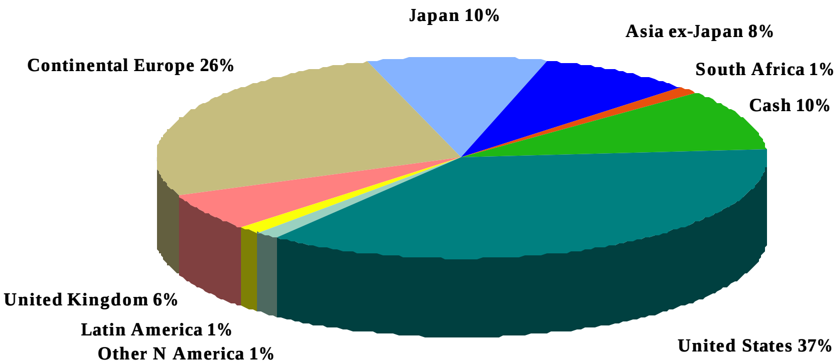
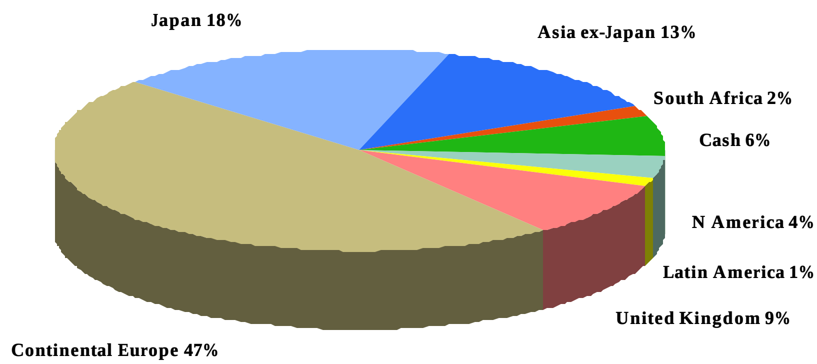
HARDING, LOEVNER MANAGEMENT, L. P.
GLOBAL AND INTERNATIONAL INVESTING
1997 Third Quarter Report

GLOBAL EQUITY PORTFOLIO



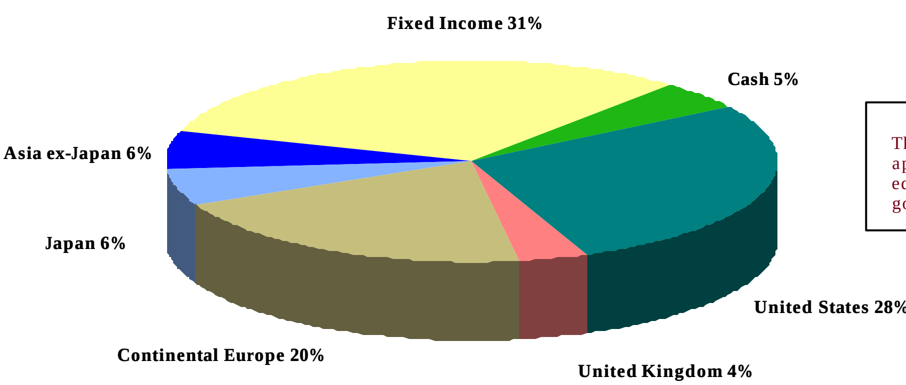
The seeks long-term capital appreciation through investments in equity securities of companies based both inside and outside the US.

INTERNATIONAL EQUITY PORTFOLIO



The *International Equity Portfolio* seeks long-term capital appreciation through investments in equity securities of companies based outside the US, including large & small companies in mature markets and established companies in emerging markets.

MULTI-ASSET GLOBAL PORTFOLIO



The ***Multi-Asset Global Portfolio*** seeks long-term capital appreciation and current income through investments in equity and fixed income securities of companies and government bodies throughout the world.

The charts above provide a 'snapshot' of the portfolios at September 30, 1997. See inside for details of performance.

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HARDING, LOEVNER MANAGEMENT, L.P.

Harding, Loevner Management, L.P. ("HLM") is a registered investment advisor providing global investment management to private and institutional clients since 1989. Based in Somerville, New Jersey, the firm is independent and employee owned. It manages in excess of $1.7 billion in assets for private investors and institutions.

Investment Approach

HLM's seeks to achieve consistent absolute returns while limiting the potential for substantial loss. HLM's investment approach is *bottom up*. It focuses on companies and their securities, restricting its attention to companies that it knows well and whose businesses it understands. It seeks to identify companies with superior long-term growth prospects, and to select from among them those whose shares appear to offer attractive absolute returns. HLM's investment criteria include both growth and value considerations. HLM favors companies with strong balance sheets, sustainable internal growth, superior financial returns, capable and forthright management, and enduring competitive advantages.

To determine *when* to invest in a company meeting its criteria, HLM uses valuation tests, including domestic market and cross-border comparisons. HLM invests with the view to being a long-term shareholder, but divests if a company's business performance, management actions or changes in the external environment reveal a flaw in the underlying investment thesis, or if its shares become substantially overvalued. Country and sector portfolio weightings reflect the results of stock selection, rather than the results of any country or sector allocation process. However, HLM's outlook for various industries and national economies is important in individual company evaluation. Weightings are adjusted, if necessary, to ensure that portfolios remain well diversified, but no consideration is given to index weightings. HLM hedges foreign currency exposure only on those infrequent occasions when diversification is inadequate or when it has a strong negative view on the prospects for a particular currency. portfolio turnover is low – about 30-35% annually.

Investment Programs

HLM offers three related investment programs. Each is available on a separately-managed account basis or through mutual funds.

Global Equity is a conservative program intended to form the core of an investor's equity portfolio, comprising common stocks and convertible securities of high-quality, growing companies, both US and non-US.

International Equity is a focused program for investors seeking long-term capital appreciation through investment in growing companies outside of the US, including large and small companies in mature markets as well as established companies in emerging markets.

Multi-Asset Global is a balanced program in which global equity, fixed income and cash equivalent securities are combined to meet the investor's particular requirements for income, growth, stability, and liquidity.

GLOBAL EQUITY PORTFOLIO

Performance

The portfolio rose 2.8% in the quarter, before fees, with solid gains in the US and European holdings offset by softness in Japanese and South East Asian shares. The FT World Index increased 3.2%, and the Lipper Global Fund Index increased 5.4%.

The US market rose again this quarter, by 7.5%, though with markedly higher volatility. Currency devaluation and ensuing financial crises in South East Asia ravaged regional stock markets and caused worries of cracks in the global economic foundation — worries which turned out to be unfounded as problems remained localized. European markets also rose. The dominant issues there were the shareholder value 'revolution,' the shape, size and timing of monetary union, and pre-EMU budgetary conjuring tricks. Persistent weakness in Japan's economy, notwithstanding its record-low interest rates, caused its stock market to decline, once again.

Review and Outlook

The caution with which we have viewed the remarkable US bull run has now turned to outright pessimism. We think most US stocks are overpriced. The S&P 500 Index's price stands at 23.3 times earnings, and 5.2 times book value, while yielding a scant 1.6%. Stock prices reflect investor confidence that the present, best-of-all-worlds, environment of low inflation, low nominal interest rates, and high growth in corporate earnings will continue for many years. Inflationary pressures are low, and real interest rates are high; these legs of the bull market do not cause us undue concern. We think the weak leg to the bull market is corporate profits. We see four reasons to be wary of the assumption of sustained growth in corporate profits. The one time efficiency gains from the restructuring of corporate America in the last twenty years cannot be repeated. Operating margins are likely to come under pressure from rising wages as the economy reaches full employment. The continued strength of the Dollar will eventually extract a toll on the competitiveness and profits of American exporters and multi-nationals. Finally, incentive stock option programs, which have proliferated across corporate America with little acknowledgment, will eventually dilute existing shareholders' ownership and returns.

Anecdotal evidence continues to build that the bull market in US stocks is in its final stages. Market volatility has increased. With the large cap stocks of the S&P 500 valued at the highest level seen since August 1987, market leadership is now moving from these blue chips to comparatively cheaper small company stocks. Companies posting earnings disappointments, such as bull market stalwarts Coca-Cola and Gillette, have seen their shares treated especially harshly. Perhaps most telling, foreign investors, notably the British, are abandoning their stubborn resistance to the charms of US equities. In past market cycles, foreigners have been latecomers to the party.

We have been concerned about US stock prices, and therefore cautious and conservative in our US stock selection. Many of the US companies in the portfolio, including **Colgate Palmolive**, **Exxon**, **Boeing**, **Deere**, and **Wrigley** — are unquestioned leaders of their industries. They have a history of prudently managed growth, and possess many of the other vital qualities we prize in our investments: global breadth, and the growth that comes from operating in fast-growing emerging markets; dominant market share and the rare measure of pricing power it conveys in this non-inflationary environment; and the dedication to cost control and innovation that is required to achieve stable or rising margins. Most importantly, our quantitative analysis leads us to conclude that their prices, while not cheap, are justified by their current and prospective profitability.

We think that better places to seek high returns are found outside the United States. The business cycle is not dead. Yet, cyclical expansion is in its seventh year in the United States, while it is in its earliest infancy in Europe, and is still nascent in Japan. We are convinced, moreover, that a key driver of the recovery in profits of US corporations in this cycle — their acceptance of the need to be globally competitive and to generate appropriate risk-adjusted returns on the capital they employ — will similarly drive the profits of European and Japanese companies in their next cycle. They have little choice if they wish to attract additional capital and grow. It is increasingly in companies that recognize these brutal facts that we see the prospect of good returns.

The portfolio continues to have a large European component, at 32%. The shareholder value 'revolution' is being inculcated into the corporate culture of Europe. Governments have been preoccupied with the details of the implementation of the European Monetary Union — how to coordinate interest rates and at what levels, how to spur domestic economies without increasing spending and taxes, how to deal with persistent high unemployment — leaving the restructuring field to European corporations themselves. European competitiveness is being driven by the industrialists, not the politicians, and it is the corporations' improved returns that will attract European investors, not government incentive or fiat. We own three German companies in the vanguard of European shareholder value creation: **Deutsche Bank**, **Daimler Benz** and **Bayer**. Daimler-Benz's chairman Juergen Schrempp reminds us of GE's Jack Welch, in his visceral determination to reinvent his company to meet the industrial and financial challenges that it faces. Deutsche Bank, by adopting a more transparent accounting standard, has given investors a proper yardstick with which to measure its progress towards stated return targets, and has, thus far, delivered on its promise of better shareholder returns. Bayer has made similar promises, and is delivering on them through far reaching changes in the way it allocates capital across its business areas and the way it gives its managers incentives to generate high returns on that capital.

We own several other European-based global leaders, where we foresee growth beyond the market's estimate. **ABB**, the Swiss-based capital goods company with a focus on power generation and transmission equipment, is a well-managed company with an aggressive and innovative corporate culture, oriented to the global production and local contract nature of the power generation business. **Rio Tinto,** the best capitalized and most global of any mining concern, is the low-cost producer of each of its products.

Over the course of the past year, our sales of several South East Asian companies have substantially reduced our exposure to the region. We made each sale, including this quarter's sale of the Singapore conglomerate **Keppel,** for fundamental, company-specific reasons. Our holdings in South East Asia (excluding Hong Kong, which we now consider part of Greater China) are down to three companies — **Nestlé Malaysia**, **Siam Cement**, and **Bangkok Bank** —accounting for less than 3% of the portfolio's total value. The prices of all three are down substantially and investor sentiment is very poor. Yet, these companies are among the strongest and best managed in the region. Thailand and Malaysia face a period of economic retrenchment, but retain their underlying strengths: strong work ethics, high savings rates, and relatively open economies. At current prices, we believe our stocks to be undervalued.

Our Japanese holdings lost value in the quarter amidst a sharp market decline. Exceptions were **Honda** and **Canon**, beneficiaries of the weakening Yen. The export sector has been the economy's only bright spot. We believe, however, that there is, at this point, a greater likelihood for Japan's domestic sector to return to moderate growth than for it to sink back into recession. Beneficiaries of the positive trends we foresee include **Hirose**, a designer and manufacturer of connectors for the electronics industry, and **Mitsubishi Corporation**, Japan's leading trading company. Mitsubishi has successfully invested its profits from traditional 'middleman' activities in newer, growing businesses. Its shift in focus from revenue growth to profitability puts Mitsubishi at the forefront of change in Japan.

Activity

We undertook a number of transactions in the third quarter, as described below. One consequence was to reduce further the portfolio's US equity weighting, to 37%.

We sold long-time holding **Abbott Labs**, for price reasons relating to a concern that the company will not be able to sustain, under its strategy of joint ventures and marketing agreements, the double-digit rate of earnings growth that the market expects. The proceeds were used to buy **Baxter International**, the leading medical products supplier focused on the fast growing biotechnology, cardiovascular and intravenous systems segments of the healthcare market. New products, rapid growth in less-developed markets, and a modest valuation are the main attractions of the investment. Baxter's future earnings growth will be driven not by further cost cutting, but by new products now in the late stages of development.

We sold **Union Pacific**, convinced that the operating efficiencies gained during the initial phases of the merger with Southern Pacific were beginning to plateau, and that the growth in earnings would therefore slow to a secular, GDP-related rate. We used the proceeds of the Union Pacific sale to purchase **Wisconsin Central Transportation**, an efficient, customer-oriented US rail company with an area of operation in Wisconsin, the upper peninsula of Michigan, Minnesota and contiguous parts of Ontario. The main attraction of Wisconsin Central, however, is its overseas business. It holds major stakes in Tranz Rail of New Zealand and English Welsh & Scottish Railway, the UK freight system operator. They recently made a small investment in Australia's Taz Rail. We regard the company as an 'exporter' of superior US railroad operating expertise. We admire their model for adding value to their stakes in newly-privatized national railways: having management make equity investments, lowering costs, increasing efficiencies through improved rolling stock, growing the revenue line, and, finally, making a public offering for a portion of their holdings.

Electronic Data Systems has been a disappointment since we purchased it. EDS's business has undergone material changes that management, and we, were slow to recognize: EDS's services are becoming commoditized, the competitive climate is no longer benign, and customers are becoming smarter, more cost-conscious, buyers. The company will have to make significant alterations to its cost structure and way of doing business in order to compete with IBM Consulting, Arthur Andersen, and Computer Associates. Lacking confidence that EDS can transform itself successfully, we sold our holding.

We added the German chemical and pharmaceutical giant **Bayer** to the portfolio this quarter. Bayer has dramatically improved its balance sheet and business mix in recent years. Bayer's business practices are among the world's best in their global chemical, pharmaceutical and consumer businesses; yet, as a conglomerate, Bayer's shares trade at a discount to the value of the company's business components. We believe that the shareholder value culture that has taken root in the company will lead the market to recognize the value that we see in the company's global franchise.

As their shares continued to appreciate, we sold a portion of our holdings in **Royal Dutch** and **Nestlé**.

INTERNATIONAL EQUITY PORTFOLIO

Performance

The portfolio returned 0.2% in the third quarter, before fees — more than its benchmark, the FT World ex-US Index, which fell by 0.9%, but less than the Lipper index of large international mutual funds, which rose by 1.9%. The burden of the poor first quarter still weighs on the year-to-date return for the portfolio, which, at 6.1%, is below those of the passive and peer indices: the FT World ex-US Index has returned 10.3%, and the Lipper Index 16.1%.

The mild results for the third quarter as a whole give no hint of the great volatility that was seen during the period. After a strong July, stock markets worldwide declined sharply in August. Negative sentiment, in all quarters, fed on itself; no significant stock market defied the general downtrend. The US market fell by 6.4%; Germany, by 11.5%, in DM; and Japan, by 7.3%, in Yen. Latin American markets also fell sharply. But by far the worst affected by the souring of global investor sentiment in August were the markets of South East Asia. Regarded with extreme suspicion since Thailand's July devaluation of the Baht, other vulnerable currencies in the region succumbed in August to speculative attacks. Financial crisis swept across the region as currency after currency was devalued, and stock markets plunged in fear of the consequences of devaluation for the many local companies and financial institutions with large Dollar-denominated borrowings. Stock market damage was most severe in the Philippines, Indonesia and Malaysia, where prices in US Dollar terms fell by 30-40%, but was also evident in Singapore (-21%) and Hong Kong (-12%), even though their currencies largely withstood the speculative storm.

In September, global investor sentiment brightened again, and stock markets rose, in many cases recouping their losses of the prior month. Japanese stocks were the exception — they continued their long decline, in response to further bad news about the moribund domestic economy.

Review and Outlook

Fierce global competition continues to reorder the business and financial landscape. The collapse in the currencies of several of the 'tiger' nations reflects the creeping loss of their competitive advantages in manufacturing, especially versus China, and the consequent redirection of their domestic capital investment from manufacturing into low- or non-productive activities, such as excessive property development. Their external account imbalances were unnecessarily prolonged, and exacerbated, because their governments were unwilling to adopt the economic policies required to restore stability. They could have chosen either to raise interest rates, or to allow their currencies to depreciate in an orderly way. Either course would have entailed some short-term economic pain, including the possibility of some bankruptcies among over-leveraged companies. Their governing elite, with snouts deeply in the trough of speculative activity, deemed recession unacceptable. Instead, they deferred the hard choice, secretly spending their nations' precious foreign exchange reserves to absorb currency selling, until it became clear that those reserves would be depleted long before balance was restored. In today's world, speculative capital flows as freely, and voluminously, as a tide. No government has the resources to keep informed speculators at bay permanently.

Over the past year, we were fortunate to have sold our holdings in a number of South East Asian companies. We did not sell these companies because we foresaw the impending currency and stock market crises, but rather because we lost confidence in the discipline of their corporate investment strategies. Three examples stand out:

Keppel is a Singaporean conglomerate with interests in ship repair, engineering, property, banking and telecommunications, impeccable financial strength, and a reputation as the country's best-managed company. Keppel's earnings have not been growing at the rate we expected from a company exposed both to Singapore's fast-growing domestic economy, and, increasingly, those of its faster growing neighbors. Their reputation notwithstanding, we found management to be complacent about growth, and undemanding in their return objectives. Their decision to issue a new convertible preferred share that will dilute existing stockholders was the final straw. We sold the shares.

Sime Darby is a similar conglomerate, based in Malaysia, but with regional interests. The company has a strong balance sheet and good management. In this case, earnings grew consistently and in line with our expectations, but the shares, through appreciation, became highly priced. Since senior management was unwilling to meet with us to deliver a clear outline of a long-term strategy that may have justified such a share price, we sold.

Singapore Press is that country's leading newspaper and media company, and has enjoyed very high returns from its operating businesses for many years. As a result, the company has amassed a large amount of liquid assets which, in today's low interest rate environment, generate low returns. The company changed its strategy —deciding to invest in property development projects — *explicitly* to avoid having to return its excess funds to shareholders as dividends. Again, we sold our shares.

The pattern that emerges is one of neglect, or worse, on the part of the region's companies for the natural desires of shareholders: for high returns, for transparency, and for equitable treatment. It is an ugly outgrowth of the recent environment in which capital has been too freely available to South East Asian companies and they have been spared the need to compete for it. This environment came about as the unintended consequence of the currency policies that lie behind the region's extraordinary success of the last two decades. Most South East Asian currencies are linked to the US Dollar, either strongly, and transparently, in the case of the Hong Kong Dollar, or loosely, and more mysteriously, like the Thai Baht. During the long period of Dollar weakness, these countries benefited greatly from the edge that currency under-valuation gave their already competitive economies. Their resulting growth attracted huge capital flows from foreigners, for portfolio as well as direct investment. An abundance of capital led, inexorably, to a rise in production costs and a decline in returns on that capital.

When governments commit to fixed exchange rates, they underwrite foreign exchange risks for borrowers and lenders; under such circumstances, it is only sensible for local companies to borrow Dollars for investment in local assets if they can do so cheaply. This many Asian companies did with abandon, and with disregard for now low prospective returns. Dollar links proved easy for governments to manage in the years when the Dollar was *falling* against the world's other major trading currencies, i.e., the Yen and the DM, but difficult this year, when the Dollar *rose*.

It is a mistake to think that this crisis was the inevitable result of poor economic policies. It was not — these policies served Asia well for nearly twenty years, laying the foundation for the 'Asian miracle'. In several cases, however, the tactical response to new challenges was conspicuously poor. What need have been no worse than a cyclical slowdown has been turned, by craven inaction, into an enormous setback for several countries in the region. Nevertheless, South East Asia's core strengths— a high savings rate, a well-educated and hard-working work force, and economies that are relatively open to flows of goods and capital— remain. Beginning immediately, Asian companies will have to re-accustom themselves to competing for scarce capital, by ensuring that its providers are properly treated and well compensated. Once they accept that, we will have the makings of a powerful equity bull market.

European economic recovery has greatly lagged that of the United States in the 1990's. Many people conclude from this fact that Europe will never recover, or, at least, will not recover until there is sufficient political will to permit the kind of industrial restructuring that has been carried out in the United States since the 1980's.

In fact, Europe has made remarkable progress. The European Union has opened domestic markets that were closed to new competition. In addition, the political fact of looming monetary union has imposed fiscal discipline upon governments. The result has been rapid convergence in interest rates, and in budgetary policy. Nearly all governments are committed to free markets, privatization of state-owned industries, and a reduction of government spending. At the corporate level, heightened competition for customers has led firms to cut costs. For example, manufacturers have relocated substantial capacity to cheaper areas, such as Eastern Europe. Heightened competition for capital is leading companies to turn their attention away from the interests of other stakeholders towards the interests of the providers of capital, the shareholders. Increasingly, companies are doing whatever they must in order to generate high returns. German companies such as **Bayer**, and **Deutsche Bank** are setting rigorous internal targets, giving management incentives to achieve them, and bringing external reporting up to international standards. Investors can at last compare their performance with that of their global peers.

The discipline imposed by European Monetary Union has caused European interest rates to converge, and decline. As interest rates have fallen, so have the currencies, relieving the worst of the competitive pressures that over a decade of Dollar devaluation had imposed. The combination of more shareholder-oriented management, and revived economic activity is leading to very rapid earnings growth for the European companies in which we invest. Over half of the portfolio's assets are invested in Europe. Holdings are dominated by leading, multi-national companies that have consistently demonstrated their ability to compete globally in changing circumstances.

Japan has suffered for nearly a decade from the consequences of the speculative bubble that grew in the late 1980's. Japan has had no easy source of capital to replace that destroyed when the bubble burst. As a result, the economy has continued to suffer from deflation, as bank credit continues to collapse, and long-term interest rates, at 1.8%, reach levels not seen anywhere in the post-war period. With a Government committed to fiscal and monetary expansion, the economy will recover, but the timing is uncertain. The Japanese equity market is often characterized as being grossly overpriced and speculatively based. This has not been the case in the last year. Rather, the market has been led by the 'Nifties' — those outward-looking companies who, seeing the erosion of domestic demand, have not waited for economic recovery but have faced up to the strength of the Yen, revamped their manufacturing base and cost structures, and prevailed in international markets. These companies are attractive for sound fundamental reasons. Examples in the portfolio include **Honda**, the motor car and motor cycle maker, and **Canon**, the world's leading producer of a wide range of optical imaging and information equipment.

In the long run, a broad-based market advance in Japan will require economic recovery. We still believe that economic recovery is inevitable, once confidence is restored, and 'animal spirits' are again on the rise. However, the biggest opportunity in Japan lies with those companies that will take advantage of the new freedoms generated by the deregulation of the economy, deregulation that we think is inevitable. During the quarter, we bought a new holding — our first in the Japanese financial sector — in **Tokio Marine and Fire**, the largest of the local non-life insurance companies. TMF's long-standing use of US GAAP accounting is unique in Japan and reveals a stock that is priced at a discount to its underlying asset value. We believe that TMF, with its strong balance sheet and dominant market position, will benefit from imminent deregulation of the insurance industry.

Activity

The macro-economic factors discussed above have made it harder and harder to find companies in Asia that meet our criteria: well-managed, growing, financially strong, and globally competitive. Indeed, since the beginning of the year, we have reduced the portfolio's overall exposure to South East Asia by half. In the quarter, we sold two more holdings. We sold **Keppel Corporation**, the Singapore conglomerate, because, as discussed above, the fears we expressed last quarter about lack of attention to shareholder interests were confirmed by a meeting with senior management in July. We also sold **HSBC Holdings**, whose stock price has risen sharply this year, and does not reflect the new risks to its asset quality that the aftermath of August's crisis has brought upon the bank.

Despite slow *economic* growth, the new-found religion of shareholder friendliness has enabled corporate believers in Europe to grow *profits* rapidly. For this reason, the portfolio is heavily tilted toward European companies. The kinds we own vary, from companies that are overtly restructuring in response to changes in their competitive positions (**Daimler Benz**, **Deutsche Bank** or **Railtrack**); to companies that are under-priced compared with their global competitors (**ABB**, **Bayer**, **Rio Tinto**); to companies that trade at a discount to the value of their high quality assets (**Investor**, **Gaz et Eaux**); to companies that grow their profits consistently (**Rentokil**, **Wolters Kluwer**).

In the quarter, we reduced the holding of **Royal Dutch ADRs**, after a further strong rise in price left the position uncomfortably large. We bought a new holding in **Tokio Marine and Fire**, as discussed above. We added to the holding in **Railtrack**, the owner of the UK's recently-privatized railway infrastructure. We think the stock at its current price reflects the expected earnings benefits from cost cutting, but not the added benefit from rising passenger and freight use that should follow from more competitive pricing and improved customer service.

MULTI-ASSET GLOBAL PORTFOLIO

Performance

The portfolio rose 3.3% in the quarter, before fees, more than the constructed benchmark (60% FT World Index and 40% Salomon World Government Bond Index), which rose 2.5%, but less than the Lipper index of mutual funds with similar mandate, which rose 5.5%. For the year to date, the portfolio has risen 13.9%, while the constructed passive index has risen 11.1% and the same Lipper index has risen 15.0%.

Bonds in the portfolio rose 3.0% in the quarter, trailing the domestic Lehman Aggregate Bond Index, which rose 3.3%, but ahead of the Salomon World Government Bond Index, which rose 1.3%. Equities in the portfolio rose 3.8% in the quarter, in line with the passive FT World Equity Index, up 3.2%, but trailing the active Lipper Global Equity Fund Index, which rose 5.5%.

Global Investing

One of the primary benefits of investing globally is the reduction of risks that accompany broader diversification. By spreading investments over a larger array of local markets, the price movements related to individual companies and local market phenomena tend to some degree to cancel one another, and the overall volatility of the portfolio is reduced. This, in turn, allows a given investor to own more equities and fewer bonds than otherwise might suit his risk tolerance, and garner the higher returns that equities have historically offered. We have exploited this benefit explicitly by holding, over the eight year history of our multi-asset program, a very high allocation in equities at the expense of fixed income. That strategic bias toward equities has enhanced returns in the past. It has been augmented, we believe, by the flexibility, conferred by our global mandate, to be opportunistic in our security selection, not only among equities from various countries, but also between equities and bonds. The larger universe of potential investments offers more choices, among which we can choose the individual securities that appear to have the best risk/return tradeoffs.

Though we have been wringing our hands over the unremitting rise of US equities for the past eleven quarters — tying the all-time record — we have maintained significant, if conservative, US holdings. Our caution is now turning to pessimism, however, as the market continues to advance, and, we feel, outpace US companies' ability to deliver the future growth that today's stock prices discount. At a yield of 1.6%, at 5.2x book value, and at 23x this year's earnings — the traditional stock market yardsticks — we have long since conceded that the market *looks* overvalued. But even using more refined measuring instruments, such as dividend discount models, we must now also concede that the US market *is* overvalued. Stocks have priced in low inflation, low interest rates and rapid earnings growth — pillars of the 'New Paradigm'—for as far as the eye, or our models, can see. Yet, in the seventh year of economic recovery, we are unwilling to forecast that the US will experience neither the higher inflation and interest rates that in the past have accompanied the late stages of economic expansion, nor the lower profitability that accompanies a recession or merely heightened global disinflation.

Indeed, there are many threats to the high corporate profitability upon which today's stock valuations are based. The valuations are dependent on companies being able to sustain the same 20%-plus return on equity that they earn currently, a difficult hurdle given the long-term historical returns on capital, and the scale of today's capital expenditures. They assume that there has been no flattery of US multinationals' earnings from the translation effect of a chronically weak Dollar that will evaporate in a sustained period of Dollar strength. They ignore the murky dilution effects of the massive and widespread management incentive option programs installed over the past decade with the encouragement — nay, insistence — of shareholders. And finally, today's valuations take little account of the higher volatility attendant with the, now orthodox, practice of momentum investing, which punishes the slightest quarterly shortfall with a sharp share price decline.

In contrast to the US, economies in Europe and Japan are only just beginning to recover from extended periods of slow growth or recession. At the same time, company managements are paying much more attention to generating returns for shareholders rather than satisfying the demands of other stakeholders, a topic we have written on extensively over the past year. As a result, the potential for faster earnings and dividend growth are more evident to us abroad than at home in the US. And while valuations have risen internationally as well as in the US, our work leads us to expect greater returns in the future from these stock markets than from the US.

Portfolio Response

As we see it, the long-term returns that can be expected from US equities — in light of their continued appreciation and without commensurate increases in their ability to grow earnings and dividends—barely justify their risks. Our analysis highlights the disparity of returns available from US bonds against those available from US equities. At this stage, bonds appear to match equities, despite there being a lower risk of falling short of those expected returns. And, although expected returns from equities outside the US still appear attractive, we worry that their returns in the future may be more highly correlated with US equity returns than in the past. As a result we have continued to shift the allocation of assets in the portfolio away from equities and towards fixed income. At the end of September, the portfolio held 64% in equities, 31% in bonds, and 5% in cash.

The past quarter has been a positive environment for bonds, both in the US as well as abroad—although the strong Dollar has obscured that fact in overseas bond performance. In Japan, the shocking news of a dramatic, and renewed, decline in the economy sent ten year bond yields below 2%, only the second such occurrence in any long-term debt market since the 1600's. (The other occurrence was in the US after the end of the Second World War, in 1946.) In Europe, the last doubters about monetary union have all but abandoned the field, and the high-yielding bond markets of Europe have continued to rally as yields converge on those of the core, hard currency countries. Falling interest rates are accelerating the reduction of the worst budget deficits (where the interest bill is a large component), which in turn is reducing the large government absorption of savings in those countries. The attainment of monetary union may bring a windfall to all governments as the flow of private savings out across the Euro area could overshadow the reduced issuance of debt on offer. European interest rates may ultimately converge at levels that are below the current rates of even the most fiscally prudent countries.

In the UK, the Labour Party's grant of independence to the Bank of England invigorated the 'gilt-edged'(government bond) market, and has reminded us how dramatically French bond yields declined when the Banque de France was freed from political interference. Accordingly, we have bought **7% UK Gilts, due 2002**, despite long-held skepticism about Britain's resolve not to inflate its way out of economic problems. In the US, the bond market has seen yields fall as more investors come to give credence to Barton Biggs' 'Ice' scenario of global deflation, Warren Buffet apparently becoming the latest convert with his reported purchase of zero-coupon bonds. We have purchased more of the **7% Treasury Notes, due 2006**, that we already own, and more **CPI-Indexed Treasury Notes**. Combined with last quarter's purchase of **Comcast Bonds** and **GNMA's**, the fixed income holdings are not only larger, but also have a longer average maturity than six months ago.

There was turmoil this quarter in some emerging markets. Currency depreciation in markets such as the Philippines, Thailand, the Czech Republic and even South Africa took away from bond returns. It was South East Asian markets which were most affected, but we had no fixed income exposure to them. Mindful, however, of the spillover of the Mexican devaluation into far-away markets in 1995, we sold our large holding in **Argentine Brady Bonds** at the first sign of a wobble in its neighbor Brazil's currency. This has proven to be overly cautious, since Argentine debt has remained stable. We are nonetheless confident that we have enjoyed the bulk of the outstanding returns available from these bonds, which we first purchased at almost 50 cents on the dollar in the wake of the Mexican 'tequila crisis.' Part of the proceeds was reinvested in **South African 12% Gilts, due 2005**, whose 14% yield to maturity has the potential to compensate for the currency depreciation that attends its 8% inflation rate.

We have continued to trim holdings of US equities in the portfolio, though they still comprise over a quarter of total assets. In addition, we have reduced holdings of some non-US companies whose valuations are largely determined in US markets: **Royal Dutch/Shell**, which, though Anglo-Dutch, is in the S&P 500 Index; and **Partner Re**, a Bermuda-based reinsurer listed on the NYSE. The US portfolio is dominated by high-quality multinationals, such as **Boeing**, **Colgate**, **Exxon**, **Schlumberger**, and **Wrigley**, but it also contains an increasing number of what we would describe as 'defensive' investments, such as baby bell **US West Communications** and the **Royce Micro-Cap Trust**. Performance of the US stocks has been good, matching the S&P 500 in the quarter, and for the year to date.

The equity holdings in Europe, where we have invested nearly a quarter of the portfolio, are large by most standards. We have found attractive companies in these countries using more than one kind of investment thesis. In most cases, the European companies in your portfolio have direct competitors based in the US, but we have often found that their shares can trade at a discount to those of their industrial equals. At a power generation equipment conference earlier this year, **ABB** was described by a senior GE manager as his most able and feared competitor. While both companies have similar earnings prospects, ABB trades at a 20% discount to GE's valuation. **Bayer** contains within its stables one of the ten largest pharmaceutical companies in the world, yet it trades on the same valuation as US chemical company Dupont. **Rio Tinto** is the world's low-cost producer of each of its mining products, and is without peer in its financial strength and geographic diversity.

In other cases, we have found singular cases of outstanding industrial companies that are restructuring their businesses in order to deliver better returns to their shareholders—a reform of management's attitudes. **Deutsche Bank**, by opening its accounts to a more transparent international accounting standard, has given investors a proper yardstick by which to measure their progress in moving towards their stated return targets. Thus far it has delivered on its promise of better shareholder returns. **Michelin**, the world's largest tire maker, has demonstrated its ability to reform its heretofore inflexible labor force. It was able to increase truck tire production in a single French plant by 25% over the course of eight weeks in order to meet surging demand. Yet, pricing Michelin's shares at just under ten times next year's earnings, the market appears to give little credence to management's recently-stated commitment to deliver a minimum 15% return on shareholders' funds.

Given the sustained rise in European markets, there, as in the US, we have an eye out for stocks that we can consider 'defensive' or 'cheap'. **Investor**, the Swedish investment holding company whose portfolio of industrial blue chips has historically yielded excellent returns, still trades at a significant discount to its (largely quoted) net asset value. Likewise, **Gaz et Eaux**, with holdings in Lazards, Sidel, and Danone, along with substantial venture capital investments and cash, trades at a large discount to its net assets.

The portfolio continues to have modest exposure to Asian companies, with about 6% in Japan and another 6% in South East Asia. South East Asian markets have had a tumultuous time during the third quarter, and our exposure there hurt performance. We have made some changes to the portfolio for company specific reasons.

We sold one Singaporean company, **Keppel**, when we recognized from several of their actions — the needless dilution from a convertible issue was the final straw — that the prospect of making adequate returns on their undeniably valuable assets is not likely to be realized any time soon. We took profits in **HSBC**, parent of the Hongkong & Shanghai and Midland banks, amidst the crisis in South East Asia because its price, in our view, did not reflect the rising risks of their Asian loan book. We bought one new company, **Dairy Farm**, a food retailer whose new management has begun the process of restructuring its business and far-flung investments. We have made no changes to the Japanese holdings, which provided mixed, but overall negative, returns in the quarter. The companies we own rank among the best of Japan in terms of corporate management.

Activity

Setting aside the fixed-income transactions, which we have already delineated, we purchased three new companies, and added to one; and we sold six companies, while reducing holdings in one other.

We sold **Abbott Labs**, both for price reasons and a concern that the company would not be able to sustain the double digit rate of earnings growth the market expects under its strategy of joint ventures and marketing agreements; in order to buy **Johnson & Johnson**, the world's largest and most comprehensive manufacturer of health-care products. J&J continues to have good earnings growth from its diverse and worldwide spread of businesses, and recent acquisitions have improved its business portfolio and growth potential. The company has yet to disappoint its stockholders and deserves a premium valuation to the broad market.

We sold **Union Pacific**, perturbed by three rail accidents in quick succession, and convinced that the operating efficiencies gained during the initial phases of the merger with Southern Pacific were beginning to plateau, and that the secular growth in the company's earnings would therefore flatten to more prosaic levels; in order to buy **Wisconsin Central**, an efficient, customer-oriented US freight rail company operating in the north central states and Ontario, with significant overseas businesses. The company has investments in Tranz Rail (New Zealand), English Welsh & Scottish Railways (the only UK freight operator), and Taz Rail in Australia. With a substantial minority interest in these previously government-owned local operators, the company aims to invest alongside privatization management, and together cut costs, raise productivity, renew the capital stock, and grow revenues.

We sold **Keppel Corp.**, as discussed above, to buy **Dairy Farm International**, which operates food retail and convenience stores throughout Australasia, with holdings in Britain and Spain as well. An ill-conceived expansion strategy away from Dairy Farm's traditional areas of strength in Hong Kong and Australia, inspired by the Jardine Group's headlong flight from Hong Kong, exposed the previous management's poor performance. The resulting earnings and share price slide has shocked the board into installing new management with incentives to restore the profitability of the business. The high yield of the shares, the strong balance sheet of the company, and the basic cash nature of the business make the stock attractive. A return merely to average operating performance can provide large returns.

We also sold: **Electronic Data Systems**, whose business has undergone adverse changes that management, and we, were slow to recognize. The EDS product is commanding less price premium as its clients, assisted by consultants, become smarter buyers of technology services. In particular the company has had to cede many of the benefits inherent in the continuously falling costs of technology to its clients in order to compete with the new entrants such as IBM Consulting, Arthur Andersen, and Computer Associates; **HSBC Holdings**, whose shares had risen sharply along with other well managed UK clearing banks, but whose valuation therefore completely ignored, in our view, the much higher risks developing for lenders in South East Asia, where this bank has earned over 60%

of its profits; and **Partner Re**, as evidence mounts that the increased capital that has been attracted to reinsurance is leading to pressure on underwriting margins.

Finally, we reduced the large holding in **Royal Dutch/Shell**, with proceeds going to bonds, and we added to the holdings of the **Royce Micro-Cap Trust**, increasing our allocation to small-cap stocks.

Global Equity Holdings

as of September 30, 1997

Company	Country	Weight	Description
Schlumberger	US	5.1%	Premier supplier of technical services & equipment to the petroleum industry
Royal Dutch	NETH	4.0%	Premier oil company operating worldwide
Hutchison Whampoa	HK	3.7%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Dover	US	3.5%	Diversified capital goods manufacturer
Fannie Mae	US	3.4%	Government-sponsored agency that buys & repackages mortgages
Investor	SWE	3.0%	Holding company for Wallenberg family interests in Swedish industrial concerns
Deutsche Bank	GER	2.9%	One of Europe's premier universal banks
Thermo Electron	US	2.9%	World leader in environmental monitoring, analysis instruments & biomedical products
ABB	SWITZ	2.8%	Leading worldwide capital goods company with focus on power generation
Exxon	US	2.8%	Premier global oil company
Surveillance	SWITZ	2.5%	Worldwide provider of trade certification, testing & loss adjustment services
Daimler-Benz	GER	2.4%	One of Europe's largest industrial concerns
Colgate	US	2.4%	Leading global consumer products company
Rio Tinto	UK	2.4%	One of world's largest & most diversified mining companies
Wrigley, Wm. Jr.	US	2.3%	World's largest producer of chewing gum
Baxter International	US	2.3%	Leading medical products supplier focused on: renal, biotech, cardio, & intravenous systems
Canon	JAP	2.2%	World's leading producer of wide range of visual image & information equipment
Wolters Kluwer	NETH	2.2%	Dutch publisher of legal, tax, medical & business information
Rentokil Initial	UK	2.2%	Provider of wide range of services to commercial sector
Gaz et Eaux	FRA	2.2%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Honda	JAP	2.2%	World leader in automobile production & largest manufacturer of motorcycles
Allied Signal	US	2.2%	Aerospace, auto, chemical & fibre manufacturing company
Nestlé	SWITZ	2.1%	World's largest food company
Motorola	US	2.0%	Electronics company producing semiconductors, communications equipment & computers
Johnson Electric	HK	2.0%	Manufacturer of small precision motors used in cars & consumer products
Bayer	GER	1.9%	World's fourth-largest chemicals company & tenth-largest pharmaceuticals company
Deere & Co	US	1.9%	World's leading producer of farm equipment
Boeing	US	1.8%	World's largest manufacturer of jet aircraft, & America's largest exporter
Airgas	US	1.6%	Largest independent distributor of industrial, medical & specialty gases in the US
Mitsubishi Heavy	JAP	1.5%	Leader of the industrial segment of the Mitsubishi group
Mitsubishi Corp	JAP	1.5%	One of Japan's leading trading companies
Bangkok Bank	THAI	1.3%	Thailand's largest & strongest bank
Quilmes	ARG	1.3%	Leading producer of beer & soft drinks in Latin America
Partner Re	BERM	1.3%	Bermuda's most strongly capitalized property reinsurer
Railtrack	UK	1.2%	Owner of UK's railway infrastructure
Hirose Electric	JAP	1.1%	Leading Japanese manufacturer of electrical connectors & components
Allied Capital	US	1.0%	Financial institution making equity linked loans to small businesses
Libsil	S AFR	1.0%	Holding company with investments in South African Breweries & Standard Bank
Atlantis Japan	JAP	1.0%	Closed-end fund invested in smaller Japanese companies
Nestlé Malaysia	MAL	0.9%	Importer & manufacturer of branded food products such as coffee, cereals & candy
Wisconsin Central	US	0.9%	Railroad operator in US & overseas
Union Pacific Resources	US	0.7%	Domestic oil & gas exploration & production company
Siam Cement	THAI	0.5%	Thailand's largest industrial group
Scania	SWE	0.1%	World class heavy-duty truck & bus manufacturer

Global Equity Composite
Performance Summary

as of September 30, 1997

	Annualized Returns for Trailing Periods (%)				Volatility Annual Standard Deviation (%)
	1 Year	3 Years	5 Years	Since Inception*	Since Inception*
HLM Global Equity Composite	**21.8**	**16.3**	**15.5**	**15.5**	**11.6**
Financial Times World Index	*24.0*	*16.8*	*15.9*	*9.5*	*14.3*
Morgan Stanley Capital International World Index	*24.6*	*17.8*	*16.4*	*9.9*	*13.9*
Lipper Global Fund Index	*25.9*	*15.2*	*16.2*	*11.6*	*12.3*

	Calendar Year Returns (%)							
	YTD 1997	1996	1995	1994	1993	1992	1991	1990
HLM Global Equity Composite	**16.0**	**17.4**	**19.0**	**-0.1**	**24.2**	**9.1**	**31.6**	**3.6**
Financial Times World Index	*18.9*	*13.2*	*19.6*	*5.9*	*22.6*	*-5.1*	*19.6*	*-17.0*
Morgan Stanley Capital International World Index	*19.0*	*14.0*	*21.3*	*5.6*	*23.1*	*-4.7*	*18.7*	*-16.4*
Lipper Global Fund Index	*20.0*	*16.3*	*14.0*	*-2.2*	*32.8*	*0.1*	*20.3*	*- 9.1*

*Inception Date: 11/30/89

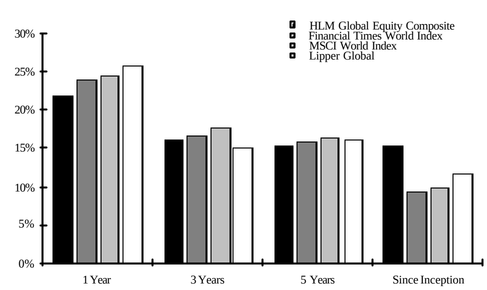
	Composite Information								
	1997	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	15	13	13	17	17	14	7	†	†
Total market value of accounts included in composite ($M)	$206.1	$188.0	$147.1	$112.7	$93.2	$64.5	$36.6	$15.3	$1.6
% of total firm assets represented by composite	11.8%	15.0%	23.4%	30.7%	38.2%	32.9%	20.0%	23.0%	5.5%
Internal dispersion: standard deviation of calendar year returns	N/A	1.0%	2.0%	1.3%	6.5%	1.9%	5.8%	†	†

† Five or fewer accounts

NOTES :

1. Composite includes all fee paying global equity accounts under discretionary management, including accounts no longer in existence. Accounts are included from the first full month following the date at which the account is deemed to be fully invested.
2. Returns shown are time-weighted total returns in US$, and reflect reinvestment of dividends and interest. Returns are weighted by account size in the composite.
3. All cash equivalents, bonds and/or convertible securities used in place of equities are included in return calculations.
4. Composite returns are presented after brokerage commissions but before management and custodial fees and foreign withholding taxes. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce composite returns by approximately 1.0% per annum.
5. Returns of all indices (except Lipper) are presented before foreign withholding taxes, and do not reflect commissions or fees that would be incurred by an investor in the index portfolios. Lipper Index returns are reported after all fees and expenses.
6. Annual standard deviations of returns (volatility) is estimated from monthly returns using a continuous return model to derive annual periodic standard deviation.
7. A complete list and description of the firm's composites is available upon request.

Annualized Returns for Trailing Periods (%)



International Equity Holdings

as of September 30, 1997

Company	Country	Weight	Description
Investor	SWE	4.2%	Holding company for Wallenberg family interests in Swedish industrial concerns
Royal Dutch	NETH	4.1%	Premier oil company operating worldwide
Hutchison Whampoa	HK	3.9%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
ABB	SWITZ	3.8%	Leading worldwide capital goods company with focus on power generation
Deutsche Bank	GER	3.7%	One of Europe's premier universal banks
Nestlé	SWITZ	3.5%	World's largest food company
Rentokil Initial	UK	3.5%	Provider of wide range of services to commercial sector
Bankinter	SPA	3.4%	High quality Spanish bank concentrating on services to individuals & small businesses
Canon	JAP	3.3%	World's leading producer of wide range of visual image & information equipment
Bayer	GER	3.0%	World's fourth largest chemicals company & tenth largest pharmaceuticals company
Rio Tinto	UK	3.0%	One of world's largest & most diversified mining companies
Michelin	FRA	3.0%	World's largest & most innovative tire manufacturer
Denso	JAP	2.7%	Global manufacturer of auto parts for Toyota & other leading car makers
Novartis	SWITZ	2.5%	Swiss multinational pharmaceutical & specialty chemicals company
Surveillance	SWITZ	2.5%	Worldwide provider of trade certification, testing & loss adjustment services
Wolters Kluwer	NETH	2.5%	Dutch publisher of legal, tax, medical, & business information
Hirose Electric	JAP	2.5%	Leading Japanese manufacturer of electrical connectors & components
Daimler-Benz	GER	2.4%	One of Europe's largest industrial concerns
Norsk Hydro	NOR	2.3%	Norwegian producer of North Sea oil & gas, aluminum & petrochemicals
DBS Bank	SING	2.3%	Singapore's largest & most diversified bank
Imperial Oil	CAN	2.3%	Canada's largest integrated petroleum company
Railtrack	UK	2.3%	Owner of UK's railway infrastructure
ING	NETH	2.2%	Global financial service group with strong emerging market exposure
Honda	JAP	2.2%	World leader in automobile production & largest manufacturer of motorcycles
Johnson Electric	HK	2.1%	Manufacturer of small precision motors used in cars & consumer products
Mitsubishi Heavy	JAP	2.1%	Leader of the industrial segment of the Mitsubishi group
IHC Caland	NETH	2.1%	World's premier manufacturer of dredging vessels & mooring equipment
Gaz et Eaux	FRA	1.9%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Libsil	S AFR	1.7%	Holding company with investments in South African Breweries & Standard Bank
Kurita Water	JAP	1.7%	Large manufacturer of water treatment equipment & specialty chemicals in Japan
Mitsubishi Corp	JAP	1.6%	One of Japan's leading trading companies
Bangkok Bank	THAI	1.4%	Thailand's largest & strongest bank
Quilmes	ARG	1.4%	Leading producer of beer & soft drinks in Latin America
Partner Re	BERM	1.4%	Bermuda's most strongly capitalized property reinsurer
Siam Cement	THAI	1.1%	Thailand's largest industrial group
Atlantis Japan	JAP	1.0%	Closed-end fund invested in smaller Japanese companies
Tokio Marine & Fire	JAP	1.0%	Largest & best capitalised non-life insurer in Japan
Nestlé Malaysia	MAL	0.9%	Importer & manufacturer of branded food products such as coffee, cereals & candy
Keppel FELS	SING	0.8%	Leading contractor for offshore oil & power businesses
Acer Computer	SING	0.4%	Distribution arm of Taiwan's Acer Inc., for sales, marketing & technical service of PCs

INTERNATIONAL EQUITY COMPOSITE
PERFORMANCE SUMMARY

as of September 30, 1997

	Annualized Returns for Trailing Periods (%)				Volatility Annual Standard Deviation (%)
	1 Year	3 Years	5 Years	Since Inception*	Since Inception*
HLM International Equity Composite	**10.5**	**10.6**	**16.4**	**12.7**	**13.3**
Financial Times World ex-US Index	*11.9*	*8.5*	*12.4*	*5.0*	*18.5*
Morgan Stanley Capital International EAFE Index	*12.5*	*9.2*	*12.7*	*5.2*	*18.4*
Lipper International Fund Index	*22.2*	*11.9*	*14.8*	*9.2*	*13.4*

	Calendar Year Returns (%)							
	YTD 1997	1996	1995	1994	1993	1992	1991	1990
HLM International Equity Composite	**6.1**	**17.0**	**13.2**	**2.5**	**46.3**	**9.9**	**21.9**	**-12.9**
Financial Times World ex-US Index	*10.3*	*6.5*	*10.4*	*8.4*	*32.1*	*-13.1*	*13.3*	*-23.1*
Morgan Stanley Capital International EAFE Index	*10.7*	*6.4*	*11.6*	*8.1*	*32.9*	*-11.9*	*12.5*	*-23.2*
Lipper International Fund Index	*16.1*	*14.4*	*9.3*	*-0.9*	*39.2*	*- 4.3*	*13.2*	*-12.4*

*Inception Date: 9/30/89

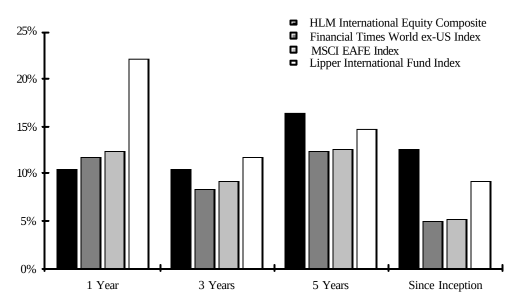
	Composite Information								
	1997	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	76	54	26	14	†	†	†	†	†
Total market value of accounts included in composite ($M)	$1,091.2	$882.2	$347.1	$110.4	$23.0	$12.1	$6.7	$10.6	$10.9
% of total firm assets represented by composite	62.4%	70.3%	55.3%	30.1%	9.4%	6.2%	3.7%	15.9%	37.8%
Internal dispersion: standard deviation of calendar year returns	N/A	1.1%	1.8%	1.6%	†	†	†	†	†

† Five or fewer accounts

NOTES:

1. Composite includes all fee paying international (non-US) equity accounts under discretionary management, including accounts no longer in existence. Accounts are included from the first full month following the date at which the account is deemed to be fully invested.
2. Returns shown are time-weighted total returns in US$, and reflect reinvestment of dividends and interest. Returns are weighted by account size in the composite.
3. All cash equivalents, bonds and/or convertible securities used in place of equities are included in return calculations.
4. Composite returns are presented after brokerage commissions but before management and custodial fees and foreign withholding taxes. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce composite returns by approximately 1.0% per annum.
5. Returns of all indices (except Lipper) are presented before foreign withholding taxes, and do not reflect commissions or fees that would be incurred by an investor in the index portfolios. Lipper Index returns are reported after all fees and expenses.
6. Annual standard deviations of returns (volatility) is estimated from monthly returns using a continuous return model to derive annual periodic standard deviation.
7. A complete list and description of the firm's composites is available upon request.

Annualized Returns for Trailing Periods (%)



Multi-Asset Global - Equity Holdings

as of September 30, 1997

Company	Country	Weight	Description
Exxon	US	3.4%	Premier global oil company
Royal Dutch	NETH	3.2%	Premier oil company operating worldwide
Investor	SWE	3.1%	Holding company for Wallenberg family interests in Swedish industrial concerns
Dover	US	3.0%	Diversified capital goods manufacturer
Schlumberger	US	2.9%	Premier supplier of technical services and equipment to the petroleum industry
Deutsche Bank	GER	2.9%	One of Europe's premier universal banks
Hutchison Whampoa	HK	2.8%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Fannie Mae	US	2.6%	Government-sponsored agency that buys & repackages mortgages
Colgate	US	2.6%	Leading global consumer products company
ABB	SWITZ	2.4%	Leading worldwide capital goods company with focus on power generation
Nestlé	SWITZ	2.4%	World's largest food company
Thermo Electron	US	2.1%	World leader in environmental monitoring, analysis instruments & biomedical products
Rio Tinto	UK	2.0%	One of world's largest & most diversified mining companies
Gaz et Eaux	FRA	1.9%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Royce Micro-Cap Trust	US	1.9%	Closed end investment fund focused on very small companies
Bayer	GER	1.8%	World's fourth-largest chemicals company and tenth-largest pharmaceuticals company
Surveillance	SWITZ	1.8%	Worldwide provider of trade certification, testing & loss adjustment services
Johnson & Johnson	US	1.8%	Leading consumer healthcare and pharmaceutical company
Honda	JAP	1.7%	World leader in automobile production & largest manufacturer of motorcycles
Rentokil Initial	UK	1.5%	Provider of wide range of services to commercial sector
Canon	JAP	1.4%	World's leading producer of wide range of visual image & information equipment
Deere & Co	US	1.4%	World's leading producer of farm equipment
Boeing	US	1.3%	World's largest manufacturer of jet aircraft, & America's largest exporter
Mitsubishi Heavy	JAP	1.2%	Leader of the industrial segment of the Mitsubishi group
Dairy Farm	SING	1.2%	Asian food retailer with main operations in Hong Kong, Australia, Taiwan, & Singapore
Wrigley, Wm. Jr.	US	1.1%	World's largest producer of chewing gum
US West Communications	US	1.1%	Traditional bell telephone company with large dividend yield
Allied Capital	US	1.0%	Financial institution making equity linked loans to small businesses
Bangkok Bank	THAI	1.0%	Thailand's largest & strongest bank
Michelin	FRA	1.0%	World's largest & most innovative tire manufacturer
Motorola	US	0.9%	Electronics company producing semiconductors, communications equipment & computers
Wisconsin Central	US	0.9%	Railroad operator in US and overseas
Mitsubishi Corp	JAP	0.8%	One of Japan's leading trading companies
Keppel FELS	SING	0.7%	Leading contractor of offshore oil and power businesses
Atlantis Japan	JAP	0.7%	Closed-end fund invested in smaller Japanese companies
Siam Cement	THAI	0.4%	Thailand's largest industrial group
Scania	SWE	0.1%	World class heavy-duty truck & bus manufacturer

MULTI-ASSET GLOBAL COMPOSITE
PERFORMANCE SUMMARY
as of September 30, 1997

	Annualized Returns for Trailing Periods (%)				Volatility Annual Standard Deviation (%)
	1 Year	3 Years	5 Years	Since Inception*	Since Inception*
HLM Multi-Asset Global Composite	**19.7**	**17.2**	**15.9**	**14.7**	**9.3**
*60/40 Global Balanced Index***	*15.5*	*13.2*	*12.3*	*9.7*	*10.2*
*Lipper Global Flexible Fund Index****	*21.5*	*14.5*	*12.9*	*9.8*	*7.5*

	Calendar Year Returns (%)							
	YTD 1997	1996	1995	1994	1993	1992	1991	1990
HLM Multi-Asset Global Composite	**13.9**	**17.9**	**21.4**	**1.7**	**25.6**	**7.9**	**25.6**	**3.4**
Equity Component	**17.6**	**22.1**	**21.8**	**2.5**	**29.9**	**8.1**	**34.6**	**-6.0**
Bond Component	**7.1**	**8.6**	**26.7**	**-2.5**	**14.6**	**5.6**	**18.7**	**11.5**
*60/40 Global Balanced Index***	*11.1*	*9.7*	*19.5*	*4.6*	*18.8*	*-0.9*	*18.3*	*-6.0*
Financial Times World Index	*18.9*	*13.2*	*19.6*	*5.8*	*22.6*	*-5.1*	*19.7*	*-17.1*
Salomon World Government Bond Index	*0.0*	*3.6*	*19.0*	*2.4*	*13.3*	*5.5*	*15.8*	*12.0*
*Lipper Global Flexible Fund Index****	*15.0*	*14.7*	*16.9*	*-4.5*	*23.0*	*2.2*	*16.1*	*-2.8*

* Inception Date: 8/31/89
** 60/40 Global Balanced Index is the weighted sum of 60% FT World Equity Index & 40% Salomon World Government Bond Index
*** Lipper Global Flexible Portfolio Average used from 8/31/89 to 12/31/89; Index commences 1/01/90

	Composite Information								
	1997	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	8	8	9	9	†	†	†	†	†
Total market value of accounts included in composite ($M)	$81.6	$74.5	$46.5	$26.4	$7.2	$4.5	$4.3	$1.1	$1.1
% of total firm assets represented by composite	4.7%	5.9%	7.4%	7.2%	3.0%	2.3%	2.4%	1.7%	3.8%
Internal dispersion: standard deviation of calendar year returns	N/A	0.5%	2.7%	1.0%	†	†	†	†	†

† Five or fewer accounts

NOTES:

1. Composite includes all fee paying mutli-asset global accounts under discretionary management, including accounts no longer in existence. Accounts are included from the first full month following the date at which the account is deemed to be fully invested.
2. Returns shown are time-weighted total returns in US$, and reflect reinvestment of dividends and interest. Returns are weighted by account size in the composite.
3. Composite returns are presented after brokerage commissions but before management and custodial fees and foreign withholding taxes. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce composite returns by approximately 1.0% per annum.
4. Returns of all indices (except Lipper) are presented before foreign withholding taxes, and do not reflect commissions or fees that would be incurred by an investor in the index portfolios. Lipper Index returns are reported after all fees and expenses.
5. Annual standard deviations of returns (volatility) is estimated from monthly returns using a continuous return model to derive annual periodic standard deviation.
6. A complete list and description of the firm's composites is available upon request.
7. This product and its corresponding composite performance were previously named Tax-Exempt Global Balance.

Asset Allocation