



**Table of Contents**

**Market Environment**  
p. 2

**Portfolio Attribution**  
p. 3

**Outlook** p. 3

**Portfolio Structure**  
p. 6

**Holdings** p. 9

**Characteristics** p. 10

**Market Environment Highlights**

- Markets build on the rebound that began in June.
- Japanese stocks fail to join the rally.
- Good performers benefit from falling interest rates.

**Composite Performance (as of September 30, 2006)**

	Last Quarter	Last 12 Months	3 Years <sup>1</sup>	5 Years <sup>1</sup>	10 Years <sup>1</sup>	Since Inception <sup>1,2</sup>	Volatility <sup>3</sup>
Global Equity (gross)	3.9%	15.9%	16.5%	11.1%	8.0%	10.8%	13.4%
Global Equity (net)	3.8%	15.5%	15.9%	10.6%	7.3%	10.0%	13.3%
MSCI ACW <sup>4</sup>	4.6%	15.1%	18.0%	11.4%	7.7%	7.8%	13.9%
MSCI World	4.6%	14.7%	17.3%	10.5%	7.7%	7.8%	13.9%

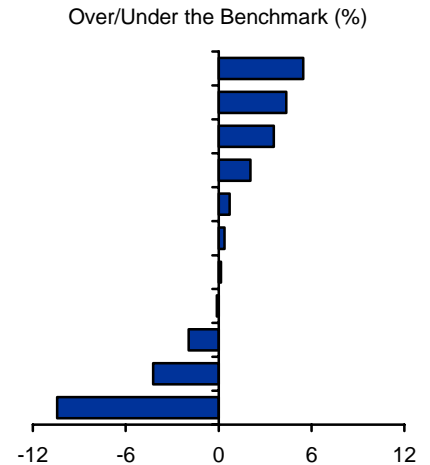
<sup>1</sup>Annualized Returns; <sup>2</sup>Inception Date: November 30, 1989; <sup>3</sup>Annual Standard Deviation; <sup>4</sup>The Benchmark Index  
Please read the above performance in conjunction with the footnotes on the back page of this report.

**Outlook Highlights**

- Spreads on sovereign emerging market debt hover around record low levels.
- Developed markets create environment of less volatility in inflation and interest rates.
- The US experiences plummeting housing starts and decreased mortgage lending.

**Current Portfolio Sector Exposure**

Sector	HL Global	MSCI ACW
Health Care	14.8%	9.3%
Info Technology	15.3%	11.0%
Industrials	13.8%	10.2%
Materials	8.2%	6.2%
Cash	0.7%	--
Energy	10.1%	9.7%
Telecom Services	4.9%	4.7%
Consumer Staples	7.9%	8.0%
Cons Discretionary	9.0%	10.9%
Utilities	--	4.2%
Financials	15.3%	25.8%



**Purchases and Sales**

Purchases	Sector	Sales	Sector
Genentech	Health Care	Kinder Morgan	Energy
eBay	Info Technology	Sanofi-Aventis	Health Care
		TEVA Pharmaceutical	Health Care

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.

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.

## Market Environment

During the third quarter of 2006, the Global Equity Composite rose 3.9%, behind the 4.6% rise of the MSCI All Country World Index. Third quarter saw the markets building on the rebound that began in late June, following spring's severe correction, producing a very strong recovery and propelling some developed market indices near or through new highs for the year. Investors took heart from the US Federal Reserve's declared hiatus from its two-year campaign to increase short-term interest rates (even if the hiatus was due to softer economic data, particularly with regard to US housing starts, which plummeted by a fifth), and also from falling energy and commodity spot prices. Even though the European Central Bank has yet to end its own progression toward tighter monetary policy, European markets in aggregate posted a strong 6% return in the quarter, led by Spain (+12%) and The Netherlands (+11%). For the first time in a long time, the US market outperformed the non-US world, with the S&P 500 Index rising 6%. Emerging markets also continued their rebound from the May carnage, but overall they remained below their early springtime highs. Some large markets fell further, notably the commodity-oriented heavyweights, Brazil and South Africa. Japanese stocks also failed to join the rally, edging down slightly, making the Japanese market one of the worst performers in the year to date.

**US market outperforms non-US markets.**

Market Performance (% Total Return)				
Market	Trailing 12 Months		3Q 2006	
	USD	Local	USD	Local
Canada	12.9	8.5	1.3	1.5
Germany	24.9	18.9	4.8	5.8
Japan	13.2	17.9	-0.7	2.5
United Kingdom	18.8	12.5	4.2	3.2
United States	10.6	10.6	5.4	5.4
Europe EMU	25.1	19.1	6.5	7.5
Europe ex-EMU	20.7	15.1	4.9	4.9
Pacific ex-Japan	13.4	14.7	4.2	3.9
Emerging Markets	20.8	19.7	5.0	5.5

Source: Wilshire Atlas, MSCI (as of September 30, 2006)

Energy and Materials were the two worst performing sectors, followed by Industrials. As spot prices of commodities fell, worries arose in the non-US world that earnings (and earnings prospects) for companies in these groups were more related to peaking cycle margins than to underlying volume growth. Utilities, telecoms, real estate, household products, and food producers were among the best performing groups, beneficiaries of falling long-term interest rates, an attribute that gained prominence as the bond market took the Fed's reticence as a sign of slower growth and a containment of the energy and commodity inflation threat.

**Falling spot prices cause worries.**

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

	Trailing 12 Months	3Q 2006
Consumer Discretionary	12.7	4.6
Consumer Staples	15.4	6.7
Energy	2.9	-3.9
Financials	24.1	6.7
Health Care	10.8	6.6
Industrials	16.2	0.6
Information Technology	8.5	6.8
Materials	23.0	0.2
Telecom Services	12.8	8.4
Utilities	20.1	8.7

Source: Wilshire Atlas, MSCI (as of September 30, 2006)

### Portfolio Attribution

Performance this quarter was less than one percentage point behind the benchmark, explained primarily by the lagging performance of our US holdings, although their performance led the US benchmark for the year. Our allocation to emerging markets again was additive, due entirely to very good stock selection, with our stocks returning half again as much as the Emerging Markets Index, or the return of the portfolio benchmark. This is encouraging because it means that our emerging markets holdings have outperformed the Emerging and Global Markets Indices in both the downdraft of the second quarter and the upswing of the third. From an industry sector viewpoint, good stock selection in retailing, real estate and telecom services was offset by poor selection within capital goods, technology hardware, and materials.

### GROWTH TRAILS VALUE

Style effects were pronounced this quarter, with the growth half of the benchmark trailing the value half by almost 300 basis points, making the performance gap of growth behind value almost 700 basis points for the year to date. [We began to suspect that the growth indices are increasingly influenced by the long run of prosperity and earnings growth enjoyed by the Energy and Materials sectors over the past five or more years. We noted that at least one prominent Index arbiter gave the Energy sector a weighting in its *growth* Index that was triple the weighting in its *value* Index.] Quality factors previously highlighted in these pages, had no explanatory power this quarter.

### Outlook

In September of 2005, we wrote: “Markets are priced for low risk...risks are up...prices are wrong.” Markets did experience a substantial degree of increased (downside) stock market volatility, a large increase in energy prices (now only partially unwound), further and broadened interest rate increases, as well as the blow up of a

***We have good stock selection within emerging markets.***

couple of hedge funds in the process. And yet, non-US equity markets (emerging and developed alike) have returned nearly 20% in US Dollars within the last twelve months; with the US market returning just over half that. More than one developing country saw its macroeconomic imbalances (current account deficits, budget deficits, debt, unstable politics) exposed by market forces (e.g., Turkey, South Africa, Hungary). Yet, the spreads on sovereign emerging market debt, albeit briefly expanding in fright over Emerging Markets' stock market declines, have returned to hover just above the record low levels over US Treasuries that they reached just before the May turmoil began. We are impressed by the robustness and resilience of the emerging economies and the capital markets that represent them, although that is a message that we have repeatedly stressed in explaining our very positive investment stance toward them over the past few years.

Risks, on a secular basis in most economies, have receded over the past twenty-five years. Developed markets, having slowly tamed the inflation beast, have also been able to dampen the swings of both monetary and fiscal responses to economic cycles, creating an environment of much lower volatility in both inflation and interest rates. In parallel, economic liberalization in less-developed economies has allowed higher returns to investment and fostered greater capital formation, which in turn creates higher aggregate growth rates. The World Bank is now publishing its measures of business friendliness of national and provincial governments, which will prompt economies to compete in demonstrating excellence or improvements in that category, a critical one for attracting capital flows and the growth it finances.

### CONSUMER SPENDING FALTERS

As we wrote last year, economic risks have not receded to the vanishing point. On the contrary, they are present and growing, both from a cyclical standpoint and from the standpoint of which risks are priced or expected. The arrival of weaker US consumer spending is upon us, with plummeting housing starts and decreased mortgage lending signaling sated or debt-constrained households. This situation has broad implications for exporting economies abroad, particularly Asia, which has relied upon the US as an economic outlet for the massive increase in productive capacity and employment over the last eight years. Moreover, the sacking (and jailing) of a top Shanghai government official last month signals the seriousness with which the Chinese government is bent on tackling both corruption and the flouting of its directives to slow fixed investment growth in that economy. With the potential slowing of Chinese capital investment and the waning of the housing market as a stimulant to the US economy and its voracious import appetite, the usual routes to revenue growth for companies everywhere are shrinking.

Academics have demonstrated, however, that economic growth has no statistical correlation to stock market performance. One reason is valuation — stock prices are meant to reflect today's value of all future cash flows, and hence the *long-term* ability to earn returns on capital investments, along with changes to the rate at which those returns get discounted back to the present, factor more heavily in determining stock

**The robustness and resilience of emerging economies impress us.**

**The Chinese government is determined to tackle corruption.**

**Michael Porter joins  
with the World  
Economic Forum.**

prices than economic growth. Bond yields have fallen as the central banks have confirmed investors' impression that inflation will be contained, and further monetary tightening may be unnecessary. This makes all future cash flows, and thus all stocks, more valuable. The more subtle point is that some companies' ability to earn returns (on *existing* capital, for *current* shareholders — by *reinvesting* earnings) in the future is both more durable and more predictable than for others. As cyclical worries mount, the value of these companies' cash flows, i.e., their stock prices, will be highly prized.

As devotees of Michael Porter's work on the competitive structure of industries, we are intrigued by his decision to join with the World Economic Forum and apply his framework to analyze the competitive structure of entire countries, with the aim of identifying the ability of countries to sustain prosperity, labeling that outcome as the 'ultimate expression of competitiveness.' His *Business Competitiveness Index* incorporates factors such as domestic rivalry (intensity of local competition and effective antitrust policy), financial markets (availability of venture and equity capital), and innovative capacity (university/industry research collaboration, company spending on research and development, quality of scientific research institutions).

#### US COMPANIES SCORE HIGH

Away from the headlines about budget and trade imbalances, options and accounting scandals, and indebted consumers, we note that the US ranks first among the 121 countries analyzed in terms of these more durable measures of business environment. As we have noted in the past, the US boasts a larger percentage of companies that score highly on objective measures of 'quality', such as high ROA, high margins, low leverage, low volatility of returns, etc., than any other country. It seems unlikely that these two characterizations of US business, one from business academia and the other from investment strategy, are unrelated. In our quest to invest in sustainable growing businesses, we conclude that the US must be a fertile hunting ground. With pessimism running high regarding prospects for US investment returns, we are closing the door (at least for the time being) on our long-held negative stance on US stocks. Our objections about transparency, management, corporate governance, and valuation have, for the most part, been addressed by reform or relative price changes.

**Our quest to invest in  
sustainable growing  
businesses leads us to  
US companies.**

Last quarter, we mused about an inflection point for investor behavior with respect to the balance between greed and fear. So far, we have seen only muted evidence of this point, chiefly from the quarter of rising fear that the energy and commodity industries are merely ending another blow-off cycle similar to ones they have seen in the past. But those past blow-offs have normally ended in a bust because of a financial crisis of one sort or another that created an accompanying contraction of credit and a recession. At present, there is no sign of that occurring, not even the debt spreads of US banks (facilitators of the US housing 'bubble') have widened very far. The only certainty is that credit losses, like debt spreads in the corporate bond markets globally, are just above record lows, with a huge asymmetry between the room to improve and the room to deteriorate.

## Portfolio Structure

Perhaps policy makers, economies and markets can thread these various needles without mishap; as noted, we are impressed by the robustness and resilience of capital markets. It still seems imprudent to us, however, to rely on that outcome. We will continue to 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.

We have essentially closed the substantial underweight of US equities that we have carried consistently since the fourth quarter of 2001, with our holdings currently hovering near benchmark levels. Portfolio purchases this quarter consisted solely of US companies, following the incremental increase of US holdings in prior quarters. During the five years that we have been negative about US stocks, the US market cap has shrunk relative to the non-US, as the 6.8% return of the US Index has lagged the 10.5% return of developed non-US markets and the 28.9% of emerging markets. We added to our holdings in **Automatic Data Processing, 3M Company, Coca-Cola, Exxon Mobil, General Electric, Medtronic, and Viacom**. We also added new holdings to the portfolio: **Genentech** (which we previously owned in 2002-2003) and **eBay**, the Internet auction, payments (Pay Pal), and telephony company (Skype).

We remain significantly underweight Financials, wary of the asymmetry of risk associated with where developed countries are in their credit cycles. We are, however, encouraged by the expansion of credit growth in a number of developing countries where banks we own do business. Eventually, this expansion will help to replace US consumption growth with that of the large middle class populations emerging in those countries, although perhaps not in time to compensate for a US slowdown in the short run. Korea's **Kookmin Bank** has recently experienced a rather severe credit cycle, arriving at the upside of that cycle enlarged through the absorption of other companies whose abilities to withstand the downside of the cycle were not as strong. **Standard Chartered** has also grown by acquisition in Korea as the cycle has begun to improve, but it is its Grindlay's Bank subsidiary in India that impresses us as it continues to deliver rapid loan and deposit growth, shrugging off local competition and stock market volatility. Austria's **Erste Bank**, a lender in Central Europe, is acquiring a bank from the Romanian government, allowing it to extend its lending franchise to one of the most populous, but least developed, economies in the region. We believe that financial services are key to the long-term growth of per capita income and spending in emerging markets, and our holdings in Financials are heavily skewed in this direction.

The mobile phone business is another avenue of access to emerging market consumers. As latecomers to the mobile party and lacking well developed fixed-line networks, emerging markets service providers have been able to exploit the amortized technology of prior waves of innovations that are no longer current in the most developed mobile markets. They have proven to be adept at rapidly adding customers, continuously raising usage, and driving costs down through scale investments. We own three mobile

**Our focus is on the competitive structure of industries.**

**We are encouraged by the expansion of credit growth in some developing countries.**

Bold indicates companies held in the portfolio during the quarter. The percentage of currently held positions 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.

***We value the high return and low volatility of health care companies.***

***Asian companies dominate our holdings in Information Technology.***

phone service companies that dominate their home markets. **China Mobile**, with 60%+ market share, is managing to achieve substantial profit growth in the Chinese market. Mexico's **America Movil**, maintains a profitable business in Brazil alongside its Mexican core and is reinvesting its ample cash flows elsewhere in Latin America. **Orascom Telecom** is the mobile service provider in Algeria, Egypt, and Pakistan. While our holdings in Telecom Services match the benchmark in quantity, they exclude any holdings in fixed-line telecom companies from developed markets, as we see multiple substitution and rivalry threats to their competitive position, from wireless and from the Internet (VOIP), as well as from their existing competitors who have large fixed (or sunk) costs to cover.

We are overweight health care companies. We value the high return, low volatility, and financial strength of these businesses, believing that the market has become so preoccupied with political pressures and the generic threat to drugs with expiring patents that the potential long-term growth derived from the sustained research and development efforts of many companies and the aging population is incorrectly priced. A good example is Swiss eye care specialist **Alcon**, a producer of optical pharmaceuticals. Alcon holds a global position in the manufacture of surgical equipment for ophthalmologists, including such new products as replacement lenses for cataract patients. Its future growth will be augmented by the increased incidents of eyesight problems presented by the growing over-60 demographic, which will be a certain tailwind for future sales in the US and most developed and developing countries. Alcon's stock, however, fell by a third from its high earlier this year, as growth estimates were being reined-in over uncertainties about short-term trends in the intraocular lens segment. We added to holdings of the medical device company **Medtronic**, after worries that reimbursement for heart defibrillators would not foster as broad or rapid a take-up as previously hoped. We believe that the company's revenue in the long term will be supported by the demographics and innovation that will result in a steady stream of new products. In the biotech area, we have owned **Qiagen**, a supplier of consumables for separation and purification of nucleic acids used in microbiological research, along with diagnostic equipment that speeds experimentation. This quarter, we once again own shares of **Genentech**, a diversified biotech drug company. Genentech has grown into its valuation as the stock has languished for some time, and its broad platform for development, even of competitors' research discoveries, remains very attractive

#### INFORMATION TECHNOLOGY REMAINS PROFITABLE

We are overweight Information Technology, favoring companies with consistent track records of product innovation, high profitability, and demonstrated ability to grow and remain profitable in cyclical downturns. The holdings are dominated by Asian (Japanese, Korean, Taiwanese) companies that are market leaders in their segments, demonstrating consistent or improving attention to shareholder returns. **Samsung Electronics**, a producer of flat panel screens and memory (DRAMs), and **Analog Devices**, a producer of digital-to-analog technology, are well placed to benefit from the

explosion of new consumer electronics devices. **Qualcomm** and **Hirose Electric** are benefiting from long-term trends in wireless telecommunications (continued increases in complexity), while **Cisco**'s networking infrastructure equipment will most likely be required to keep up with the explosion of video data that is increasingly slinging around the Internet. **Keyence** and sole European tech holding **Dassault Systemes** boast very high margins and continuing growth, both supplying corporate engineers with productivity-enhancing solutions.

We retain a full weighting in the Energy sector, which was costly this quarter. Our holdings are concentrated in companies with growing volumes in geographies outside the Middle East (**EnCana** of Canada); companies whose business is to aid in the discovery and development of new reserves (**Schlumberger** of the United States); or companies involved in creating the alternative sources of energy that will afford less reliance on Middle Eastern oil supplies (gas-or coal-to-liquid pioneer **Sasol** of South Africa). We sold our holding in the US pipeline company **Kinder Morgan**, following the bid by management to take the company private, reinvesting part of the proceeds into **Exxon Mobil**. As we recognize the difficulties of forecasting oil and gas price, we have avoided trying to 'trade' this position, instead focusing on the business growth and management strategy for long-term returns, along with, of course, the strategic focus of a counterweight to Middle Eastern turmoil, which we believe is never **not** a risk.

**Our full weighting in the Energy sector cost us this quarter.**

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Li & Fung	Hong Kong	2.6	Trading company
	LVMH	France	1.1	Luxury goods group
	Pearson	United Kingdom	1.4	Education & publishing company
	TJX Companies	United States	1.4	Off-priced name brand stores
	Viacom	United States	2.6	Media & entertainment group
Consumer Staples	Coca-Cola	United States	1.2	Soft drinks company
	Colgate-Palmolive	United States	2.4	Consumer products company
	L'Oreal	France	2.4	Personal care products manufacturer
	Nestlé	Switzerland	2.0	Global food company
Energy	EnCana	Canada	2.3	Producer of natural gas
	Exxon Mobil	United States	3.1	Global oil company
	Sasol	South Africa	1.4	Refined petroleum products producer
	Schlumberger	United States	3.3	Oil services company
Financials	American Int'l Group	United States	2.7	Insurance holding company
	Bankinter	Spain	1.3	Small commercial bank
	Erste Bank	Austria	1.0	Savings & retail bank
	Kookmin Bank	South Korea	1.0	Retail-oriented bank
	Nomura Holdings	Japan	1.0	Brokerage firm
	Standard Chartered	United Kingdom	2.4	Multinational commercial bank
	Sumitomo Realty & Dev	Japan	3.1	Real estate developer
	Swiss Re	Switzerland	1.2	Reinsurer
	Wells Fargo	United States	1.7	Super regional bank
Health Care	Abbott Labs	United States	2.1	Health care products & pharmaceuticals producer
	Alcon	Switzerland	1.5	Eye care company
	Genentech	United States	1.0	Therapeutic biotechnology
	Medco Health Solutions	United States	2.2	Pharmaceutical benefits manager
	Medtronic	United States	2.2	Medical devices company
	Novartis	Switzerland	1.3	Multinational life sciences company
	Qiagen	Germany	2.2	Laboratory equipment supplier
	Roche Holding	Switzerland	1.2	Pharmaceutical company
	Synthes	Switzerland	0.9	Medical device company
Industrials	3M Co.	United States	2.9	Industrial technology firm
	Caterpillar	United States	2.6	Producer of earthmoving equipment
	China Merchants	China	2.5	Global port operator
	Emerson Electric	United States	3.0	Global industrial & electronics controls company
	Fanuc	Japan	0.8	Machine tool maker
	General Electric	United States	1.9	Diversified products & services company
Information Technology	Analog Devices	United States	1.7	Analog mixed-signal computer chip maker
	Automatic Data Proc	United States	1.2	Payroll and tax-filing processor
	Cisco Sytems	United States	2.8	Internet networking company
	Dassault Systemes	France	1.4	CAD/CAM software designer
	eBay	United States	1.1	On-line marketplace
	Hirose Electric	Japan	1.1	Manufacturer of electrical connectors & components
	Keyence	Japan	2.2	Detection & measuring control equipment maker
	Qualcomm	United States	1.4	CDMA wireless communications technology firm
	Samsung Electronics	South Korea	1.4	Electronic equipment maker
	Yokogawa Electric	Japan	1.0	Industrial process control equipment company
Materials	Air Liquide	France	1.3	Industrial gas company
	Air Products & Chemicals	United States	1.0	Industrial gas company
	JSR	Japan	2.1	Specialty chemicals manufacturer
	Praxair	United States	1.3	Industrial gas company
	Rio Tinto	United Kingdom	2.5	Diversified mining company
Telecom Services	America Movil	Mexico	1.4	Cellular service provider
	China Mobile	China	2.7	Cellular service provider
	Orascom Telecom	Egypt	0.9	Cellular services provider

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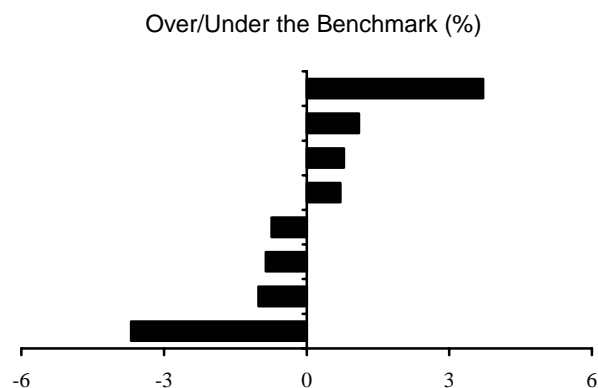
## Contributors to Returns

Largest Holdings	GICS Sector	Region	Return	Average Wt.	Contribution
Sumitomo Rlty & Dev	Financials	Japan	19.4%	4.3%	0.78%
Schlumberger	Energy	United States	(4.5%)	3.4%	(0.16%)
EnCana	Energy	Canada	(11.1%)	3.2%	(0.29%)
Exxon Mobil	Energy	United States	9.9%	3.0%	0.23%
Emerson Electric	Industrials	United States	0.6%	3.0%	0.02%
Largest Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
Sumitomo Rlty & Dev	Financials	Japan	19.4%	4.3%	0.78%
China Mobile	Telecom Services	Emerging Markets	25.2%	2.2%	0.51%
L'Oreal	Cons Staples	Europe EMU	24.0%	2.3%	0.50%
Cisco Systems	Info Technology	United States	17.8%	2.7%	0.47%
Qiagen	Health Care	Europe EMU	16.0%	2.1%	0.32%
Largest Detractors	GICS Sector	Region	Return	Average Wt.	Contribution
Caterpillar	Industrials	United States	(11.3%)	2.8%	(0.34%)
JSR Corp.	Materials	Japan	(12.5%)	2.3%	(0.32%)
EnCana	Energy	Canada	(11.1%)	3.2%	(0.29%)
Keyence	Info Technology	Japan	(9.8%)	2.3%	(0.25%)
Rio Tinto	Materials	Europe ex-EMU	(10.0%)	2.2%	(0.25%)

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## Current Portfolio Regional Exposure

	HL Global Equity	MSCI ACW Index
Emerging Markets	11.2%	7.5%
Japan	11.3%	10.2%
United States	46.9%	46.1%
Cash	0.7%	--
Europe ex-EMU	14.3%	15.1%
Pacific ex-Japan	2.6%	3.4%
Canada	2.3%	3.3%
Europe EMU	10.7%	14.4%



## Portfolio Characteristics

Characteristics	HL Global	MSCI ACW	Characteristics (3 Years)	HL Global	MSCI ACW
Avg Wtd Market Cap (\$B)	\$66.8	\$68.9	Alpha	(1.73)	0.00
Price/Earnings (Trailing)	20.6	17.1	Beta	1.07	1.00
Price/Cash Flow	15.4	11.6	R-Squared	0.92	1.00
Price/Book	3.8	2.6	Sharpe Ratio	0.40	0.50
Dividend Yield	1.4%	2.2%	Standard Deviation	9.95	8.55
Return on Equity	23.2%	20.5%	Correlation	0.96	1.00
Number Holdings	55	2768	Turnover (Average)	30.3%	---

Source: Wilshire Atlas (Run Date October 4, 2006); Harding Loevner Global Equity Composite

*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.

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 2006 Third Quarter Report

	HL GLBL EQ (Gross)	HL GLBL EQ (Net)	MSCI ACW <sup>1</sup>	MSCI WORLD	Internal Dispersion <sup>2</sup>	Number of Accounts	Composite Assets (\$M)	Firm Assets (\$M)
2006 <sup>3</sup>	10.7%	10.4%	11.3%	11.2%	NA <sup>4</sup>	†	96	3918
2005	17.2%	16.8%	11.4%	10.0%	†	†	85	2562
2004	9.0%	8.5%	15.8%	15.3%	†	†	82	1524
2003	32.5%	32.0%	34.6%	33.8%	†	†	127	1357
2002	(19.4%)	(19.8%)	(19.0%)	(19.5%)	0.6	6	118	1082
2001	(14.9%)	(15.5%)	(15.9%)	(16.5%)	0.4	7	152	1154
2000	1.3%	0.1%	(13.9%)	(12.9%)	†	†	108	1392
1999	38.9%	38.2%	26.8%	25.3%	†	†	96	1423
1998	2.3%	1.6%	22.0%	24.8%	0.5	11	179	1372
1997	11.0%	10.1%	15.0%	16.2%	0.6	15	251	1521
1996	17.3%	16.3%	13.2%	14.0%	0.2	13	188	1247

<sup>1</sup>Benchmark Index; <sup>2</sup>Asset-weighted standard deviation (gross of fees) <sup>3</sup>The 2006 returns reflect the partial period January 1, 2006 through September 30, 2006;

<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 47 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 these Indices.

Harding, Loevner Management, L.P. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). 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. Composite performance is presented gross of foreign withholding taxes. Past performance is not indicative of future results. Additional information regarding the policies for calculating and reporting returns is available upon request.

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.

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

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