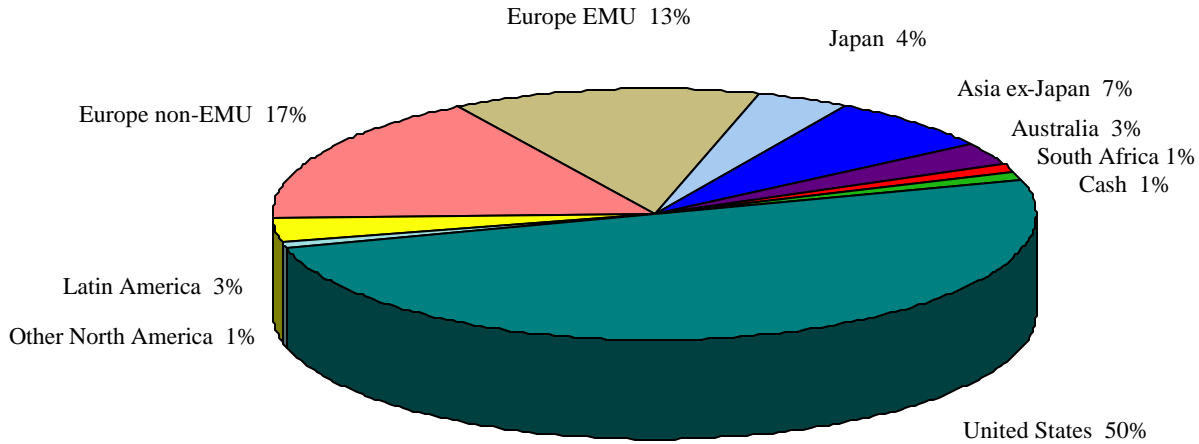


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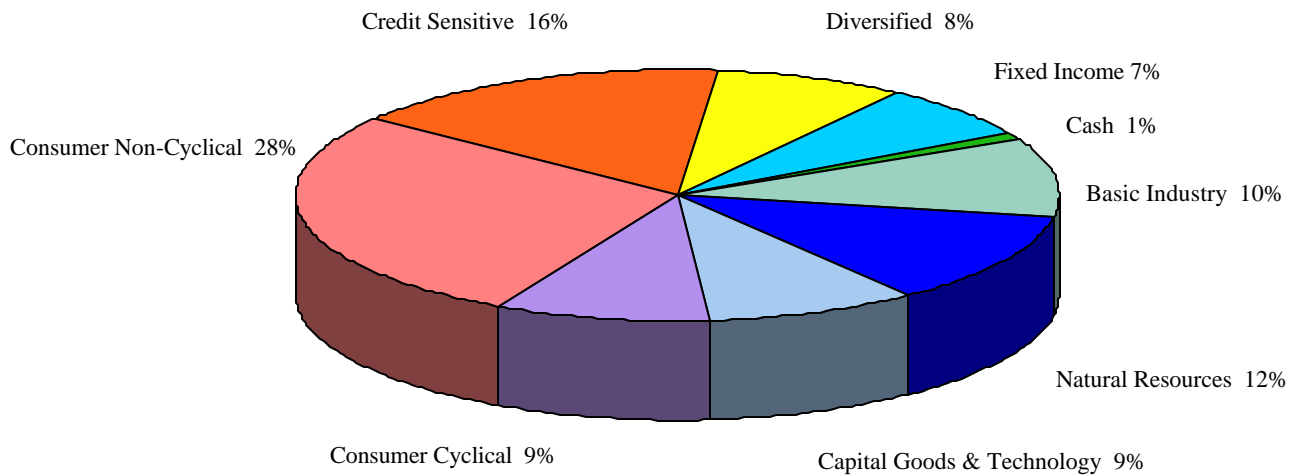
1998 Third Quarter Report

GLOBAL EQUITY PORTFOLIO

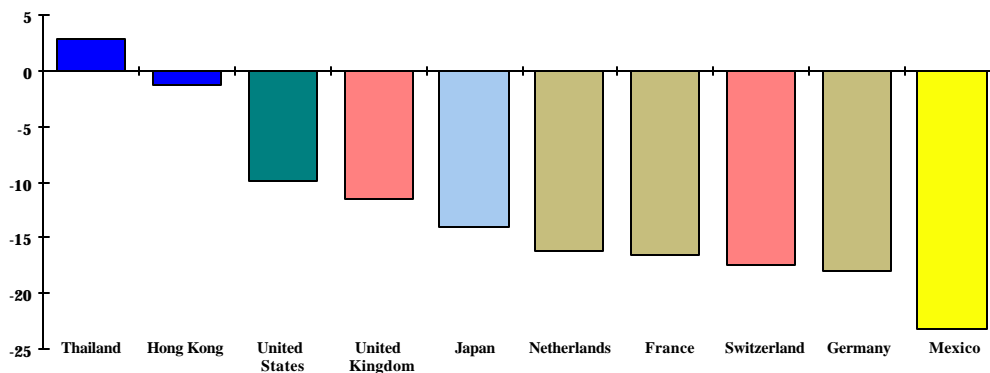
Geographic Distribution



Sector Distribution



Third Quarter 1998 Performance of Selected Stock Markets in US\$



The charts above provide a 'snapshot' of the Portfolio at September 30, 1998. See inside for details of performance.

PERFORMANCE

The Portfolio fell 17.7% in the quarter while the MSCI All Country World Index dropped 12.3%. The Portfolio's losses were attributable in roughly equal measure to its US and European holdings, which declined even more than their respective markets. Asian and emerging market holdings did not contribute materially to the Portfolio's losses.

This quarter, one of the worst for equities in a decade, saw a string of financial accidents — most prominently, Russian devaluation and default — put an emphatic end to the bull market run for European and US equities. A quantum jump in uncertainty about the health of the global economy drove investors to seek haven in the least risky assets. The prices of long-term US Treasury Bonds rallied to all-time highs, with yields dropping below 5%. In contrast, the major US equity indices, which reached record highs in mid-July, subsequently tumbled about 15% from those highs, flirting with the accepted definition of a 'bear market'—down 20%. For the third quarter as a whole, the S&P 500 and the NASDAQ each lost 10%, and the blue-chip Dow Jones Industrials lost 12%, negating the latter's entire year-to-date gain.

The pain was widespread: three quarters of the stocks in the S&P 500 registered declines in the quarter. It was acute, too: over a third fell by more than 20%. Foreign markets were similarly afflicted: the Japanese Nikkei index hit a twelve-year low, reflecting that economy's worst performance in thirty years. The major continental European stock markets dropped more than 20% in their local currencies; a quarter of Europe's stocks are 50% or more off their highs and half are 40% or more below those levels. Latin American markets also fell, more than 30% in US dollar terms. Only in emerging Asia, the incubator of the deflation that is now plaguing western markets, did stock prices show some resilience: the Korean and Thai indices rose during the quarter, and declines in Hong Kong and Singapore were moderate.

REVIEW

US Treasury Secretary Rubin was on the mark when he testified to Congress in September that world economies are facing an 'unprecedented situation of enormous complexity.' The litany of what he termed 'great difficulties' around the world is understandably disconcerting:

- the collapse of the Russian currency, economy and government;
- the maddening inability of the Japanese government to deal with any of their systematic financial and economic woes, be it the \$1 trillion (?) in bad loans held by the banks, the persistent lack of will to deregulate the country's inflexible and increasingly discredited socio-economic model, or still-declining consumer confidence;
- the metamorphosis of the Asian financial crisis into an economic crisis as declining financial markets exacerbated the deflationary trend that first instigated their fall;
- the choking-off of new capital to the emerging economies of Latin America, Southeast Asia and Eastern Europe. (This aversion by investors to any level of risk strikes us as being at least as irrational as the disregard for risk that inflated the economic bubbles now bursting in the first place);
- the uncertainty posed by the competitive currency devaluations of its neighbors to continued economic reform and growth in China;
- the land mines that may lie undetected in the balance sheets of many of the world's financial institutions;
- the continued depressed prices of most of the world's commodities and their strangling impact on producing countries, particularly those in debt;
- the painful alternatives — devaluation and a return of inflation on one hand or high interest rates in defense of the Real and the risk of recession on the other — faced by Brazil;

— a serious political crisis threatening the US.

As we have written over the past several quarters, our worries about the sustainability of the bull market for stocks have been rooted in concern for the sustainability of corporate profit growth. In a low-inflation, slow-growth economy, where prices cannot be raised and volume growth is stagnant, profit growth for most companies can come only through cost reductions. At some stage, their cost reduction opportunities are exhausted, earnings growth slows, and valuation support for their lofty stock prices is dependent entirely upon lower interest rates. We aim to invest in those rare companies whose superior products, or other competitive advantages, enable them to sustain unit growth and pricing even in such an environment.

Among successful examples, **Wolters Kluwer**, the Dutch publisher, is showing impressive revenue growth by focusing on valuable — and high-priced — new products and pursuing a disciplined acquisition program. Media conglomerate **Pearson** is following through on promises to run its businesses for higher returns. The company is divesting non-core businesses such as Madame Tussaud's Waxworks, and concentrating on units — such as educational publisher Simon & Schuster — where Pearson has key advantages of scale and brand in markets that are growing. Healthcare companies **Pfizer**, **Monsanto** and **Baxter** dedicate as much as 20% of their revenues to new product development. Their recent and prospective rapid growth is a function of the fruitfulness of this R&D spending.

In a deflationary world, where banks and bondholders require increasing premiums on their loans, unquestioned financial health emerges as a powerful competitive advantage in a way that it is not in times when credit is more freely available. A hallmark of our portfolio is the financial strength of its holdings. The balance sheets, reputation, size and market positions of companies like **Rio Tinto**, **Exxon**, and **Nestlé** give these companies unrivaled access to capital to finance growth, in contrast with more leveraged competitors.

Some of our companies have disappointed in ways that we did not foresee, to the detriment of portfolio returns:

We consistently underestimated the severity of production problems at **Boeing**. Last year, when orders skyrocketed on the back of surging demand from a once-again healthy airline industry, Boeing announced that 'production bottlenecks' were hampering operations and profitability. We wrongly viewed the problem as temporary, and bought more shares. In the face of continuing evidence of Boeing's inability to exploit higher levels of demand, we changed our view, and sold the shares at a substantial loss.

We purchased the stock of Hong Kong conglomerate **Swire Pacific** at a 40% discount to its underlying net asset value, believing that the company's financial strength, and the shares' high dividend yield would protect them from further decline. We were wrong. Hong Kong's property sector continued to suffer in the worst recession in a decade, affecting even the premium properties Swire owns and develops. The Hong Kong government's intervention in the equity markets gave us a well-priced opportunity to sell our shares.

CBT is the recognized global leader in computer-based training products for information technology professionals. The company has the market's broadest and highest-quality library of training titles that simulate the use of software from firms such as Cisco Systems, IBM, Microsoft, Oracle, Netscape and SAP. We bought shares in the second quarter, believing that the company's strong relationship with vendors, its long-term contracts with customers, and its history of contract renewals made for a durable business model that justified a high valuation. Just before quarter end, however, the company, which until then had provided only encouraging guidance, announced that earnings would fall short of investors' expectations. As a result, the share price fell 65% in a week. The firm's founders asserted control and replaced management. Investors were indeed misled by the previous management, but at these low levels, the stock is far from reflecting CBT's intrinsic value.

Also in the second quarter, we purchased shares of **UBS**, now the world's second largest bank, a result of the merger of Swiss Bank Corp. and Union Bank of Switzerland. We expect to see substantial operating efficiencies from this 'in-market' merger, freeing up capital for higher returning businesses, including its world-leading asset management business. We did not expect that a financial time bomb of the nature of UBS's recently-disclosed investments in LTCM, the rescued hedge fund, would have escaped the notice of Swiss Bank's renowned risk managers. We trusted senior management of the merged bank to protect shareholders from such *débâcles*; they failed, and have now resigned. The stock is trading at a discount to our valuation of its low-risk banking and asset management businesses, and seems to assign no value to the Warburg, Dillon Read investment banking franchise. We think the shares will recover.

OUTLOOK

A favorable economic environment has persisted for seven years. The risks are growing: benign disinflation threatens to become malignant deflation; flawed financial systems, in Japan and elsewhere, allocate capital inefficiently; and capital flows from the places, such as developing economies, that need it most. Next, perhaps, Western consumers will begin to cut back on their spending in the face of declining stock markets and tighter credit. All these are threats to global growth that even concerted central bank monetary easing may not be able to palliate. Our response to this outlook continues to be to reduce the riskiness of our portfolios. That being said, all is not bleak.

In the worries over the market correction of this quarter, we can glimpse opportunities emerging. US domestic demand has not yet abated. European Monetary Union is proving to be a catalyst for economic integration and growth, as artificial barriers to efficiency are removed. Economic reform is taking hold in Thailand and Korea. China maintains its stance against devaluation of the Yuan while struggling to restructure its vast state-owned industrial sector and banking system. Companies around the globe have adopted the ethos of running their businesses for the benefit of shareholders, and now weigh more carefully the prospective returns on investments against the cost of their capital. For long-term investors such as ourselves, the current market environment can provide opportunities to purchase great companies at prices not seen for years. We have intensified our examination of companies not in the Portfolio that we have long admired and whose share prices have fallen substantially.

ACTIVITY

The volatility of the markets led us to a more active quarter than usual. We examined existing holdings to guard against further unpleasant surprises. The sales we undertook were made to reduce the riskiness of the Portfolio. We sold or reduced holdings in companies whose earnings seem especially prone to cyclical slowdown, or whose prices had reached levels where prospective returns do not meet our criteria. We sold seven companies, reduced three, bought four new companies, and added to five others, all the while increasing the cash position to its highest level in years.

We swapped:

In Thailand, our position in **Bangkok Bank** for an added stake in **Siam Cement**. We believe that Thailand is the best place in Southeast Asia to get exposure to the growth that will eventually re-emerge from the economic crisis, and that the leading financial and industrial companies are the best places to gain exposure to the economy. However, it has become clear to us that the banking sector will be the last segment of the economy to emerge from the crisis, and that even the soundest institutions will lag the recovery of the general economy. Not so with Siam Cement, which is raising cash to reduce its debt load by taking aggressive steps at restructuring its many non-core joint ventures. The company's exports are growing, it is raising prices in its home market, and, importantly, it is giving investors a clearer view of its heretofore opaque internal workings;

In the capital goods sector, our position in **Boeing**, as above, for additional exposure in **Allied Signal** and **Deere**. Deere's share price fell almost 40% during the quarter — undeservedly, we feel. The industry's key determinants are positive: farmers' balance sheets and income are strong and interest rates are low. All support renewed growth in equipment demand, yet the shares appear to discount a more severe cyclical downturn than we expect. Allied Signal's shares dropped 15% with the news that it was attempting a hostile takeover of electrical connector giant AMP. We applauded Allied's move and bought more shares, expecting that Allied CEO Larry Bossidy can increase the value of inefficient AMP;

In Germany, our position in **Deutsche Bank** for a stake in German insurer **Allianz**. In terms of risk reduction, Allianz's bond, equity, and real estate portfolio is higher in quality than Deutsche's loan and equity portfolio, and its operating business is much more stable and predictable. Allianz has also been more proactive in determining its own future, and in making its financial reports more transparent, which will better reveal its underlying financial strength;

Also in financial services, part of our holdings in **Fannie Mae** for a new position in global insurer **American International Group**. Fannie Mae's shares held fast amidst the decline of most financial shares, as credit to the market's superior perception of its operating and risk management practice. AIG is an insurance holding company whose constituent operating companies offer a variety of specialized insurance, risk management and agency services throughout the world. AIG has a healthy balance sheet (one of the few remaining companies with an AAA rating) with

no real estate holdings or junk bonds. Management is very shareholder oriented and regarded as the best in the industry. The company should benefit from the financial problems of its weaker competitors, and is well positioned for an eventual upturn in the property/casualty insurance cycle; and

In the capital goods sector, a portion of our **ABB** holding into an increased position in **Thermo Electron**. European-based ABB is doing all the right things—moving production facilities to cheaper locations and closing inefficient facilities — but it remains susceptible to a cyclical slowdown in demand for power generation equipment and other infrastructure. Thermo, the technical instrument manufacturer, has been a poor performer, sentiment seems against it, and is cheap on our valuation estimates. The company's solid financial footing, shareholder-committed management, and internal and external growth strategies make Thermo a company worth well more than its distressed price of today.

We also sold:

the Hong Kong conglomerate, **Swire Pacific**, as above;

German chemical company **Bayer**, which had gained close to 40% on the year, surpassing our valuation estimates;

UK railroad infrastructure owner **Railtrack**, again, for price reasons, after the stock gained over 60% on the year; and

Royal Bank of Canada. The proposed merger with Bank of Montreal ran into a series of obstacles in the regulatory approval process. Without the synergistic benefits of a merger now in doubt, the outlook for earnings does not justify holding the largest bank in a floundering economy.

We reduced:

a portion of our large holding in **Nestlé**, also for price and diversification reasons.

We bought:

WPP Group, the holding company for the operations that together form the world's largest advertising and marketing services company. Its best-known subsidiaries are J. Walter Thompson, and Ogilvy & Mather. On a secular basis, WPP's growth rate will exceed that of GDP as manufacturers of branded goods are increasingly focusing on those brands to generate the pricing power that is so rare in today's global economy. The proliferation of media channels (e.g., cable TV, the internet), the increased use of technology to measure the efficacy of advertising expenditure, and the increasing pressure from customers to deliver campaigns on a global basis, all suggest that market share will increasingly accrue to the few companies, including WPP, that can deliver on all those counts, making earnings less volatile than in previous business cycles; and

Sola International, a leading manufacturer of eyeglass lenses. We believe that Sola is a growth stock priced as a value stock. The eyeglass lens industry is characterized by long-term demand growth (favorable demographic and lifestyle trends) and an oligopolistic industry structure that emphasizes new product development and service, as opposed to price. Within this context, we think Sola's strong market share and history of new product development will enable the company to generate mid-teens growth for the foreseeable future.

We added to:

life sciences company **Monsanto**, when the share price dipped after the announcement of a price drop for the company's herbicide, Round-Up. The company's proposed merger with American Home Products will broaden an already impressive array of pharmaceutical offerings, while providing the opportunity for over \$1.5 billion in cost savings over the next three years.

GLOBAL EQUITY PORTFOLIO

as of September 30, 1998

Company	Country	Weight	Description
Allied Capital	US	4.6%	Financial institution making equity linked loans to small businesses
Fannie Mae	US	4.4%	Government-sponsored agency that buys & repackages mortgages
Royal Dutch	NETH	4.1%	Premier oil company operating worldwide
Baxter International	US	3.8%	Leading medical products supplier focused on blood transfusions & kidney dialysis
Gaz et Eaux	FRA	3.4%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Colgate	US	3.0%	Leading global consumer products company
Pearson	UK	2.8%	UK print & broadcast media company
Hutchison Whampoa	HK	2.7%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Investor	SWE	2.7%	Holding company for Wallenberg family interests in Swedish industrial concerns
Dover	US	2.6%	Diversified capital goods manufacturer
Wolters Kluwer	NETH	2.6%	Dutch publisher of legal, tax, medical & business information
Thermo Electron	US	2.6%	World leader in environmental monitoring, analysis instruments & biomedical products
Rentokil Initial	UK	2.5%	Provider of wide range of services to commercial sector
Rio Tinto (Aus)	AUS	2.5%	One of world's largest & most diversified mining companies
Allied Signal	US	2.4%	Aerospace, auto, chemical & fibre manufacturing company
Schlumberger	US	2.4%	Premier supplier of technical services & equipment to the petroleum industry
Exxon	US	2.4%	Premier global oil company
Pfizer	US	2.4%	US pharmaceutical, veterinary, specialty chemical & toiletries company
Monsanto	US	2.3%	Life sciences company with leadership position in genetic engineering
Nestlé	SWITZ	2.2%	World's largest food company
Siam Cement	THAI	2.1%	Thailand's largest industrial group
Mitsui & Co., Ltd.	JAP	2.1%	Japanese trading company
American Int'l Group	US	2.1%	Insurance holding company offering insurance, risk management & agency services
Deere & Co	US	2.1%	World's leading producer of farm equipment
Kimberly-Clark Mex.	MEX	2.0%	Mexican subsidiary of US-based Kimberly-Clark Corporation
Wrigley, Wm. Jr.	US	1.8%	World's largest producer of chewing gum
Johnson Electric	HK	1.8%	Manufacturer of small precision motors used in cars & consumer products
Surveillance	SWITZ	1.5%	Worldwide provider of trade certification, testing & loss adjustment services
UBS Reg.	SWITZ	1.4%	Europe's largest bank, & world's largest asset management firm
Wisconsin Central	US	1.4%	Railroad operator in US & overseas
ABB	SWITZ	1.4%	Leading worldwide capital goods company
Quilmes	ARG	1.4%	Leading producer of beer & soft drinks in Latin America
SGL Carbon	GER	1.4%	Leading global producer of value added carbon & graphite products
Zurich Allied	SWITZ	1.4%	Global provider of insurance & asset management services
Partner Re	BERM	1.2%	Bermuda's most strongly capitalized property reinsurer
WPP Group	UK	1.2%	World's largest advertising & marketing services company
Allianz	GER	1.1%	One of world's leading general insurance companies
Atlantis Japan	JAP	1.1%	Closed-end fund invested in smaller Japanese companies
Sola Int'l	US	0.9%	Global leader in production of optical lenses
Hirose Electric	JAP	0.9%	Japanese manufacturer of electrical connectors & components
Aspen Technology	US	0.8%	Leading provider of process optimization software
Wellman	US	0.7%	Producer of chemical-based polyester fiber & fibers from recycled plastics
Libsil	S AFR	0.7%	Holding company with investments in South African Breweries & Standard Bank
CBT Group	IRE	0.6%	World leader in computer-based software training
S African Breweries	S AFR	0.3%	One of world's largest brewing-based companies & dominant owner of hotels in S. Africa
Scania	SWE	0.0%	Premium heavy-duty truck & bus manufacturer

GLOBAL EQUITY COMPOSITE PERFORMANCE SUMMARY

as of September 30, 1998

	Annualized Returns for Trailing Periods (%)					Volatility
	1 Year	3 Years	5 Years	8 Years	Since Inception*	Annual Standard Deviation (%)
HLM Global Equity Composite	-13.4	6.3	8.7	13.1	11.7	11.8
<i>Financial Times World Index</i>	-1.6	11.5	11.1	12.6	8.2	14.2
<i>Morgan Stanley Capital Int'l All Country World Index</i>	-3.0	10.8	11.0	12.5	8.1	13.7
<i>Lipper Global Fund Index</i>	-7.1	9.5	9.9	11.8	9.3	12.4

*Inception Date: 11/30/89

	Calendar Year Returns (%)									
	YTD 1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
HLM Global Equity Composite	-10.4	11.0	17.3	19.0	-0.1	24.2	9.1	31.6	3.6	
<i>Financial Times World Index</i>	1.4	15.4	13.2	19.6	5.9	22.6	-5.1	19.6	-17.0	
<i>Morgan Stanley Capital Intl All Country World Index</i>	0.5	14.7	13.1	18.2	5.4	25.5	-4.3	19.5	-17.2	
<i>Lipper Global Fund Index</i>	-2.2	14.0	16.3	14.0	-2.2	32.8	0.1	20.3	-9.1	

	Composite Information									
	YTD 1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	15	15	13	13	17	17	14	7	†	†
Total market value of accounts included in composite (\$M)	\$205.6	\$249.3	\$188.0	\$147.1	\$112.7	\$93.2	\$64.5	\$36.6	\$15.3	\$1.6
% of total firm assets represented by composite	15.2%	16.3%	15.0%	23.4%	30.7%	38.2%	32.9%	20.0%	23.0%	5.5%
Internal dispersion: standard deviation of calendar year returns	NA	1.6%	0.8%	2.1%	1.4%	6.8%	3.5%	5.8%	†	†

† Five or fewer accounts

NOTES :

- 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 on which the account is deemed to be fully invested.
- 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.
- All cash equivalents, bonds and/or convertible securities used in place of equities are included in return calculations.
- 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.
- 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.
- Annual standard deviations of returns (volatility) is estimated from monthly returns using a continuous return model to derive annual periodic standard deviation.
- A complete list and description of the firm's composites is available upon request.

Annualized Returns for Trailing Periods (%)

