



**Table of Contents**

**Market Review**

**Portfolio Attribution**

**Outlook**

**Portfolio Structure**

**Review**

- The Composite outperformed its benchmark, driven by good stock selection.
- Energy and Materials sectors soared.
- Fundamental quality and growth effects mixed.

**Composite Performance (as of September 30, 2005)**

|                       | Last Quarter | Last 12 Months | 3 Years <sup>1</sup> | 5 Years <sup>1</sup> | 10 Years <sup>1</sup> | Since Inception <sup>2</sup> | Volatility <sup>3</sup> |
|-----------------------|--------------|----------------|----------------------|----------------------|-----------------------|------------------------------|-------------------------|
| Global Equity (gross) | 10.4%        | 26.1%          | 20.5%                | 2.1%                 | 7.9%                  | 10.5%                        | 13.6%                   |
| Global Equity (net)   | 10.3%        | 25.5%          | 20.0%                | 1.5%                 | 7.2%                  | 9.7%                         | 13.5%                   |
| MSCI ACW <sup>4</sup> | 7.7%         | 20.9%          | 21.8%                | 1.3%                 | 7.5%                  | 7.4%                         | 14.2%                   |
| MSCI World            | 7.1%         | 19.5%          | 21.0%                | 0.7%                 | 7.6%                  | 7.3%                         | 14.1%                   |

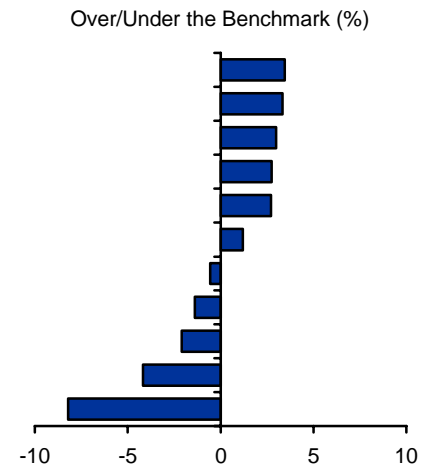
<sup>1</sup>Annualized Returns, <sup>2</sup>Inception Date: November 30, 1989; <sup>3</sup>Annual Standard Deviation <sup>4</sup>The Benchmark Index  
Please read the above performance in conjunction with the footnotes on the back page of this report.

**Outlook**

- High risk to tolerance should not be confused with low risk.
- Corporate profitability under threat.
- Many equities seem mispriced: we look for secular tailwinds.

**Current Portfolio Sector Exposure<sup>1</sup>**

| Sector             | HL Global | MSCI ACW |
|--------------------|-----------|----------|
| Industrials        | 13.5%     | 10.0%    |
| Info Technology    | 14.7%     | 11.3%    |
| Consumer Staples   | 11.2%     | 8.2%     |
| Materials          | 8.7%      | 5.9%     |
| Energy             | 13.2%     | 10.5%    |
| Cash               | 1.2%      | --       |
| Health Care        | 9.3%      | 9.9%     |
| Cons Discretionary | 10.1%     | 11.5%    |
| Telecom Services   | 2.8%      | 4.9%     |
| Utilities          | --        | 4.2%     |
| Financials         | 15.3%     | 23.6%    |



**Composite Activity**

| Purchases             | Sector      | Sales        | Sector             |
|-----------------------|-------------|--------------|--------------------|
| Medtronic             | Health Care | Bangkok Bank | Financials         |
| Sumitomo Realty & Dev | Financials  | Canon        | Info Technology    |
|                       |             | Sony         | 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 8 of this report.

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

***The Composite outperformed in a robust quarter.***

## Market Review

The Global Equity Composite rose 10.4% in the third quarter of 2005, ahead of the robust 7.7% rise of the MSCI All Country World Index. Equity markets were paced by a 19% rise of the Japanese market, celebrating Prime Minister Koizumi's successful showdown with his own party's reactionary members over his plans to privatize the Post Office savings bank. The accompanying prospect of 'normal' profits in the Japanese financial system spurred the Topix bank sub-index to rise 34% in the quarter (in USD terms). Emerging Markets generally were strong, with the sub-index rising 18%, reflecting strong portfolio flows chasing recent returns as much as the healthy long-term economic growth and financial outlook enjoyed by these markets. Non-US equity markets far outpaced the (still respectable) sub 4% return of US equities.

| Market Performance (% Total Return) |                    |       |         |       |
|-------------------------------------|--------------------|-------|---------|-------|
| Market                              | Trailing 12 Months |       | 3Q 2005 |       |
|                                     | USD                | Local | USD     | Local |
| Canada                              | 42.3               | 30.5  | 18.5    | 12.3  |
| Germany                             | 26.0               | 29.8  | 9.7     | 10.2  |
| Japan                               | 26.3               | 29.8  | 19.2    | 21.3  |
| United Kingdom                      | 20.9               | 23.7  | 6.2     | 7.8   |
| United States                       | 12.9               | 12.9  | 3.7     | 3.7   |
| Europe EMU                          | 27.0               | 30.8  | 8.0     | 8.3   |
| Europe ex-EMU                       | 22.8               | 26.0  | 7.5     | 8.6   |
| Pacific ex-Japan                    | 34.9               | 30.0  | 9.6     | 9.4   |
| Emerging Markets                    | 47.4               | 38.7  | 18.1    | 17.7  |

Source: Wilshire Atlas, MSCI

***Markets with large energy and raw materials exports soared.***

In part, the less ebullient US market was reacting to the two hurricanes in the Gulf of Mexico that caused extensive damage to US oil and gas production and refining facilities. Energy prices spiked higher from already elevated levels. So did prices of other commodities that will be needed for rebuilding New Orleans and the rest of the Gulf Coast, particularly copper and steel, and the latter's raw materials, iron ore and coking coal. Energy and Materials were once again the best performing industrial sectors, globally rising 19% and 16%, respectively, in the quarter.

Markets with important energy and raw material export sectors were particularly strong, notably Canada (+18%), Norway (+16%) along with energy-rich Russia (+48%) and iron and steel behemoth Brazil (+38%). It was sector allocation that mattered this quarter, but the strong sectors tended to be in the riskier geographic locations. Meanwhile, the US Federal Reserve showed no inclination to halt its 'measured' monetary tightening path, twice adding 25 basis points to interest rates during the quarter, raising the cost of funding for both government borrowers and home buyers in a continued effort to minimize the seepage of inflation from energy and asset prices into the core economy.

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

|                        | Trailing 12 Months | 3Q 2005 |
|------------------------|--------------------|---------|
| Consumer Discretionary | 12.8               | 4.2     |
| Consumer Staples       | 18.7               | 5.7     |
| Energy                 | 50.4               | 19.4    |
| Financials             | 19.5               | 6.8     |
| Health Care            | 14.6               | 3.8     |
| Industrials            | 18.9               | 7.7     |
| Information Technology | 15.1               | 6.3     |
| Materials              | 25.8               | 15.5    |
| Telecom Services       | 14.8               | 5.0     |
| Utilities              | 33.9               | 7.4     |

Source: Wilshire Atlas, MSCI

## Portfolio Attribution

Our performance this quarter led the benchmark despite what could subjectively be called a ‘low quality’ rally: Japanese financials and the raw materials groups rank among the lowest ROE and margin, but highest earnings variability and leverage groups in the stock universe. Offsetting this is the strong objective quality of many emerging market and energy companies, particularly ones found in our portfolio. We have been significantly overweight Emerging Markets, and held a full benchmark weighting in Japan for some time; both of those stances, helped overall returns in the quarter, even though our Japanese stocks trailed the index, while our Emerging Market companies only matched the benchmark. Nevertheless, stock selection provided the majority of the good overall relative returns, driven by outperformance within the US, Canada, Europe, and non-Japan Asia.

Analyzed by sector, relative performance was again driven primarily by good stock selection, rather than by industry weightings, with positive stock selection within Consumer Staples, Energy, Financials, Industrials and Telecom Services easily outweighing the drag from Materials and Consumer Discretionary. Given the surge of energy stocks in the quarter, it was gratifying to garner the benefit not only of our modest overweight, but to outperform in the best performing sector, aided by our holdings of **EnCana**, the Canadian gas producer, and **Sasol**, the South African synthetic fuels maker. The Financial sector was helped primarily by the holdings of emerging market banks, **Standard Chartered**, **Kookmin Bank**, and **Bangkok Bank** (sold in the quarter), and by **Nomura Holdings**, the Japanese investment bank. Industrials rebounded from last quarter’s malaise, paced by **Caterpillar**, **Mitsubishi Corp**, and **Emerson Electric**.

Style effects were mixed in the quarter, with the high-priced (‘Growth’) half of the benchmark performing roughly in line with the low-priced (‘Value’) half. Actually, Value stocks outperformed Growth stocks in Continental Europe, but Growth was

**An overweight to Emerging Markets stocks and near-benchmark weight to Japan helped returns.**

**Stock selection—specifically in Consumer Staples, Energy, Financials, Industrials and Telecom Services—was positive.**

Bold indicates companies held in the portfolio during the quarter. The percentage of currently held positions appears on page 8 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.

the winner in the UK, Japan, and in the rest of Asia (as well as in the US). Small cap stocks outperformed the major indices in both US and non-US markets. Quality factors, previously highlighted in these pages, were mixed in the quarter, but year-to-date performance remains biased in favor of high-quality companies.

**Quality factors showed mixed results.**

| <b>Top vs Bottom Quintile of Stocks in MSCI AC World Index</b> |            |               |                   |
|--|------------|---------------|-------------------|
| <b>(% Total Return in USD)</b>                                 |            |               |                   |
| 6/30/05 – 9/30/05  |            |               |                   |
|  | <b>Top</b> | <b>Bottom</b> | <b>Difference</b> |
| Return on Assets   | 7.3        | 7.6           | -0.3              |
| Return on Equity   | 7.9        | 9.1           | -1.2              |
| Std Dev of ROE (5 Yr) <sup>1</sup>                             | 6.5        | 8.3           | -1.8              |
| Debt/Equity Ratio <sup>1</sup>                                 | 7.5        | 6.3           | 1.2               |
| Profit Margin  | 6.3        | 10.3          | -4.0              |

<sup>1</sup> “Top” Quintile = lowest

Source: Wilshire Atlas, MSCI

## **Outlook**

### **Markets are priced for low risk...**

Financial markets exhibit few signs that economic growth might slow, with negative effects on solvency or corporate profits. Nor many signs that companies will not pass on rising raw materials costs to customers, squeezing profit margins irrespective of growth, or that inflation in resource prices might spread more generally into the economy. Bonds are priced for a benign environment of modest inflation, while stocks discount continued solid corporate earnings growth. Credit spreads remain slender, discounting small chances of corporate credit deterioration despite the reappearance of negative headlines surrounding GM and Delphi, or the airline industry. Sovereign spreads for developing country debt remain near record lows, as the asset class continues to benefit from a global thirst for investment yield. And flows into emerging market equity funds have also been very strong over the past twelve months. Further, markets are, on the one hand, giving a standing ovation to the Japanese politicians, anticipating substantive economic reforms cascading from the surprising political victory of last month, but at the same time appearing to say that politics don't matter in Germany, where the stock market has shrugged off the election result of political stalemate and instead focused on the progress that company managements have made in restructuring their businesses, extracting concessions from labor for job losses, increased productivity, and transplanting production to lower cost locations in Eastern Europe. This willingness to put a positive spin on any political outcome is just another example of heightened risk tolerance, rather than evidence that risk is actually lower. All of these factors combine to suggest that investor sentiment is in what Jonathan Wilmot of Credit Suisse has labeled the 'Euphoria Zone.'

**Investors living in the “Euphoria Zone.”**

What economic and business climate can make these financial market conditions appropriate? Clearly the market has adopted whole-hog our general assessment that the globalization of industry—particularly the integration of China into the world economy—is equal to the task of containing overall inflation, in spite of the pressures brought about from the sharply higher energy and raw material costs. Moreover, the market seemingly gives central banks, led by the US Federal Reserve and Mr. Greenspan, the benefit of the doubt that current ‘normalizing’ of short-term interest rates will neither undershoot and let inflation re-enter the developed economies, nor overshoot and send major economies into a tailspin.

### ***Risks are up...***

Nevertheless, threats to continued rapid growth are mounting. While the delivery of Federal and state government funding (along with insurance payments) for the rebuilding efforts along the US Gulf coast will sustain spending in the world’s biggest economy for several quarters, high energy prices act as a toll on global non-energy consumption, collected by (and a transfer of wealth to) energy producing nations that are themselves not well-developed economies capable of recycling the proceeds with their own domestic demand. The economies most able to expand domestic consumer demand—the savings-rich developing economies in Asia—are historically inefficient energy users, and thus vulnerable to such a tax. All this on top of the growing US dependence on foreign capital to finance its net imports of consumer goods, and Asian economies’ dependence on US demand for those goods to sustain their employment growth.

UBS estimates that global return on equity is currently higher than the cyclical peaks of 1999, 1996, 1988, or 1985—and nearing the 15% nominal returns achieved in 1979, a year in which US inflation reached the teens. Such high corporate profitability hardly seems sustainable. Studies abound showing the high correlation over the last forty years of an inverted US yield curve with global recessions (six out of the last seven occurrences, according to Fox Pitt Kelton). The steady withdrawal of monetary stimulus by the Federal Reserve is designed to reign in speculative investment in both real estate and financial assets, but chances breaking the optimism of the highly leveraged US consumer that sustains underlying housing demand and more general consumption, or exposing an imbalance in the levered world of financial derivatives—outcomes that are consistent with the current flattening (i.e., not yet inverted!) yield curve.

### ***Prices are wrong...***

These macroeconomic forces we describe will have micro-economic effects, on profits as well as on consumers. Energy and raw materials price rises flowing through company income statements are revealing which, if any, industries or companies have strong enough competitive positions to pass on those price increases to their customers, and which have products desirable enough (or cheap enough) to hold onto their share of their customers’ wallets, while others are

**Threats to growth...**

**High corporate profitability seems unsustainable.**

**Equity prices do not reflect much uncertainty.**

displaced by rising energy spending. If nominal government bond prices are not reflecting risks of higher inflation, or if corporate bond prices are not adequately pricing the possibility of growing credit defaults, then discount rates for equities, including as they do both nominal rates and a risk premium, almost certainly do not sufficiently price the degree of uncertainty regarding the future profitability of most companies. In particular, we believe that the risk premium demanded for more volatile, lower quality earnings streams is insufficient reward for the uncertainty.

## Current Portfolio Structure

Perhaps policy makers, economies and markets can thread these various needles without mishap, but it seems imprudent to us to rely on it. That is why we maintain our focus on the competitive structure of the industries in which our companies operate, and on the ability of their managements to exploit the advantages we have identified in order to keep their businesses on a growth path regardless.

A good example of this is a new holding this quarter, the Austrian **Erste Bank**. This bank was an early mover in the renaissance of the central European banking via government privatizations over the past ten years. By acquiring, restructuring, and bringing modern technology and management to the remains of Communist-era savings banks in the Czech Republic, Slovak Republic, Hungary, Croatia, and most recently Serbia, Erste has built strong positions in markets that loosely re-assemble bits of the old Austro-Hungarian Empire into an adjoining regional base that will one day share the Euro currency. Using its strong deposit base, it is set to foster and accommodate a more normal credit and banking culture in these countries as their citizens rebuild the deteriorated housing stock and invest for retirement from a very under-leveraged and under-invested starting point. Rapid secular growth in banking services in this region should keep competitive pressures at bay for many years to come, pressures that, in any event, the bank's strong position should be well able to withstand. We have similar hopes for our Asian banks, **Standard Chartered** and **Kookmin Bank**. The portfolio is significantly underweight Financials, but roughly a third of our Financials holdings are tied to emerging markets. Another quarter is invested in insurance, and a quarter in Japanese non-bank financials, expressing our skepticism that banks in developed countries will continue to grow lending to (and repayment from) consumers at anything like the pace of the last decade.

A theme that runs through our thinking is the integration of China into the global economy. The rapidity of that integration has been breathtaking and, short of protectionism breaking out in the developed economies, shows no sign of slowing. This secular tailwind affords growth to companies with strong positions to exploit this process that extends beyond cyclical swings. Roughly a tenth of the portfolio holdings can be loosely grouped under this rubric. Thus, Hong Kong's **Li & Fung** provides a key link for Western retailers to find reliable producers of consumer goods in China and other low-cost areas, defending its enviable position by adding

*Reliance on policy  
maker needle-  
threading: imprudent.*

*Focuses on industry  
competitive  
structures: secular  
tailwinds.*

value through design and logistics as good as the retailers could source in-house. **China Merchants** exploits a strong existing position in port ownership and close links to government agencies that approve new port developments to grow its capacity for raw materials and capital goods coming into China, as well as for containers of manufactured goods leaving China. **Mitsubishi Corp** operates a large dealer network in China for Japanese pick-up truck and capital goods makers, and is a large supplier of coking coal to the Asian steel industry under long-term contracts that it can manage due to its joint venture holdings with the manufacturers and mining producers. **Rio Tinto**, meanwhile, supplies 25% of iron ore imported by the Chinese steel industry and Standard Chartered sees the Pearl River Delta, and its role of trade financier there, as one of its major growth opportunities over the next decade.

We have, as mentioned earlier, nearly a full benchmark weighting in Japan. But the specific holdings have changed significantly this year. We bought a new holding in **Sumitomo Realty & Development** this quarter, an *apparent* departure for us given the inherent difficulty of discerning a profitable and stable competitive structure in the property development industry. But given our recurring dismay at trying to forecast any improvement in the competitive landscape in the Japanese banking industry, it seemed reasonable to investigate companies operating in a sector to which banks have announced their high hopes of increasing their lending (via the mortgage market); at least funding should be plentiful, which should be a precursor to rising investment in the sector, and possibly even rising prices (after fifteen years of declines!). Sumitomo Realty management stands out as having moved early to resolve its inventory build-up, and found a growth niche in building condominiums in major city centers that could sustain them through the more general Japanese property malaise. But the advent in Japan several years ago of Real Estate Investment Trusts (REITs), along with other securitization techniques, has created investment demand for property that has allowed the company to upgrade its office building portfolio over the past few years, just in time for what may be a period of steadily rising rents for prime space. Meanwhile, it has invested heavily in the housing refurbishment business, which is capitalizing on the aging housing stock in Japan as well as on its strong brand image for reliability, quality, and financial soundness in an industry plagued by bankruptcy and fraud.

Within sectors, we remain modestly overweight the Energy sector, with just over an eighth of the portfolio in the group. Our holdings are well diversified, with oil specialist **Schlumberger**, integrated producer/refiner **Exxon**, along with pipeline owner **Kinder Morgan**, geared to the reversal of long-term underinvestment by the industry rather than to rising prices of energy. Meanwhile, **EnCana** (reduced in the quarter) and **Sasol**, by growing upstream gas or synfuel volumes significantly faster than the industry, do offer leverage to price spikes.

Clearly, the rapid rise of energy prices increases the risk that monetary authorities will feel compelled to lean harder against inflationary pressures. Higher energy

**Japanese property development, a new growth sector.**

**Our Energy holdings are well diversified.**

***Why we maintain the Consumer Staples overweight.***

prices combined with higher interest rates pose a threat both to consumer spending on other items, and to consumer borrowing. We have been, and remain, overweight the less cyclical parts of the consumer economy—notably food & beverages, food retailing, household products—while being significantly underweight developed economy banks. It is an axiom of equity investing (as well as of Michael Porter’s analysis of the competitive structure of industries) that small daily purchases of items such as **Colgate’s** toothpaste, **Nestlé’s** Poland Spring bottled water, or **L’Oreal’s** Maybelline cosmetics will be impacted less by pinching of consumers than will be large, discretionary purchases of autos or houses. But it is less recognized that such products have a smaller component of hard commodity raw materials or energy embedded in their costs of manufacturing and distribution, relative to their selling prices than do autos, appliances or houses—an additional factor that protects their margins in environments such as the current one.

***Small exposure to sectors most impacted by rising interest rates.***

We have added to our holdings in Health Care, both by increasing existing holdings of **Medco Health** and **Qiagen**, but also with a new holding, US medical device maker **Medtronic**. Offsetting this, we are, significantly underweight developed economy banks, which means that, combined with a single telecom holding and no utilities, we have very small exposure to the sectors of the economy and stock market that would be most impacted by rising interest rates. This latter result has not come about because of any interest rate view (we don’t have one!), but instead as the cumulative consequence of individual stock selections that we have made over a number of recent quarters, although we admit to a belief that the corporate sector has far healthier balance sheets than the consumer sector in most developed economies. We have nearly a fifth of the portfolio invested in Consumer Staples or Health Care companies, slightly more than we hold in Financials, Telecom Services, and Utilities combined. The global benchmark holds nearly one third in these latter three sectors.

**Global Equity Holdings as of September 30, 2005**
**Supplemental Information**

| Sector                 | Company                  | Country        | Weight (%)    | Description   |
|------------------------|--------------------------|----------------|---------------|---|
| Consumer Discretionary | Comcast                  | United States  | 1.0           | Cable operator  |
|                        | Li & Fung                | Hong Kong      | 2.5           | Trading company   |
|                        | LVMH                     | France         | 1.0           | Luxury goods group  |
|                        | Pearson                  | United Kingdom | 1.3           | Education & publishing company                            |
|                        | TJX Companies            | United States  | 1.2           | Off-priced name brand stores                              |
|                        | Viacom                   | United States  | 1.4           | Media & entertainment group                               |
|                        | VNU                      | Netherlands    | 1.8           | Market research company                                   |
| Consumer Staples       | Coca-Cola                | United States  | 1.0           | Soft drinks company                                       |
|                        | Colgate-Palmolive        | United States  | 2.3           | Consumer products company                                 |
|                        | Estee Lauder             | United States  | 0.8           | Manufacturer & marketer of skin care, makeup & fragrances |
|                        | Heineken                 | Netherlands    | 1.0           | International brewing company                             |
|                        | L'Oreal                  | France         | 2.1           | Personal care products manufacturer                       |
|                        | Nestlé                   | Switzerland    | 1.9           | Global food company                                       |
|                        | Wal-Mart de Mexico       | Mexico         | 2.1           | Consumer goods & food retailer                            |
| Energy                 | EnCana                   | Canada         | 4.6           | Producer of natural gas                                   |
|                        | Exxon Mobil              | United States  | 1.3           | Global oil company  |
|                        | Kinder Morgan            | United States  | 3.1           | Natural gas transportation & logistics company            |
|                        | Sasol                    | South Africa   | 1.9           | Refined petroleum products producer                       |
|                        | Schlumberger             | France         | 2.6           | Oil services company                                      |
| Financials             | American Int'l Group     | United States  | 3.2           | Insurance holding company                                 |
|                        | Bankinter                | Spain          | 1.1           | Small Spanish bank  |
|                        | Berkshire Hathaway       | United States  | 0.8           | Auto insurer & general reinsurer                          |
|                        | Erste Bank               | Austria        | 1.0           | Savings & retail bank                                     |
|                        | Kookmin Bank             | South Korea    | 1.3           | Retail-oriented bank                                      |
|                        | Nomura Holdings          | Japan          | 1.0           | Brokerage firm  |
|                        | Standard Chartered       | United Kingdom | 2.3           | Multinational commercial bank                             |
|                        | Sumitomo Realty & Dev    | Japan          | 2.8           | Real estate developer                                     |
|                        | Swiss Re                 | Switzerland    | 1.2           | Large reinsurer   |
|                        | Wells Fargo              | United States  | 0.8           | Super regional bank                                       |
| Health Care            | Abbott Labs              | United States  | 1.0           | Health care products & pharmaceuticals producer           |
|                        | Medco Health Solutions   | United States  | 2.3           | Pharmaceutical benefits manager                           |
|                        | Medtronic                | United States  | 1.4           | Medical devices company                                   |
|                        | Novartis                 | Switzerland    | 1.3           | Multinational life sciences company                       |
|                        | Qiagen                   | Netherlands    | 2.1           | Laboratory equipment supplier                             |
|                        | Roche                    | Switzerland    | 1.2           | Pharmaceutical company                                    |
| Industrials            | 3M Co.                   | United States  | 1.6           | Industrial technology                                     |
|                        | Caterpillar              | United States  | 3.3           | Producer of earthmoving equipment                         |
|                        | China Merchants          | China          | 2.3           | Global port operator                                      |
|                        | Emerson Electric         | United States  | 2.5           | Global industrial & electronics controls company          |
|                        | General Electric         | United States  | 1.2           | Diversified products & services company                   |
|                        | Mitsubishi Corp.         | Japan          | 1.6           | Trading company   |
|                        | Tyco Int'l               | United States  | 1.1           | Industrial products manufacturer                          |
|                        | Information Technology   | ADP            | United States | 0.9   |
| Analog Devices         |                          | United States  | 1.4           | Analog mixed-signal computer chip maker                   |
| Dassault Systemes      |                          | France         | 1.5           | CAD/CAM software designer                                 |
| Hirose Electric        |                          | Japan          | 1.1           | Manufacturer of electrical connectors & components        |
| Keyence                |                          | Japan          | 2.6           | Detection & measuring control equipment maker             |
| Oracle                 |                          | United States  | 2.6           | Software company  |
| Qualcomm               |                          | United States  | 2.0           | CDMA wireless communications technology firm              |
| Samsung Electronics    |                          | South Korea    | 1.5           | Electronic equipment maker                                |
| Taiwan Semiconductor   |                          | Taiwan         | 1.3           | Dedicated IC foundry                                      |
| Materials              | Air Liquide              | France         | 1.3           | Industrial gas company                                    |
|                        | Air Products & Chemicals | United States  | 1.0           | Industrial gas company                                    |
|                        | JSR                      | Japan          | 2.3           | Specialty chemicals manufacturer                          |
|                        | Praxair                  | United States  | 1.2           | Industrial gas company                                    |
|                        | Rio Tinto                | United Kingdom | 3.0           | Diversified mining company                                |
| Telecom Services       | America Movil            | Mexico         | 1.7           | Cellular service provider                                 |
|                        | Orascom Telecom          | United States  | 1.2           | Cellular services provider                                |

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

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## Contributors to Returns

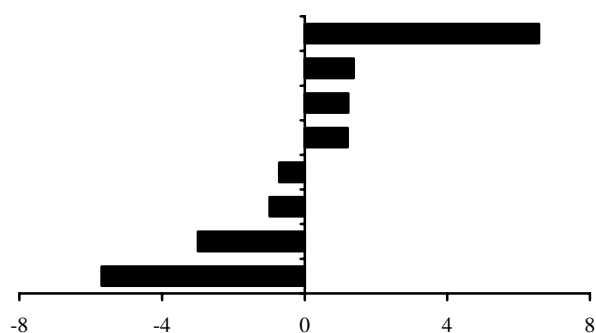
| Largest Holdings     | GICS Sector        | Region        | Return  | Average Wt. | Contribution |
|----------------------|--------------------|---------------|---------|-------------|--------------|
| EnCana               | Energy             | Canada        | 47.5%   | 4.6%        | 1.87%        |
| Oracle               | Info Technology    | United States | (6.1%)  | 3.6%        | (0.23%)      |
| Caterpillar Inc.     | Industrials        | United States | 23.9%   | 3.4%        | 0.76%        |
| American Intl Group  | Financials         | United States | 6.9%    | 3.2%        | 0.23%        |
| Kinder Morgan        | Energy             | United States | 16.6%   | 3.1%        | 0.49%        |
| Largest Contributors | GICS Sector        | Region        | Return  | Average Wt. | Contribution |
| EnCana               | Energy             | Canada        | 47.5%   | 4.6%        | 1.87%        |
| Caterpillar Inc.     | Industrials        | United States | 23.9%   | 3.4%        | 0.76%        |
| Qualcomm             | Info Technology    | United States | 35.9%   | 1.9%        | 0.59%        |
| Mitsubishi Corp.     | Industrials        | Japan         | 46.1%   | 1.3%        | 0.56%        |
| Rio Tinto            | Materials          | Europe ex-EMU | 35.4%   | 1.6%        | 0.54%        |
| Largest Detractors   | GICS Sector        | Region        | Return  | Average Wt. | Contribution |
| TJX Companies        | Cons Discretionary | United States | (15.7%) | 1.7%        | (0.31%)      |
| Oracle Systems       | Info Technology    | United States | (6.1%)  | 3.6%        | (0.23%)      |
| Abbott Labs          | Health Care        | United States | (13.0%) | 1.3%        | (0.18%)      |
| Estee Lauder         | Cons Staples       | United States | (11.0%) | 1.0%        | (0.11%)      |
| Air Products & Chems | Materials          | United States | (8.0%)  | 1.2%        | (0.11%)      |

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.

## Current Portfolio Regional Exposure

| Region           | HL Global Equity | MSCI ACW Index |
|------------------|------------------|----------------|
| Emerging Markets | 13.1%            | 6.5%           |
| Japan            | 11.2%            | 9.9%           |
| Canada           | 4.5%             | 3.3%           |
| Cash             | 1.2%             | --             |
| Europe EMU       | 12.8%            | 13.5%          |
| Pacific ex-Japan | 2.5%             | 3.4%           |
| Europe ex-EMU    | 12.1%            | 15.1%          |
| United States    | 42.6%            | 48.3%          |

Over/Under the Benchmark (%)



## Portfolio Characteristics

| Characteristics           | HL Global | ACW    | Characteristics (3 Years) | HL Global | ACW   |
|---------------------------|-----------|--------|---------------------------|-----------|-------|
| Avg Wtd Market Cap (\$B)  | \$48.1    | \$66.2 | Alpha                     | (1.10)    | 0.00  |
| Price/Earnings (Trailing) | 25.8x     | 18.8x  | Beta                      | 1.05      | 1.00  |
| Price/Cash Flow           | 14.2x     | 11.5x  | R-Squared                 | 0.93      | 1.00  |
| Price/Book                | 2.7x      | 2.6x   | Sharpe Ratio              | 0.45      | 0.58  |
| Dividend Yield            | 1.5%      | 2.1%   | Standard Deviation        | 11.94     | 10.94 |
| Return on Equity          | 19.0%     | 19.1%  | Correlation               | 0.97      | 1.00  |
| Number Holdings           | 58        | 2640   | Turnover (Average)        | 38.4%     | ---   |

Source: Wilshire Atlas

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

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

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

## Global Equity Composite Performance Summary 2005 Third Quarter Report

|                   | HL GLBL<br>EQ (Gross) | HL GLBL<br>EQ (Net) | MSCI<br>ACW <sup>1</sup> | MSCI<br>WORLD | Internal<br>Dispersion <sup>2</sup> | Number of<br>Accounts | Composite<br>Assets (\$M) | Firm Assets<br>(\$M) | % Firm<br>Assets |
|-------------------|-----------------------|---------------------|--------------------------|---------------|-------------------------------------|-----------------------|---------------------------|----------------------|------------------|
| 2005 <sup>3</sup> | 12.0%                 | 11.7%               | 7.7%                     | 6.6%          | NA <sup>4</sup>                     | †                     | 83                        | 2077                 | 4                |
| 2004              | 9.0%                  | 8.5%                | 15.8%                    | 15.3%         | †                                   | †                     | 82                        | 1524                 | 5                |
| 2003              | 32.5%                 | 32.0%               | 34.6%                    | 33.8%         | †                                   | †                     | 127                       | 1357                 | 9                |
| 2002              | (19.4%)               | (19.8%)             | (19.0%)                  | (19.5%)       | 0.6                                 | 6                     | 118                       | 1082                 | 11               |
| 2001              | (14.9%)               | (15.5%)             | (15.9%)                  | (16.5%)       | 0.4                                 | 7                     | 152                       | 1154                 | 13               |
| 2000              | 1.3%                  | 0.1%                | (14.0%)                  | (12.9%)       | †                                   | †                     | 108                       | 1392                 | 8                |
| 1999              | 38.9%                 | 38.2%               | 26.8%                    | 25.3%         | †                                   | †                     | 96                        | 1423                 | 7                |
| 1998              | 2.3%                  | 1.6%                | 22.0%                    | 24.8%         | 0.5                                 | 11                    | 179                       | 1372                 | 13               |
| 1997              | 11.0%                 | 10.1%               | 15.0%                    | 16.2%         | 0.6                                 | 15                    | 251                       | 1521                 | 17               |
| 1996              | 17.3%                 | 16.3%               | 13.2%                    | 14.0%         | 0.2                                 | 13                    | 188                       | 1247                 | 15               |
| 1995              | 19.0%                 | 18.0%               | 19.5%                    | 21.3%         | 0.6                                 | 13                    | 147                       | 635                  | 23               |

<sup>1</sup>Benchmark Index; <sup>2</sup>Asset-weighted standard deviation (gross of fees); <sup>3</sup>The 2005 returns reflect the partial period January 1, 2005 through September 30, 2005;

<sup>4</sup>NA used for internal dispersion less than a 12 month period. †Five or fewer accounts

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

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

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

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

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

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

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

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

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