



Composite Performance (%) For Periods Ending September 30, 2008

|   | Last Quarter | Last 12 Months | Three Years <sup>1</sup> | Five Years <sup>1</sup> | Ten Years <sup>1</sup> | Since Inception <sup>1,2</sup> | Volatility <sup>3</sup> |
|---|--------------|----------------|--------------------------|-------------------------|------------------------|--------------------------------|-------------------------|
| HL Global Equity (gross of fees)          | (14.56)      | (22.49)        | 4.86                     | 9.47                    | 7.48                   | 9.56                           | 13.24                   |
| HL Global Equity (net of fees)            | (14.67)      | (22.85)        | 4.33                     | 8.91                    | 6.84                   | 8.79                           | 13.15                   |
| MSCI All Country World Index <sup>4</sup> | (16.51)      | (26.47)        | 1.79                     | 8.53                    | 4.78                   | 6.45                           | 13.75                   |
| MSCI World                                | (15.15)      | (25.62)        | 1.27                     | 7.86                    | 4.26                   | 6.35                           | 13.63                   |

<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. Past performance is not indicative of future results.

Sector Exposure (%)

| Sector             | HL Gbl | MSCI ACW | Over/Under The Benchmark |
|--------------------|--------|----------|--------------------------|
| Health Care        | 21.2   | 9.6      | 11.6                     |
| Info Technology    | 20.3   | 10.6     | 9.7                      |
| Cons Staples       | 11.2   | 9.7      | 1.5                      |
| Cash               | 1.2    | --       | 1.2                      |
| Industrials        | 11.1   | 10.5     | 0.6                      |
| Energy             | 11.2   | 12.2     | (1.0)                    |
| Materials          | 5.4    | 7.2      | (1.8)                    |
| Telecom Services   | 2.7    | 5.1      | (2.4)                    |
| Cons Discretionary | 5.4    | 8.7      | (3.3)                    |
| Utilities          | 0.0    | 4.7      | (4.7)                    |
| Financials         | 10.3   | 21.7     | (11.4)                   |

Market Review & Outlook

- Worst quarterly performance for global markets since 2002.
- Stocks of financially-strong, high-quality growth companies should deserve a premium.
- Dividend yields on equities surpass yields on government bonds in many developed markets.

Portfolio Highlights

- Large exposure to Health Care, emphasizing companies with high margins and low cyclicity.
- Looking to find bargains in hard-hit sectors, seeking durable growth franchises.
- Actively seeking opportunities in emerging markets following steep declines.

Regional Exposure (%)

| Region             | HL Gbl | MSCI ACW | Over/Under The Benchmark |
|--------------------|--------|----------|--------------------------|
| Emerging Markets   | 12.7   | 10.1     | 2.6                      |
| Europe ex-EMU      | 15.3   | 13.6     | 1.7                      |
| Cash               | 1.2    | --       | 1.2                      |
| Pacific ex-Japan   | 5.1    | 3.9      | 1.2                      |
| Japan              | 9.9    | 9.0      | 0.9                      |
| Other <sup>1</sup> | 0.7    | --       | 0.7                      |
| Canada             | 2.4    | 4.1      | (1.7)                    |
| Europe EMU         | 10.8   | 14.1     | (3.3)                    |
| United States      | 41.9   | 45.2     | (3.3)                    |

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<sup>1</sup>Includes countries outside the benchmark where some holdings are incorporated.

Sector and region allocations are supplemental information only and complement the fully compliant Global Equity Composite GIPS presentation.

## Performance Summary

The Global Equity Strategy Composite lost 14.6% in the quarter, and has lost 21.5% year to date. The Composite outperformed the MSCI All Country World Index, which fell 16.5% in the quarter, and has declined 25.2% so far this year.

## Market Review

Global markets turned in the worst quarterly performance since the third quarter of 1990 and the third quarter of 2002—both periods when armed conflict with Iraq appeared imminent—as the US mortgage crisis infected other credit sectors and claimed new victims, culminating in September with the nationalization of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, the US Treasury rescue of insurance giant **AIG**, and the emergency merger of Merrill Lynch, Washington Mutual Savings, and Wachovia Bank. The Lehman default at a stroke doubled the credit losses recognized so far by financial institutions around the world from this mortgage crisis. Panic ensued in the

| Market Performance (%) |                    |         |
|------------------------|--------------------|---------|
| Market                 | Trailing 12 months | 3Q 2008 |
|                        | USD                | USD     |
| Canada                 | (18.4)             | (21.7)  |
| Germany                | (27.7)             | (20.6)  |
| Japan                  | (26.9)             | (17.6)  |
| United Kingdom         | (31.4)             | (21.0)  |
| United States          | (21.8)             | (9.0)   |
| Europe EMU             | (31.1)             | (21.2)  |
| Europe ex-EMU          | (30.0)             | (20.3)  |
| Pacific ex-Japan       | (34.6)             | (25.0)  |
| Emerging Markets       | (33.1)             | (26.9)  |
| MSCI ACW Index         | (26.5)             | (16.5)  |

Source: Wilshire Atlas; MSCI Barra (as of September 30, 2008)

| Sector Performance (%) of the MSCI ACW Index |                    |         |
|--|--------------------|---------|
| Sector                                       | Trailing 12 months | 3Q 2008 |
|  | USD                | USD     |
| Consumer Discretionary                       | (29.5)             | (10.2)  |
| Consumer Staples                             | (8.1)              | (2.5)   |
| Energy                                       | (18.4)             | (29.3)  |
| Financials                                   | (35.9)             | (10.6)  |
| Health Care                                  | (12.1)             | (2.7)   |
| Industrials                                  | (31.7)             | (18.7)  |
| Information Technology                       | (27.8)             | (15.9)  |
| Materials                                    | (33.5)             | (36.7)  |
| Telecom Services                             | (27.7)             | (16.7)  |
| Utilities                                    | (16.1)             | (18.0)  |

Source: Wilshire Atlas; MSCI Barra (as of September 30, 2008)

short-term money markets, after the Reserve Fund, the US' largest short-term money market fund, was forced by losses on Lehman debt to redeem shares below their ostensibly fixed one-dollar NAV ('breaking the buck'), and to restrict redemptions from sister funds. The Lehman default also bankrupted the private sector bank deposit insurance scheme in Germany, leading to capital calls on the surviving banks there. This, along with the near failure of AIG, which had large derivative liabilities to numerous European banks, led to deposit runs on banks from Ireland to India. Governments arranged the rescue of a number of major financial institutions, including the HBOS (UK), Fortis (Benelux), Dexia (France), Hypo Real Estate (Germany), and—lest we forget—Glitnir (Iceland). The quarter ended on a panicked note, with the Treasury's \$700 billion rescue program failing the first attempt at passage by the US House of Representatives, as ideological and regional fault lines became exposed. There will have been further dramatic news by the time this reaches your mailbox.

Debt markets were in turmoil, with US Treasury and other government 'risk-free' paper so ardently pursued in the flight to quality that stories emerged of investors accepting negative interest rates to park cash in T-Bills. With banks hoarding cash as depositors fled, the London-centered inter-bank lending market froze, with LIBOR interest rates reaching unprecedented spreads over Treasury Bills (the "TED spread"). Financial jargon aside, banks have rapidly become unwilling to lend to one another—normally considered a low risk activity—as distrust has gripped the global financial system. Withdrawals from money market funds led to a dramatic shrinkage of commercial paper issuance, causing chain-reaction liquidity issues all along the supply lines of industry. Spreads for longer-term debt widened since the beginning of the quarter in accordance with the debt's perceived riskiness, with investment-grade corporate bond spreads widening from around 100 to 176 basis points, while the JPMorgan Emerging Markets Bond Index spread (EMBI) soared from 298 to 414 basis points.\*

While the headlines focused on the financial crisis, market action was also pronounced in the non-financial sectors as investors increasingly recognized that hopes of growth in emerging economies remaining resilient in the face of a US slowdown (the "de-coupling" argument) would not be realized. Energy, commodity, and capital goods stocks—associated with fixed-asset investment in China and other developing countries—were dumped, while investors sought relative safety in the non-cyclical sectors of Health Care and Consumer Staples. Financials actually managed to perform better than the market, with the known (or, more accurately, the *presumed*) survivors among the largest institutions enjoying price rises in the quarter.

## Portfolio Attribution

Although down in absolute terms, the portfolio has delivered good relative returns in this downturn, due primarily, we believe, to our

\* Source: Bloomberg. Run date: October 13, 2008.

Bold indicates companies held in the portfolio during the quarter. The portfolio is actively managed; therefore holdings shown may not be current. They should not be considered recommendations to buy or sell any security. A complete list of holdings is available on page six of this report.

practice of investing in companies with a high degree of financial strength, strong competitive positions, capable management, transparency, and growth opportunities.

The portfolio benefited from having more than twice the benchmark weight in Health Care. Companies in this sector generally enjoy high margins, low cyclicality of returns, and strong free-cash-flow generation—all valuable attributes in a rising risk environment. Our holdings in the Energy, Materials, and Telecom Services sectors, and in the pharmaceuticals and biotech, capital goods, tech hardware, and real estate industry groups all performed better than their sectors or industries overall. Our longstanding underweight (relative to the benchmark) to Financials hurt performance as the sector outperformed the market. Results within Consumer Staples were hurt by our holdings in food-ingredient producers (i.e., agricultural commodity processors **Bunge** and **Olam International**). We also suffered from our holding in **AIG**, which had to be rescued by the US government due to the company's guarantees of mortgage-related securities, and from **Monex Group**, the Japanese online-brokerage firm.

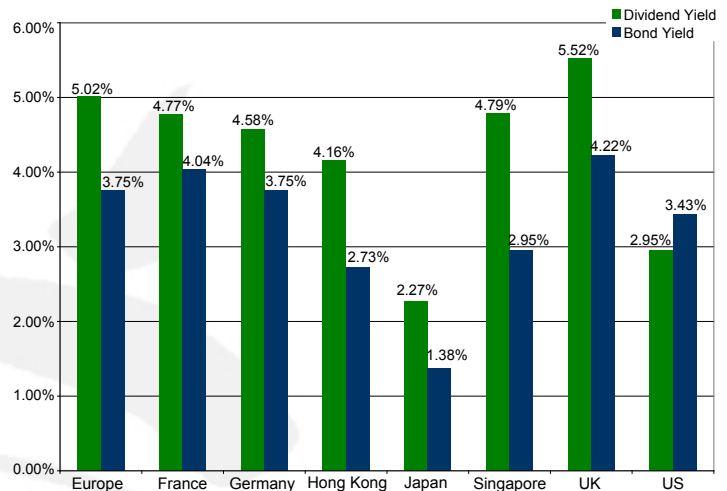
In terms of investment style, 'growth' indices underperformed 'value' indices in nearly all major markets. As we have opined in the past, we believe the long period of rising profitability for energy and commodity companies, along with their strong stock price performance heretofore, has led the index purveyors to assign many to their 'growth' indices, which goes far to explain this phenomenon. From a quality standpoint, objective (but backward-looking) indicators of quality, such as profitability, margins, asset returns, leverage, etc., had no consistent predictive power for performance this quarter, with the exception of return-on-equity volatility. The latter is partly a measure of cyclicality, and given the retreat from stocks geared to the global economic cycle, this should not surprise. More subjective quality factors, such as management quality, have been important differentiators for performance among companies, especially within the Financials sector, as well as among the various industry sectors.

## Outlook

The severe declines that stock markets have sustained over the past twelve months leave prices at very attractive levels. Most valuation measures and risk aversion indicators are reaching the type of extreme levels akin to those found near the bottom of previous bear markets. Two in particular stand out to us:

- 1) Dividend yields on equities are now higher than yields on government bonds in nearly all developed markets, including Japan, most European markets, as well as Hong Kong and Singapore. In the US, equity yields are above the front end of the Treasury yield curve, so relative yield spreads are rising closer to those found in non-US markets.

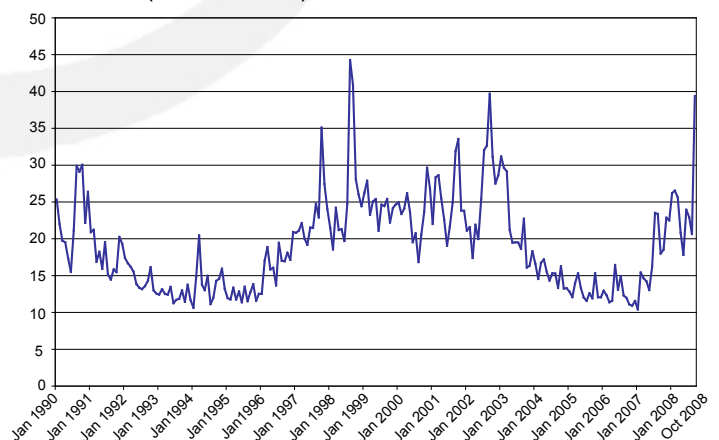
## Dividend Yields vs. Bond Yields †



The story has been different in emerging markets, where government bond yields have risen as portfolio liquidation has overwhelmed capital-market liquidity, but even there, dividend yields on offer have risen significantly. Given that dividends have a tendency to grow over time, dividend-paying equities are an increasingly attractive alternative to Treasury bonds for long-term investors. Such opportunities have been rare since the mid-1950s, when US and European dividend yields crossed below government bond yields for the first time since the Great Depression.

- 2) Measures of risk aversion (or fear), such as the VIX option-implied volatility index, have not just risen from the record lows seen in 2005 and 2006, but have breached prior peaks—often associated with market bottoms. Meanwhile, the liquidity risk meter, the "TED spread" mentioned earlier that is a measure of risk aversion between banks, has exceeded the high set 20 years ago during the 1987 crash.

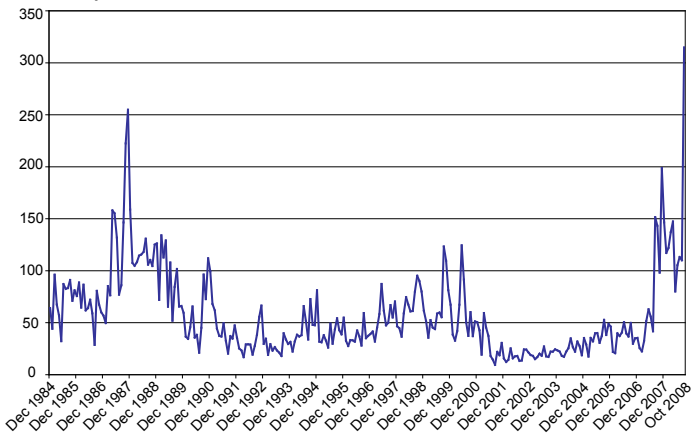
## VIX Index ("Fear Index") ‡



† Source: Bloomberg. Run date: October 6, 2008.

‡ Source: Bloomberg. Run date: October 14, 2008.

## TED Spread †



That said, we have little doubt that the global financial crisis and the political dithering over how to solve it is now having severe effects on the underlying economy. It is important to remember that the current liquidity crisis has its roots in questions over bank solvency—investors are increasingly unwilling to rollover short-term deposits and loans because they fear that financial institutions do not have enough capital to absorb losses on loans, securities and derivatives positions, especially with major derivative counterparties defaulting. Those worries in turn stem from the sharp and as-yet-unchecked decline in value of the biggest category of collateral for bank loans everywhere: housing. This decline is occurring not only in the US, but also in other large economies, including the UK, Australia, and Spain, and probably also in property markets not commonly labeled “bubbles,” such as China. The solvency questions that brought on the crises have radically and permanently changed the face of the banking industry in both the US and the UK. Similar change is likely in continental Europe, where banks have become even more dependent on short-term wholesale funding than US banks (apart from US investment banks). We are not yet able to predict the consequences for markets of that change, with one exception: we are quite willing to predict the end of the era of cheap and easy credit.

If the resumption of normal lending will take longer than usual, it must follow that business activity itself will slide deeper, and take longer to recover, than in most previous cycles. At the most basic level, many smaller companies and consumers are experiencing almost total denial of credit, as banks take the dangerous step from tightening credit standards to conserving liquidity. Whereas bank loan officers have been increasingly unwilling to lend to less creditworthy borrowers ever since rising sub-prime delinquencies became apparent, they now seem unwilling or unable to extend new credit to anyone, as they scramble to reduce their short-term liabilities. On a broader scale, the higher interest rates charged to all non-sovereign borrowers will hurt the profit margins of any company that does borrow, even as revenues decline as orders are cancelled due to uncertainty or financial hardship amongst customers. Even provincial (or state) and municipal governments are experiencing severe difficulties in borrowing. This condition, normally self-limiting as the credit markets ease with central-bank liquidity

injections, will last longer this time because of the severe damage inflicted on the financial system by the derivatives and securitizations that have brought both leverage and obscure linkages into the equation, sowing both surprise losses and institutional mistrust.

Under these circumstances, companies that have cash on hand, whose businesses generate free cash, or whose earnings are less cyclical than most, will thrive. At the extreme, they will be able greatly to improve their competitive positions by acquiring competitors who were less prudent than they, such as we have seen with **Nomura Group’s** acquisition of Lehman Brothers Asian and European businesses, with **Wells Fargo’s** proposed acquisition of Wachovia Bank, or Santander’s opportunistic acquisition of two savings banks in the UK, and just recently with Allianz’ stake in US blue chip Hartford Insurance. In time, this will take place in many industries, not just among financials. We expect to see the returns for high-quality companies to continue to surpass those of low quality, as the crisis plays out in the real economy.

The moves by monetary authorities to address at all costs the systemic breakdown in the global financial system are a key signal for us. We are looking for bargains in the rubble of markets. In keeping with other economic downturns precipitated by financial crises, this one does not seem likely to be a short-lived downturn. Growth will be scarce in the world as the effects of financial de-leveraging work their way through the global economy. At the same time, our focus on financial strength, on sustainable profit margins, and on high (un-levered) returns on capital should continue to be a source of advantage, as much within sectors as between sectors. The market has already begun to differentiate between companies with sustainable earnings—such as those in Health Care or Consumer Staples—from those where the illusion of sustainability has been created by years of globally-synchronized economic growth. The ripple effects of the global de-leveraging now underway are unpredictable, and the stocks of companies that exhibit financial strength and transparency deserve a premium.

*“Our focus on financial strength, on sustainable profit margins, and on high (un-levered) returns on capital should continue to be a source of advantage.”*

Our focus will include companies in emerging markets, where we are now seeing the denunciation of “decoupling” as myth. While quick to defend the long-term merits of many developing economies, we have been steadfast skeptics of the view that they could escape the consequences of their export orientation when their largest customer(s) experienced an economic contraction. Evidence of that linkage is now piling up fast. Meanwhile, risk premia in emerging market debt are also rising, as foreign investors are deserting any and all risk to get cash to their home bases. With the most severe declines being experienced by emerging market equities, companies domiciled there are likely to offer some of the best bargains. For one thing, corporates in emerging economies are cash rich and will be buyers of developed world assets at good prices. But the big story of the next decade will almost certainly

† Source: Bloomberg. Run date: October 14, 2008.

be more saving and less consumption in the US (overwhelmingly the world's largest consumer market) and the opposite in more liquid developing economies. It may take longer than many expect for that to come to the fore, as reaction by Asian savers at times of crisis is usually to save more, but we believe it will happen.

## Portfolio Structure

The salient aspects of company quality in the current quarter have been low leverage and non-cyclicality. We don't expect that to change in the near future. We had been looking at the Panic of 1907 as a possible analog to the current financial crisis. In the days when there was no US Federal Reserve, it was left to steely-eyed action by J. Pierpont Morgan to clear troubled assets off the balance sheets of failing "trusts" and brokers, and of their bank lenders, thereby restoring liquidity to financial institutions and the stock market and minimizing the impact on the broader economy. But students of economic history have pointed us toward an alternative historical comparison: the Panic of 1873, a financial crisis in which nobody was rescued, and there was no firm hand guiding the resolution. This earlier crisis led to a severe global downturn in which the only companies that thrived were those that had sufficient cash on hand, or found a way to procure it, to run their own businesses and, in many cases, to acquire distressed competitors who lost access to credit. Thus far, perhaps, we are walking the edge between the 1907 crisis and the more destructive 1873 crisis. We have always had a strong preference for companies with low debt and high free cash flows, and our holdings reflect this. Nevertheless, given the current credit crisis, we have reviewed our holdings in greater detail for short-term financing needs that might prove difficult or harm margins in the current environment. Nearly half of our non-financial holdings (by portfolio weight) have more cash than debt on their balance sheets. We sold one holding, UK media company **Pearson**, which faced refinancing of a substantial bond maturing next year.

The portfolio has been significantly overweight Health Care, while remaining significantly underweight Financials and Consumer Discretionary. We are intensely focused on the latter two sectors in search of durable, growing franchises that have been unfairly penalized by the market frenzy, but have made only modest purchases to date. With monetary authorities in both the US and Europe now fully engaged in solving the financial crisis, we are becoming less averse to Financials generally, and are more likely to increase our holdings than to indulge further the negative bias we have held toward the sector for the past few years. The survivors of this crisis should emerge with greater market shares and more entrenched competitive positions, allowing them to earn attractive profits as the economy recovers.

We reduced holdings of Energy (we began the quarter with a near-benchmark weight of 15% in the sector) through partial sales of Canada's **EnCana** along with **Exxon Mobil** and **Schlumberger**, but we added to our holding in **Gazprom** toward the end of the quarter when the Russian market decline turned into a rout. Given Western Europe's growing dependence on Russia for its gas, and Gazprom's unrivalled bargaining power over its customers, we expect that this company's strong cash flows and long-lived reserves will be prized once the market's current fixation on falling energy prices ebbs.

Always wary of corporate governance risks in Russia, we continue to believe that investing alongside the Russian government as controlling shareholder provides a degree of alignment and protection from expropriation risks.

The addition to Gazprom takes us above the benchmark weight in emerging markets. The potential for many companies domiciled in the developing world to emerge as global leaders in their industries or their regions over time is in our minds as we weigh the merits of strong businesses with battered stock prices against the shorter-term risks of weak governance and policy structures.

*"The survivors of this crisis should emerge with greater market shares and more entrenched competitive positions, allowing them to earn attractive profits as the economy recovers."*

We have been reducing capital goods and some other industry groups within Industrials over the past few months, as we have become more uncertain about the cyclical prospects of emerging economies and the infrastructure projects they require for their development. We sold our remaining holdings in **Caterpillar** (sale completed October 1), and reduced **3M Company** and **Emerson Electric**. We have reinvested some of these proceeds in consumer-oriented companies, such as **Coach**, the branded handbag manufacturer/retailer that has brought its business model to both Japan and China, where growth remains robust for its products. We also bought a new holding in **Carnival**, the cruise-ship operator whose stock valuation has compressed mightily on expectations of shrunken discretionary spending. We think the structure of the industry is healthy, with just three main players in Europe and America, and attractive customer demographics in the 'over-50 set,' who have the greatest wealth, highest disposable income, and most free time.

In addition, we reduced or sold holdings of larger-capitalization Health Care companies **Medtronic** and **Alcon**, and reinvested in a handful of smaller-cap, but highly international businesses. **Synthes**, the trauma and orthopedic device maker, has operations all over the globe and continues to win new converts through their broad and deep surgeon-focused training efforts. **Cochlear**, the hearing-implant device maker, has suffered from volatile markets in both the US and in China, but shows no sign of faltering in the key area of device reliability and consumer acceptance. We expect the company to have resilient revenues due to the high incidence worldwide of hearing loss, which occurs in a relatively constant percentage of newborn children and is a common phenomenon among the elderly, a customer segment that will grow substantially as demographic trends inexorably grind onward. We also bought a new holding in **Sonova**, one of the most innovative of the top-five global hearing-aid manufacturers, whose share price has fallen on concerns over consumer spending, especially in the US, where hearing aids are not covered for insurance reimbursement. Similar to Cochlear, Sonova should see growth from the demographic trend of hearing-loss incidence among baby boomers as they age.

## Global Equity Holdings (as of September 30, 2008)

| Sector/Company/Description                               | Country      | End Wt. (%) |
|--|--------------|-------------|
| <b>Consumer Discretionary</b>                            |              |             |
| <b>Carnival</b> - Cruise ship operator                   | US           | 1.0         |
| <b>Coach</b> - Luxury accessories & apparel              | US           | 1.8         |
| <b>Li &amp; Fung</b> - Trading & logistics               | Hong Kong    | 1.7         |
| <b>LVMH Moët Hennessy</b> - Luxury goods                 | France       | 1.0         |
| <b>Consumer Staples</b>                                  |              |             |
| <b>Bunge</b> - Agricultural commodity processor          | US           | 0.7         |
| <b>Colgate Palmolive</b> - Household products            | US           | 1.7         |
| <b>L'Oréal</b> - Personal care products                  | France       | 2.3         |
| <b>Nestlé</b> - Food & beverage                          | Switzerland  | 2.6         |
| <b>Olam Intl</b> - Agricultural products                 | Singapore    | 1.3         |
| <b>Walgreen</b> - Retail drugstore                       | US           | 2.6         |
| <b>Energy</b>  |              |             |
| <b>EnCana</b> - Natural gas producer                     | Canada       | 2.5         |
| <b>Exxon Mobil</b> - Integrated oil                      | US           | 1.7         |
| <b>Gazprom</b> - Natural gas producer                    | Russia       | 3.3         |
| <b>Sasol</b> - Alternative fuels                         | South Africa | 1.8         |
| <b>Schlumberger</b> - Petroleum industry services        | US           | 2.0         |
| <b>Financials</b>  |              |             |
| <b>Erste Group Bank</b> - Money center retail banking    | Austria      | 1.1         |
| <b>Fortress Investment</b> - Asset manager               | US           | 0.7         |
| <b>Monex Group</b> - Internet investment service         | Japan        | 0.7         |
| <b>Nomura Group</b> - Brokerage/investment bank          | Japan        | 1.5         |
| <b>Standard Chartered</b> - Commercial bank              | UK           | 2.3         |
| <b>Sumitomo Rlty. &amp; Dev.</b> - Real estate developer | Japan        | 1.4         |
| <b>Swiss Reinsurance</b> - Life & health reinsurer       | Switzerland  | 0.9         |
| <b>Wells Fargo</b> - Commercial bank                     | US           | 1.9         |
| <b>Health Care</b>                                       |              |             |
| <b>Abbott Labs</b> - Health care & pharma products       | US           | 2.6         |
| <b>Cochlear</b> - Hearing implants                       | Australia    | 2.1         |
| <b>Genentech</b> - Therapeutic biotech research          | US           | 1.9         |
| <b>Genzyme</b> - Biotech                                 | US           | 1.9         |
| <b>Medco Health Solutions</b> - Pharmacy benefits        | US           | 1.6         |
| <b>Medtronic</b> - Medical devices                       | US           | 1.4         |
| <b>Novartis</b> - Life sciences                          | Switzerland  | 1.2         |
| <b>Qiagen</b> - Biotech & instrumentation                | Germany      | 2.9         |
| <b>Roche Holding</b> - Pharma & diagnostics              | Switzerland  | 1.2         |
| <b>So-Net M3</b> - Medical information services          | Japan        | 1.5         |
| <b>Sonova Holding</b> - Hearing-aid manufacturer         | Switzerland  | 1.1         |
| <b>Synthes</b> - Orthopedic products                     | Switzerland  | 2.1         |

## Global Equity Holdings (as of September 30, 2008)

| Sector/Company/Description                             | Country   | End Wt. (%) |
|--|-----------|-------------|
| <b>Industrials</b>                                     |           |             |
| <b>3M Company</b> - Industrial technology              | US        | 2.2         |
| <b>Caterpillar</b> - Earthmoving equip. producer       | US        | 0.9         |
| <b>China Merchants</b> - Container terminal operator   | China     | 2.0         |
| <b>Emerson Electric</b> - Electronics controls         | US        | 2.6         |
| <b>Fanuc</b> - Indust. robots & machine tools          | Japan     | 0.8         |
| <b>RPS Group</b> - Consulting                          | UK        | 1.0         |
| <b>Sime Darby</b> - Conglomerate                       | Malaysia  | 1.7         |
| <b>Information Technology</b>                          |           |             |
| <b>ADP</b> - Payroll Processor                         | US        | 1.1         |
| <b>Cisco Systems</b> - Internet networking             | US        | 3.4         |
| <b>Dassault Systemes</b> - CAD/CAM software            | France    | 2.0         |
| <b>eBay</b> - Internet shopping/trading marketplace    | US        | 1.2         |
| <b>Electronic Arts</b> - Entertainment software        | US        | 1.6         |
| <b>Ericsson</b> - Wireless communications equipment    | Sweden    | 0.9         |
| <b>Google</b> - Internet search and multimedia         | US        | 2.1         |
| <b>Keyence</b> - Detection devices                     | Japan     | 2.8         |
| <b>MediaTek</b> - Integrated circuits supplier         | Taiwan    | 1.3         |
| <b>Oracle</b> - Enterprise software developer          | US        | 1.8         |
| <b>Qualcomm</b> - CDMA wireless communications         | US        | 1.7         |
| <b>Yokogawa Electric</b> - Industrial equipment        | Japan     | 0.5         |
| <b>Materials</b>                                       |           |             |
| <b>Air Liquide</b> - Industrial gas                    | France    | 1.6         |
| <b>JSR</b> - Specialty chemicals                       | Japan     | 0.8         |
| <b>Praxair</b> - Industrial gas producer & distributor | US        | 1.6         |
| <b>Rio Tinto</b> - Diversified mining                  | UK        | 1.4         |
| <b>Telecom Services</b>                                |           |             |
| <b>América Móvil</b> - Cellular phone operator         | Mexico    | 1.6         |
| <b>Telekom Indonesia</b> - Fixed-line & mobile         | Indonesia | 1.2         |
| <b>Utilities</b>                                       |           |             |
| No holdings  |           |             |

The portfolio is actively managed; therefore holdings shown may not be current. They should not be considered recommendations to buy or sell any security.

## Last Quarter

## Largest Holdings (%)

|                  | Sector          | Weight |
|------------------|-----------------|--------|
| Schlumberger     | Energy          | 3.6    |
| Emerson Electric | Industrials     | 3.0    |
| EnCana           | Energy          | 2.6    |
| Exxon Mobil      | Energy          | 2.6    |
| Cisco Systems    | Info Technology | 2.6    |

## Largest Contributors (%)

|             | Sector      | Weight |
|-------------|-------------|--------|
| Wells Fargo | Financials  | 1.3    |
| Genentech   | Health Care | 1.7    |
| Abbott Labs | Health Care | 2.2    |
| Genzyme     | Health Care | 1.5    |
| Cochlear    | Health Care | 1.4    |

## Largest Detractors (%)

|                     | Sector     | Weight |
|---------------------|------------|--------|
| Gazprom             | Energy     | 2.0    |
| Rio Tinto           | Materials  | 1.6    |
| Schlumberger        | Energy     | 3.6    |
| EnCana              | Energy     | 2.6    |
| American Intl Group | Financials | 0.8    |

## Last 12 Months

## Largest Holdings (%)

|                  | Sector          | Weight |
|------------------|-----------------|--------|
| Schlumberger     | Energy          | 3.8    |
| Emerson Electric | Industrials     | 3.1    |
| Cisco Systems    | Info Technology | 2.9    |
| Exxon Mobil      | Energy          | 2.7    |
| EnCana           | Energy          | 2.6    |

## Largest Contributors (%)

|           | Sector      | Weight |
|-----------|-------------|--------|
| Alcon     | Health Care | 1.7    |
| EnCana    | Energy      | 2.6    |
| Synthes   | Health Care | 0.5    |
| Genentech | Health Care | 1.0    |
| Praxair   | Materials   | 1.5    |

## Largest Detractors (%)

|                     | Sector             | Weight |
|---------------------|--------------------|--------|
| American Intl Group | Financials         | 1.5    |
| China Merchants     | Industrials        | 2.4    |
| Cisco Systems       | Info Technology    | 2.9    |
| Gazprom             | Energy             | 1.6    |
| Li & Fung           | Cons Discretionary | 2.1    |

Percent weight figure shown is the average percent over the period. Contributors and detractors in order of contribution to portfolio.

Portfolio Characteristics<sup>1</sup>

|                               | HL Global | MSCI ACW |
|-------------------------------|-----------|----------|
| Return on Assets              | 9.6       | 6.9      |
| Return on Equity <sup>2</sup> | 19.5      | 18.3     |
| Std Dev of 5 Year ROE         | 3.8       | 3.9      |
| Debt/Equity                   | 21.7      | 36.7     |
| Profit Margin                 | 14.8      | 11.5     |
| Sales Growth <sup>3</sup>     | 14.1      | 11.6     |
| Earnings Growth <sup>3</sup>  | 13.8      | 14.7     |
| CF Growth <sup>3</sup>        | 15.1      | 13.1     |
| Dividend Growth <sup>3</sup>  | 7.4       | 7.8      |

## Portfolio Statistics

|                                 | HL Global | MSCI ACW |
|---------------------------------|-----------|----------|
| Avg Wtd Mkt Cap (\$Mil)         | \$54,894  | \$61,688 |
| Price/Earnings <sup>4</sup>     | 17.6      | 12.5     |
| Price/Cash Flow <sup>4</sup>    | 14.5      | 8.6      |
| Price/Book <sup>4</sup>         | 2.8       | 1.8      |
| Alpha <sup>5</sup>              | 2.73      | --       |
| Beta <sup>5</sup>               | 0.92      | 1.00     |
| R-Squared <sup>5</sup>          | 0.95      | 1.00     |
| Sharpe Ratio <sup>5</sup>       | 0.03      | -0.41    |
| Standard Deviation <sup>5</sup> | 12.85     | 17.01    |

<sup>1</sup>Weighted median; <sup>2</sup>Trailing one year; <sup>3</sup>Trailing five years, annualized; <sup>4</sup>Harmonic mean; <sup>5</sup>Trailing three years, annualized.

## Purchases

| Company        | Country        | Sector             |
|----------------|----------------|--------------------|
| Bunge          | Bermuda        | Cons Staples       |
| Carnival       | United Kingdom | Cons Discretionary |
| Coach          | United States  | Cons Discretionary |
| Ericsson       | Sweden         | Info Technology    |
| RPS Group      | United Kingdom | Industrials        |
| Sonova Holding | Switzerland    | Health Care        |

## Sales

| Company                  | Country        | Sector             |
|--------------------------|----------------|--------------------|
| Air Products & Chemicals | United States  | Materials          |
| Alcon                    | Switzerland    | Health Care        |
| American Intl Group      | United States  | Financials         |
| Coca-Cola                | United States  | Cons Staples       |
| Pearson                  | United Kingdom | Cons Discretionary |

Portfolio attribution and statistics are supplemental information only and complement the fully compliant Global Equity Composite GIPS presentation. The portfolio is actively managed; therefore holdings shown may not be current. They should not be considered recommendations to buy or sell any security. The complete list of holdings is available on the previous page.

Source: Wilshire Atlas (Run Date: October 7, 2008); Harding Loevner Global Equity Composite; MSCI Barra

## Harding Loevner Global Equity Composite Performance (as of September 30, 2008)

|            | HL Gbl<br>Equity (Gross) | HLGbl<br>Equity (Net) | MSCI 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) |
|------------|--------------------------|-----------------------|-----------------------|---------------|-------------------------------------|-----------------------|---------------------------|----------------------|
| 2008 (YTD) | (21.48%)                 | (21.73%)              | (25.20%)              | (23.84%)      | N.A. <sup>3</sup>                   | 4                     | 219                       | 4,693                |
| 2007       | 17.62%                   | 16.92%                | 12.18%                | 9.57%         | N.M. <sup>4</sup>                   | 3                     | 124                       | 6,356                |
| 2006       | 19.24%                   | 18.59%                | 21.53%                | 20.65%        | N.M.                                | 2                     | 102                       | 4,720                |
| 2005       | 17.22%                   | 16.79%                | 11.37%                | 10.02%        | N.M.                                | 2                     | 85                        | 2,562                |
| 2004       | 9.02%                    | 8.36%                 | 15.75%                | 15.25%        | N.M.                                | 2                     | 82                        | 1,524                |
| 2003       | 32.45%                   | 31.97%                | 34.63%                | 33.76%        | N.M.                                | 3                     | 127                       | 1,357                |
| 2002       | (19.37%)                 | (19.83%)              | (18.98%)              | (19.54%)      | 0.6%                                | 6                     | 118                       | 1,082                |
| 2001       | (14.87%)                 | (15.54%)              | (15.91%)              | (16.52%)      | 0.4%                                | 7                     | 152                       | 1,154                |
| 2000       | 1.28%                    | 0.13%                 | (13.94%)              | (12.92%)      | N.M.                                | 5                     | 108                       | 1,392                |
| 1999       | 38.90%                   | 38.16%                | 26.81%                | 25.34%        | N.M.                                | 4                     | 96                        | 1,423                |
| 1998       | 2.33%                    | 1.64%                 | 21.97%                | 24.80%        | 0.5%                                | 11                    | 179                       | 1,372                |

<sup>1</sup>Benchmark Index; <sup>2</sup>Asset-weighted standard deviation (gross of fees); <sup>3</sup>N.A.—Internal dispersion less than a 12-month period; <sup>4</sup>N.M.—Information is not statistically meaningful due to an insignificant number of portfolios in the Composite for the entire year.

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 of foreign withholding taxes). 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. 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 LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Harding Loevner is GIPS compliant and is verified by Ashland Partners & Company, L.L.P. Harding Loevner has received firm-wide GIPS verification beginning November 1, 1989. The most recent verification was for the Quarter ending June 30, 2008.

Harding Loevner LLC 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 on dividends, interest income and capital gains. 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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