bond yields—an environment that, ex-ante, we would have predicted would be the ‘best of all possible worlds’ for the sector. Of the headwinds that companies in these groups currently face, most have been experienced before, and the companies have overcome them with the advantages we cited above. Yes, there has been a multi-year rise in commodity costs for food companies and more recently in packaging costs for all consumer products. But historically, it has merely been a matter of time before those costs were recaptured in the form of higher prices or greater efficiencies. And the fact that the personal products companies and the beverage companies were also badly affected alongside the food companies undercuts the argument, since their materials costs are not as significant as for the food companies. Yes, there has been a growing penetration of private label products offered by the powerful superstore and discount retailers whose bargaining power against the branded products has been steadily growing, limiting the pricing power of the brands. But the branded goods companies have historically overcome similar threats through innovative new products that created fresh consumer demand and renewed pricing power. And yes, the castigation of carbohydrates in favor of protein in faddish diet trends has been blamed for slower volume growth at **Unilever** and Heineken, as has been the weather. But low-carb diets cannot help explain the shortfalls at cosmetics producer L’Oreal or oral care specialist Colgate-Palmolive.

No, something new is loose in the land, and perhaps it relates to the constrained ability of the consumer to spend, and more importantly, the greater share of his wallet being taken up by other spending choices. We have written before about the strain on future spending by the indebted US and UK consumer, and the press has written exhaustively about the lack of sufficient job growth in either the US or Germany and France to offer much support to consumer spending in those heavyweight economies. But on top of that, of course, is the rising cost of oil, and indeed all energy. Bond market participants have worried about the effect of energy prices on inflation, but the reality has been that inflation remains well subdued, even if we are no longer threatened, as we were just eighteen months ago, by the prospect of deflation. But higher gasoline prices and higher utility bills for heating and cooling homes have acted like a tax on disposable incomes, reducing an already constrained flow.

The coup de grace, however, has been dealt from another corner, we think. The explosion of mobile telephony and broadband penetration globally has created a new and growing wedge of spending from individuals’ wallets. And while the business models of telecom service companies have had a tumultuous shakedown in the deflating of the TMT bubble, the willingness of consumers to spend on mobile telephone and broadband Internet services appears to be highly resilient, and, if anything, intensifying. Anecdotal evidence would argue that the discretionary consumer decisions to take up the new communication services, once taken, are rarely reversed. These advances in communications, in their early generations a highly discretionary expenditure choice, have become a staple of consumption, to the detriment of other consumer products that we have considered the most staple: chocolate, bottled water, beer, soft drinks, detergent, toothpaste, cosmetics. But as the prices for the services have fallen rapidly, units

Growth in the consumption of telecom services may be affecting the overall spending on other consumer products.

of consumption have risen dramatically, demonstrating a high degree of price elasticity, a trend reflected in the business results of our own telecom holding, **Vodafone**. Such a result reveals a virulence of appetite growth that might actually come close to predictions made in the bubble years (just at much lower selling prices!). We have been made aware of this most of all in developing economies, where instead of blaming growth shortfalls on the developed world hobgoblins of warehouse retailers, rising commodity costs, or Dr. Atkins, a Philippine snack food maker, Universal Robina, pointed the finger at Globe Telecom, asserting that the marginal consumer peso, in a stagnant economy, was being spent on mobile minutes instead of another trip to the packaged food aisle or the fast food outlet. This admission was echoed by Unilever's Indian subsidiary, Hindustan Lever, which blamed its own sluggish sales growth on 'consumer confusion' as to where to spend finite disposable income—not on a competitor's soap product, but on some electronic entertainment device or service. Such anecdotal evidence is borne out in available statistics of consumer expenditures: In the US, the largest market for nearly all of our multinational consumer staples companies, consumer expenditures on miscellaneous food products, on cereals, on soft drinks, and on household cleaning products have suffered declining growth rates since the economy peaked in 1999. But aggregate expenditures by consumers for telephone service have enjoyed not just rising, but accelerating growth since that peak, despite the subsequent collapse in telecom stocks.



Focusing on the negative prospects for many of the telecom companies, we have been slow to recognize that accelerating growth of consumption of these services would be more buoyant than traditional staples, and that in an environment of constrained consumer income, might even affect the overall spending growth available to the consumer products companies. The idea that growth in the consumer staples sector may be suffering an exogenous shift downward changes our view on all the other pressures facing these companies. Slower growth in an industry amplifies the effects on profit margins that small shifts in bargaining power of suppliers (more powerful retailers integrating backward with private labels, commodity suppliers asserting pricing power) might otherwise have had. Slower growth increases the rivalry amongst participants in an industry, and exacerbates the effect on margins. Extraordinary statements by a number of food and personal products companies that they would significantly increase their expenditures on advertising to support their brands in the wake of this year's

Slow growth amplifies the impacts of shifts in competitive position.

The determination of consumer products companies to spend on advertising benefits media companies.

profit growth warnings are the natural result of this factor—and will result in postponing any return to steady margin expansion. Financial strength becomes an important factor in this battle, as Proctor & Gamble has shown in its bold, expanded marketing efforts in its international markets during the worst days of the 2001-2002 recession, which have resulted in its winning, for the time being, the market share battles currently, to which their rivals are compelled to respond.

These companies, then, have faced a more perfect storm—of rising costs, of retailer backward integration via private labels, of subdued demand growth from the competing claims on spending from energy and communications, and from the resulting increase in rivalry—than we had foreseen, and we have been wrong to own so much of them through recent quarters. But most of these headwinds are well publicized and well discounted in their stock prices, and may already be abating in cyclical fashion. Certainly, little attention is being paid to the fact that prices of soft commodities that go into most of the food and personal products have peaked and are retreating from cyclical highs. Certainly, weather and diet fads cannot be considered permanent or secular issues. Certainly, if energy costs stabilize or decline, then the effect of income constraints and competing claims on spending will ease. But even if income constraints remain, or if energy costs continue to rise, the problems of this industry will seem mild compared to those at the more cyclical end of the economic spectrum, since we would likely face a recession. Product innovation, staged price increases, and distribution efficiencies are always an incremental improvement, that can lag sharp changes in the negative pressures such as we have been witnessing. Having underestimated the degree to which these negative pressures would coincide, we nevertheless believe that a resumption of both revenue and profit growth is likely, given the durability of the company's advantages and the temporary nature of many of the pressures. The threat from competing claims on household spending, however, has deterred us for now from adding to these holdings despite the temptation of lower share prices.

The determination by branded food, beverage, and household products companies to spend more on advertising and promotion will benefit media companies, making the group one of the brighter spots in the consumer cyclical sector. Thus far in the economic recovery, advertising expenditures have not rebounded as dramatically as they have done in previous cycles, as businesses have been more cautious with expenditures, and as the explosion of media channels has blurred the identifiable returns to advertising spend. **WPP**, the world's second largest advertising agency and the one with the strongest abilities to measure media effectiveness, is a key beneficiary of the woes within the consumer product arena. So is **VNU**, whose Nielsen Media & Research subsidiary remains the dominant arbiter of media measurement, and whose latest investments in technology will keep it dominant in the next generation of fragmented, personalized media consumption that the innovations in consumer electronics are beginning to foster.

We have long had strong views on the winners and losers in the telecom services sector in favor of wireless communications over fixed-line, and for broadband Internet and entertainment services over broadcast. We have exposure to the positive trends in mobile telephony via service provider Vodafone, as well as through handset maker **Samsung Electronics** and wireless chipset innovator

Consumers in US, Europe and Japan are constrained by slow income growth and/or high debt levels.

Companies involved in cross-border trade are creating the best jobs in Asia.

Qualcomm, which are taking market share in both low-cost handsets for developing economies, as well as in the new generation handsets now appearing in developed markets. We also own **Comcast**, the largest broadband Internet service provider in the US.

Otherwise, the triple hurdle of constrained income growth on an already indebted US and European consumer, the ‘tax’ of higher energy prices, and the new share of wallet that is going to communications expenditures has impacted the rest of the discretionary sector as well. We have been more skeptical in these areas, attempting to focus the portfolio on consumption growth in the geography where there is ample evidence of income growth and an increasing willingness to spend on discretionary items: Asia, outside of Japan. While consumers in the US, Europe and Japan are constrained by slow income growth and/or relatively high debt levels, consumers in the rest of Asia—and, indeed, in most developing countries—face no such limitations. Their income is growing rapidly, spurred by the structural shifts in the economic policies of the largest economies—most notably China—combined with the potent effects of freely-flowing trade.

Consumer spending is not growing uniformly in Asia. Mastercard’s economic research unit has pointed out that there is a rapidly growing cohort of young adults (25-34 year olds) who already account for more than 40% of spending on discretionary items such as cars, mobile phones, and clothing. They estimate that at current growth rates of income combined with existing demographic trends, this group will account for half of discretionary consumption in non-Japan Asia within five years. We have noted before that we have found few companies meeting our criteria that also cater primarily to this group. [We’re not the only ones who find it difficult. At a recent investment conference, one sell-side strategist pounded the table on the special merits of the Asian consumer, and then listed his three top stock picks as Li & Fung, Yue Yuen, and Esprit, each of which garners more than 75% of its income from the US or Europe!]. **Denway Motors**, Honda’s joint venture partner in China is one example, although its rapidly growing and high margin market is attracting all the globe’s competitors, a worry for future profits. We also own several banks in the region, including **Kookmin Bank** in Korea, emerging from the mire of that country’s credit card blow-out, **Bangkok Bank** in Thailand, and UK-based **Standard Chartered**, which derives almost 80% of its revenues from Asia, and is one of the largest credit card issuers. Discretionary spending by a young, generally single, generally more cosmopolitan cohort will inevitably lead to greater individual borrowing (from low levels) to finance that consumption, and to a greater use of financial services in general.

The companies, both multinational and local, involved in cross-border trade in the region are creating the best jobs and driving, in turn, the younger cohort’s spending power and cosmopolitan outlook. The growth in intra-regional Asian trade has been faster than the growth of global trade for decades, but even a decade ago was still tiny; it is now becoming quite large, with China’s voracious needs for resources, energy, technology and capital goods playing a key role. These needs are the sales opportunities of ambitious companies operating in the region, and their employees are simultaneously the executors and the beneficiaries of China’s will to modernize.

***Asian regional trade
drives self-reinforcing
and self-sustaining
income and
consumption trends.***

This regional trade, having grown rapidly and in the face of conventional wisdom that the region (and now China) merely absorbs resources and capital goods to create finished products for Western markets, is increasingly comprised of sophisticated goods and services, including financial services. Portfolio holding Standard Chartered Bank is a dominant provider of trade finance in the region, and also leads in capital market transactions for regional companies, in trading of regional currencies, and in the provision of wealth management services in the region. As Asian regional trade deepens into more sophisticated products, the spin-off benefits to greater employment in higher value jobs and demand for more local services, the income trends—and therefore consumption trends—become self-reinforcing and self-sustaining. This has increased the resilience and independence of the regional economies from US, European, or Japanese cyclical influences. For these reasons, the portfolio has a significant and growing emphasis in the region. Ignoring the artificial distinction between emerging and developed countries, the portfolio holds about twice as much of its assets in the region as does the benchmark.

The rise in consumer spending in Asia is not just a cyclical phenomenon. Consumption by individuals is rising as a share of overall economic activity, and thus increasing on a secular basis. This can be seen clearly in Japan. Although the overall private sector savings rate remains high, the composition of those savings has changed dramatically, so that private sector corporations have paid down large amounts of debt, and now rival individuals with hoards of cash. This is the result of dramatically increased corporate profitability and cash flows, after several years of the sorts of restructuring we have often described in individual companies. One facet of this has been the elimination of excess capacity in Japan, through both obsolescence and underinvestment as managements sought to raise returns to satisfy more demanding shareholders. It now appears as if a new and long-lasting capital expenditure cycle may be getting underway.

***A new and lasting
capital expenditure
cycle in Japan?***

This is similar to a cycle that we have observed emerging in several global sectors, notably in the extractive industries, i.e., energy and mining. Decades of low prices and industry consolidation have resulted in under-investment which has led, in turn, to a scarcity of supplies at a time when demand has seen a shift upwards as a result of the increased pace of industrialization of several very large economies, most notably those of China and India. We expect investment levels to increase now that product prices have increased, and companies have sufficient resources to fund them. We think it possible that the demand for capital goods will see a sustained rise. This is not only true in Japan, but also in the West. In the US, for example, corporations have strengthened balance sheets, and increased profits significantly, at a time when the strains on the consumer caused by decades of spending growth have increased. In the medium term, the heavily indebted US consumer cannot continue as the engine for demand growth.

Our response in the portfolio has been to increase exposure to industrial companies that will benefit from renewed demand. Capital goods account for just 7% of the benchmark, but capital *spending* lies behind twice that amount of the portfolio, when certain of our energy and technology holdings are included under that umbrella. Companies such as **ABB** are direct beneficiaries of investment in factory automation and in power generation, while **Caterpillar** announced this

We have taken modest steps to reduce our bias against the US.

quarter that they are enjoying ‘unprecedented demand’ for its heavy equipment from the mining industry. In Japan, we own **Keyence**, which designs and markets control devices, demand for which benefits directly from increased levels of capital expenditure.

We retain our overweight stance on technology more generally, and Asian and Japanese technology in particular, despite two difficult quarters of stock price performance, because there has been little but excellent fundamental news from the companies themselves. They remain highly competitive, rapidly growing, and far cheaper than most of their US or European counterparts. We maintain our holdings of energy companies, concentrating on secure supplies of energy via North American holdings **Encana** and **Exxon Mobil**, and on investment in further production through greater capital expenditures by the industry through **Schlumberger**, or through technical innovation, such as through **Sasol**. We have taken modest first steps to reduce our bias against the US market, recognizing that the consensus has become overwhelmingly aligned with our long-held view regarding non-US valuations and prospects, and thus suspect that outsized returns from this stance are unlikely in the near term.

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Comcast	United States	1.2	Cable operator
	Denway Motors	China	2.3	Automobile & bus producer
	Pearson	United Kingdom	1.6	Education & publishing company
	Sony	Japan	1.0	Electronics & entertainment media company
	TJX Companies	United States	2.9	Off-priced name brand stores
	VNU	Netherlands	1.8	Market research company
	Viacom	United States	1.7	Media & entertainment group
	WPP Group	United Kingdom	1.5	Advertising & marketing services company
Consumer Staples	Coca-Cola	United States	1.2	Soft drinks company
	Coca-Cola Femsa	Mexico	1.0	Soft drink bottler
	Colgate-Palmolive	United States	0.9	Consumer products company
	Estee Lauder	United States	1.2	Manufacturer & marketer of skin care, makeup & fragrances
	Heineken	Netherlands	1.2	International brewing company
	L'Oreal	France	1.7	Personal care products manufacturer
	Nestlé	Switzerland	1.9	Global food company
	Wal-Mart de Mexico	Mexico	1.8	Consumer goods & food retailer
Energy	EnCana	Canada	2.9	Producer of natural gas
	Exxon Mobil	United States	1.3	Global oil company
	Kinder Morgan	United States	2.5	Natural gas transportation & logistics company
	Sasol	South Africa	2.0	Refined petroleum products producer
	Schlumberger	France	1.4	Oil services company
Financials	American Int'l Group	United States	2.5	Insurance holding company
	Bangkok Bank	Thailand	1.3	Commercial bank
	Bankinter	Spain	1.1	Small Spanish bank
	Berkshire Hathaway	United States	1.1	Auto insurer & general reinsurer
	Deutsche Bank	Germany	2.1	Universal bank
	Erste Bank	Austria	1.4	Savings & retail bank
	JPMorgan Chase	United States	1.6	Money center bank
	Kookmin Bank	South Korea	1.4	Retail-oriented bank
	Nomura Holdings	Japan	1.0	Brokerage firm
	Standard Chartered	United Kingdom	1.2	Multinational commercial bank
	Sumitomo Mitsui Financial	Japan	0.8	Commercial bank
	Swiss Re	Switzerland	1.7	Large reinsurer
Wells Fargo	United States	1.0	Super regional bank	
Health Care	Abbott Labs	United States	1.3	Health care products & pharmaceuticals producer
	Medco Health Solutions	United States	0.9	Pharmaceutical benefits manager
	Merck	United States	1.2	Pharmaceutical company
	Novartis	Switzerland	1.5	Multinational life sciences company
	Qiagen	Netherlands	1.3	Laboratory equipment supplier
Industrials	ABB	Switzerland	1.5	Engineering conglomerate
	Caterpillar	United States	2.8	Producer of earthmoving equipment
	Emerson Electric	United States	1.6	Global industrial & electronics controls company
	Mitsubishi Corp.	Japan	2.1	Trading company
Information Technology	Analog Devices	United States	2.4	Analog mixed-signal computer chip maker
	BEA Systems	United States	0.5	Internet software developer
	Canon	Japan	1.1	Maker of image & information equipment
	Dassault Systemes	France	1.7	CAD/CAM software designer
	Hirose Electric	Japan	1.1	Manufacturer of electrical connectors & components
	Keyence	Japan	2.1	Detection & measuring control equipment maker
	Oracle	United States	2.6	Software company
	Qualcomm	United States	2.7	CDMA wireless communications technology firm
	Rohm	Japan	1.7	Custom chip producer
	Samsung Electronics	South Korea	2.6	Electronic equipment maker
Taiwan Semiconductor	Taiwan	1.3	Dedicated IC foundry	
Materials	Air Liquide	France	1.1	Industrial gas company
	Air Products & Chemicals	United States	1.2	Industrial gases company
	JSR	Japan	1.8	Specialty chemicals manufacturer
	Praxair	United States	1.3	Industrial gas company
	Rio Tinto	United Kingdom	2.4	Diversified mining company
Telecom Services	Vodafone	United Kingdom	3.4	Telecommunication services provider

Specific securities, portfolio holdings and sector/region weights are subject to review and adjustment in accordance with our investment strategy, may vary in the future, and should not be considered recommendations to buy or sell any security. Supplemental information presented complements the Global Equity composite presentation which is located on the back page of this report.

Ten Best Stocks by Absolute Return

HOLDING	GICS SECTOR	REGION	RETURN	AVERAGE WEIGHT
Anhui Conch Cement*	Materials	Emerging Markets	24.3%	0.7%
Sasol	Energy	Emerging Markets	20.3%	1.8%
Bankinter	Financials	Europe EMU	15.4%	1.0%
Wal Mart de Mexico	Consumer Staples	Emerging Markets	14.3%	1.6%
Rio Tinto	Materials	Europe ex-EMU	13.3%	2.3%
Mitsubishi Corp.	Industrials	Japan	11.7%	2.0%
ABB	Industrials	Europe ex-EMU	11.6%	1.4%
Exxon Mobil	Energy	United States	9.5%	1.2%
Vodafone	Telecom Services	Europe ex-EMU	9.1%	3.2%
EnCana	Energy	Canada	7.5%	2.7%

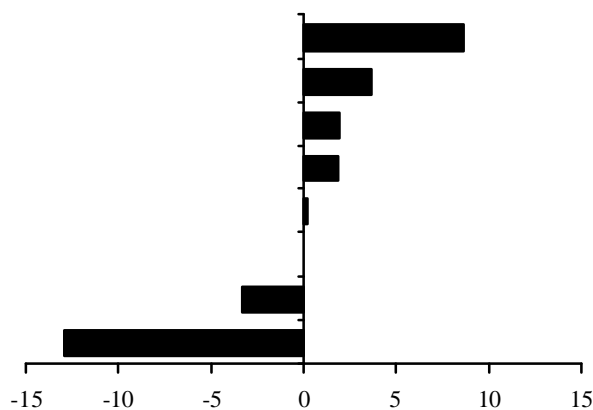
All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. The portfolio is actively managed; therefore holdings may not be current.

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

Current Composite Regional Exposure

REGION	HL Global Equity	MSCI ACW Index
Emerging Markets	13.5%	4.9%
Japan	12.8%	9.1%
Cash	1.9%	--
Europe ex-EMU	16.6%	14.8%
Canada	2.9%	2.7%
Europe EMU	13.4%	13.4%
Pacific ex-Japan	--	3.3%
United States	38.9%	51.8%

Over/Under the Benchmark (%)



Portfolio Characteristics

Characteristic	HL Global	ACW	Characteristic	HL Global	ACW
Avg Wtd Market Cap (\$B)	\$37.7	\$65.7	Alpha	0.25	0.00
Price/Earnings (Trailing)	22.4x	19.7xz	Beta	1.01	1.00
Price/Cash Flow	12.1x	11.5x	R-Squared	0.92	1.00
Price/Book	2.4x	2.4x	Sharpe Ratio	0.01	-0.05
Dividend Yield	1.6%	2.2%	Standard Deviation	4.88	4.60
Return on Equity	15.7%	18.7%	Correlation	0.96	1.00
Number Holdings	60	2405	Turnover (5-Year Average)	46%	---

Source: Wilshire Atlas

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

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

Supplemental information presented complements the Global Equity composite presentation which is located on the back page of this report.

Global Equity Composite Performance Summary 2004 Third Quarter Report

	HL GLBL EQ (Gross)	HL GLBL EQ (Net)	MSCI ACW ¹	MSCI WORLD	Internal Dispersion ²	Number of Accounts	Composite Assets (\$M)	Firm Assets (\$M)	% Firm Assets
2004 ³	-3.2%	-3.5%	3.1%	2.8%	NA	†	75	1264	6
2003	32.5%	32.0%	34.6%	33.8%	†	†	127	1357	9
2002	-19.4%	-19.8%	-19.0%	-19.5%	0.6	6	118	1082	11
2001	-14.9%	-15.5%	-15.9%	-16.5%	0.4	7	152	1154	13
2000	1.3%	0.1%	-13.9%	-12.9%	†	†	108	1392	8
1999	38.9%	38.2%	26.8%	25.3%	†	†	96	1423	7
1998	2.3%	1.6%	22.0%	24.8%	0.5	11	179	1372	13
1997	11.0%	10.1%	15.0%	16.2%	0.6	15	251	1521	17
1996	17.3%	16.3%	13.2%	14.0%	0.2	13	188	1247	15
1995	19.0%	18.0%	19.5%	21.3%	0.6	13	147	635	23
1994	0.0%	-0.9%	5.0%	5.6%	0.4	17	113	369	31

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

† Five or fewer accounts

Global Equity Composite contains fully discretionary U.S. dollar-based global equity accounts and for comparison purposes is measured against the MSCI All Country World Index (gross dividends). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg; prior to July 1, 1997 it was Reuters. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

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

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

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

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

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate global equity accounts is 1.00% annually of the market value of assets up to \$20 million; 0.50% of amounts from \$20 million to \$100 million; negotiable for amounts over \$100 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

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

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

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