HARDING · LOEVNER

Global Equity

Performance

The Composite registered double-digit returns and outperformed its benchmark.

Annual Review

Economic issues at the forefront before September 11th remain there today.

Market response to events brought fourth quarter results that were diametrically opposed to the first three quarters.

Portfolio Review

We cranked up the aggressiveness of the portfolio a notch in several dimensions.

Activity

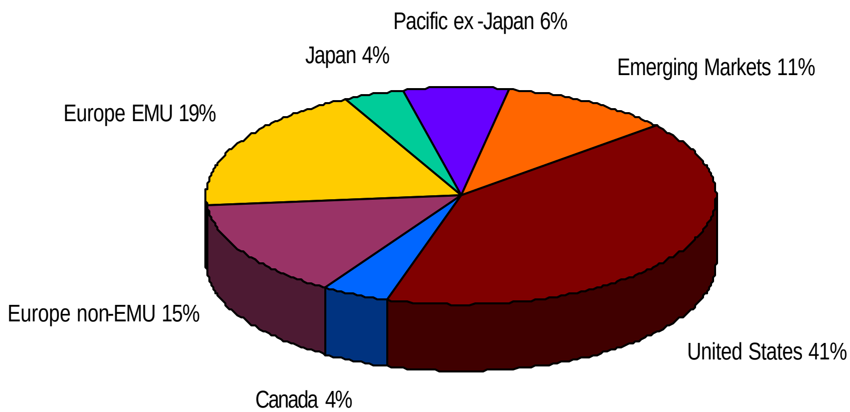
Bought: AOL Time Warner, Alberta Energy, Munich Re.

Sold: Allianz, Bristol-Myers Squibb, Carrefour, Hewlett-Packard, Wolters Kluwer

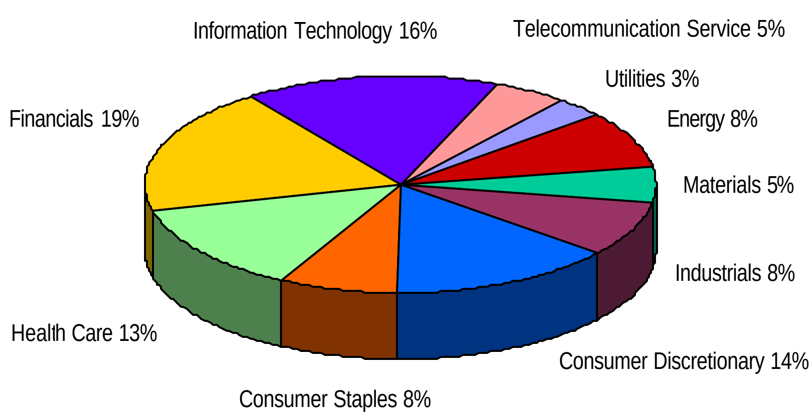
2001 Year End Report

Strong absolute and relative performance in the fourth quarter offset weaknesses in the third quarter. While performance for the year was negative, economic recovery in the US and the rest of the world was made more likely by the response to the atrocities of September 11th. The portfolio's shift to riskier sectors paid off in the fourth quarter.

Region Distribution



Sector Distribution



The charts above provide a 'snapshot' of the Model Portfolio at December 31, 2001.

As markets recovered, quarterly performance benefited from our taking advantage of low prices for a number of our favorite companies.

Executive Summary

The Composite gained over 12% in the fourth quarter of 2001, outperforming its benchmark by almost 3%. While the events of September 11th indelibly marked the year, many factors affecting the economy and the markets were unchanged by the attacks. The recession borne of overcapacity and concomitant lack of capital spending in tech and telecom continues, with hope, although, of a recovery pinned on global monetary easing, aided by low oil prices. The US consumer also continues to spend, spurred on by the low rates brought about by the Fed and the auto companies. Global market leadership, however, shifted in the quarter from the US to markets in non-Japan Asia and even Europe. Leadership in results by sector also showed change in the quarter, as growth stocks outperformed value stocks for the first time in the year. The reaction of the portfolio, to increase the risk profile in response to the lower prices seen immediately post September 11th, has borne fruit in the fourth quarter. We see relative value in overseas stocks versus their US peers, and signs in the world economy's 'income statement' that give us reason for optimism in the near and intermediate term.

Performance

The Composite rose, by 12.3%, in the fourth quarter, compared with an increase of 9.4% in the quarter for the MSCI All Country World Free Index*. Interestingly, in the quarter the 'growth' half of the Index jumped 13.5% as compared with the 'value' gain of only 5.7%, thus reversing a trend for the year as a whole, where the 'growth' component underperformed the 'value' component by nearly 5%. For the calendar year to date, the portfolio *fell* by 14.9% compared with a decline for the year of 15.9% for the Index.

Markets recovered sharply from the lows seen in the aftermath of September 11th's terrorist attacks on the United States. The consensus view now is that economic recovery in the US, and thus the rest of the world, has been made more likely by the response to the atrocities. Monetary policy in the US and Europe has been eased aggressively, and it still seems likely that direct Government stimulus through extra spending will also be forthcoming. That was not a widely-held view in early October when we acted to take advantage of low prices for a number of our favorite companies. Quarterly performance benefited greatly as a result.

*As a result of changes being made in their indices, MSCI announced that, from October 31st 2001, the MSCI All Country Index Series will no longer be available. The MSCI All Country Free Index Series, that adjusts for restrictions on foreign ownership in a few markets (e.g., Brazil and Thailand) , will continue. The differences between the Series for global and international indices, both in composition and historical performance, are negligible. Harding Loevner will be changing its suggested benchmarks to the MSCI All Country Free Series and will also now show these indices historically for consistency.

Annual Review

News Background

When we wrote in our third quarter letter that the events of September 11th changed everything, we were not asserting that markets had already passed the turning point of the bear market that has afflicted investors since the dot.com bubble burst at the beginning of the year before last. Rather, we meant that the year seemed in all respects foreshortened, that events prior to September 11th faded to insignificance; meanwhile, the events and their aftermath were seared into everyone's consciousness by the scale of the tragedy and by the daunting, audacious evil that the attack implied. The prospects immediately ahead were filled with uncertainty and peril.

The events of September 11th may have changed everything. . .

It is natural to view September as a line of demarcation. Indeed, investors can't help but do so, given the dramatic movements in securities prices since stock markets printed the lows in the ten days after the attack. But in a number of ways, it is mistaken to do so, for there were several important factors affecting the economy acting consistently on either side of the dividing date, whose events merely reinforced existing trends. First of all, the recession that has resulted from the precipitous decline in capital expenditures by companies after the frenzy of investment, especially in the telecom and technology sectors, has continued. If anything, it has been spread and intensified by the shaken confidence in the US after the realization that geographic distance from politico-religious strife no longer implied insulation from its dangerous fervor. Second, central banks around the world were already reacting to weak demand by cutting short-term interest rates, and this merely accelerated after the attacks. The Federal Reserve, out in the lead once again, cut overnight rates an unprecedented eleven times in the twelve months available to them in 2001. Finally, oil prices, a key input cost in many industries and a not negligible one for consumers, peaked in the second quarter and declined for the remainder of the year, an indicator of flagging demand, but at the same time an economic stimulus similar in effect to a tax cut.

. . .but several important factors affecting the economy remain consistent:

The recession continued, central banks accelerated rate cuts, and oil prices remained low and even declined.

We anticipated that the US recession would intensify in the fourth quarter, with confidence shaken, and intensify it did. But we also expected that in addition to the already ample and visible monetary stimulus being provided by central banks led by the Fed, there would be equally ample fiscal stimulus forthcoming. So far, this latter has been stymied by political wrangling, except for $10bn or so agreed in December to help rebuild New York City—and except for the large expenditure involved in mounting a military campaign in Afghanistan. Rather, what has been surprising is the degree to which consumers, particularly in the US, have not lost their nerve (or their oblivious attitude to their massive loss of wealth over the past two years). The built-in shock absorbers—particularly the response to monetary easing—of the US and the global economies are working smoothly, and it is the historical pattern of investor anticipation of eventual recovery that is reflected in securities prices. Homeowners in the US, both existing and prospective, have responded to lower mortgage rates, taking out new mortgages in record amounts, reducing their monthly cash outflow or increasing their cash in hand to use for other purposes. Consumers everywhere have responded dramatically to the headline financing bargains available from automakers, reducing the inventory pressures normally so damaging to that industry in recessions.

Consumers did not lose their nerve, took out new mortgages and financed new cars.

Of course, it would be shortsighted to ignore the effects on sentiment of the military and political campaign to oust the Taliban and destroy the Al-Qaeda network. We saw in the Gulf War and now again in this campaign that people take great confidence from knowing that the US remains politically and militarily able to respond quickly and resolutely to threats to itself, to Western democracy, and to the world economy it has done so much to foster. In addition, historians may look back on the war in Afghanistan and opine that Bin Laden managed to do what neither Catherine the Great nor Mikhail Gorbachev could achieve—draw Russia into cooperation and coincidence of interest with the West. That mutual interest stems not only from security concerns, of course, but also from the mutual desire to see Russia's vast energy reserves be available to Western economies. The significance of this development may be seriously underestimated in its importance to confidence and political maturity in Europe, and has large consequences for both the Russian and European economies.

The war on terrorism may have the historic significance of drawing Russia westward, with large consequences for Europe.

European economies have slowed, suffering from the same decline in capital spending that has hurt the US economy. Due in part to the lagged effects of lower interest rates and currency unification, Europeans have sustained their consumption, particularly on the fringes of the Euro area, such as Spain, Italy, and Ireland. Spending on housing in particular has been strong, possibly helped by the spending of hoarded currency finding its way out of mattresses before the introduction of the physical Euro coins and notes occurring at the New Year.

Japan, however, remains deeply mired in its depression. Optimism over 'reform' Prime Minister Koizumi has faded as his energy and ability to achieve meaningful change have come into question. Meanwhile, the banking system has continued to implode with additional loan losses and bankruptcies of companies whose loans were categorized as fully performing, reminding outsiders that financial statements and declarations of soundness have no validity in Japan. Unemployment is rising not just beyond customary Japanese levels, but also beyond current Western levels, and hence consumption still cannot be the engine that pulls the country and its economy out of its morass.

Japan remains mired in the morass of its own making.

Market Reaction

Statistics reporting recession repeat month after month. Monetary stimulus sequentially sustained. OPEC overtly unable to overcome oil price weakness. Japan jittery over just-in-time bankruptcies. Nothing has changed, yet everything is different. September 21st, just ten days after the attack on America, marked the lows in stock prices in nearly every market, and November 7th marked the lows in yields on safehaven Government bonds. Market performance in the fourth quarter was diametrically opposite to market performance in the first three quarters of the year. So any review of the year could contain two versions, the before and after version, as well as the overall version. We focus mainly on the version that looks at the year in its entirety.

Market performance in the fourth quarter was diametrically opposite to the first three quarters of the year.

Generally, one can point to developments that might be considered 'normal' market reactions. For example, during the past decade the US equity market, aided by a strong dollar, has garnered the reputation of handling difficult economic dislocations better than other markets, a result of its liquidity and efficiency as well as of the resilience and flexibility of the companies it represents. That pattern was repeated during 2001, for the year as a whole and during the September debacle. But in the fourth quarter recovery, the US equity market was not the clear leader; non-Japanese Asia as well as a number of European markets either matched it or significantly outpaced it. The Japanese equity market continued to go its own way, downwards, reflecting its dire underlying corporate and economic performance.

Within sectors, the Information Technology and Telecommmunication Services sectors were among the worst performers for the year, as they were in 2000. One would expect that from the leading sectors of the

Was the Information Technology performance in the fourth quarter a 'bear market rally' or a fundamentally underpinned result?

Emerging markets outperformed all regions, including the US.

1999 bubble: those companies had to deal not only with falling earnings but falling valuation multiples as the sustainability of their growth was exposed as a fallacy. But the fourth quarter was different: Information Technology was the best performing of all global sectors. What remains unresolved is whether this reaction is merely the result of a liquidity driven 'bear market rally', or whether there are fundamental underpinnings that will validate these higher prices. Not least of these could be the short lifecycle and rapid obsolescence of technology products that we have previously pointed to as a reason for optimism.

Another market reaction that might be considered 'normal' is the relative performance of the value and growth halves of the market indices. In an environment of declining confidence in growth, companies whose stream of earnings and dividends are skewed to the future due to the compounding effects of growth will be less sought after by investors than companies whose dividends are available and observable in the present. This is despite the countervailing effect of lower interest rates. That said, the effect of this style split on investment performance appears already to be abating. In addition, it seems to have been less a factor in the US than in non-US equity benchmarks: The difference between the MSCI US growth and value indices was only 160 basis points, whereas that difference for the MSCI World ex-US growth and value indices was almost 800 basis points.

On the other hand, there were a number of market reactions that we would have to count as 'surprises' to the market consensus during 2001. Biggest of all, we believe, is the out-performance of emerging markets, which beat all other regions, including the US equity market. In the fourth quarter, the emerging market segment of MSCI All Country World Free Index was far and away the best geographic region. 'Surprising' for a set of companies and securities that were written off after Russia's debt default in 1998 by many as an asset class not worth pursuing! Our view, of course, is that the explanation lies in an analysis of risk premiums, growth, and expected returns. When investors desert a market or an asset class, future returns rise for those willing to accept the risk, a prescription we followed in establishing the Harding Loevner Emerging Markets Portfolio in the fourth quarter of 1998.

Another surprise for the market is the continued good performance of small companies. Recessions historically have been periods when size becomes an asset, primarily because access to lending and to capital markets becomes a key determinant of success. It may be that the dreadful performance of smaller companies earlier in the decade meant that access to capital markets had already sorted out those who would require it, leaving those whose financing was not dependent on markets to carry on with their business plans. There will also be overlap in this category with the 'normal' good performance of stocks in the 'value' half of the index; many of these companies are still scarred, valuation-wise, from the extreme divergence of mega-cap and small-cap stock price performance that we have written about previously.

There also have been a number of surprises for the market consensus within the performance of industries and sectors. One of those is the remarkable absence of substantial credit losses by banks in this recession, even after accounting for the losses relating to the Enron bankruptcy. Corporate bond defaults in the US, now over 10% of all issuers, are at the highest level since the 1990 recession. Consumer credit losses in all countries are rising with the unemployment rate. But these latter have not risen to levels seen in earlier recessions, and hence credit losses by banks are so far quite mild. This is unusual, and we remain suspicious, owning few retail banks in the portfolio. Having observed that the business cycle has not been abolished, as some pundits had posited, we can't yet bring ourselves to believe that the credit cycle has been abolished.

While credit losses for banks in this recession are so far quite mild, we don't believe the credit cycle has been abolished.

Another 'surprise' has been the failure of a number of market sectors to act in the 'defensive' or safe haven role that they have played in past bear market phases. Utility companies are a good example. Their slow growth but steady dividend stream normally provided shelter from past market storms. In this cycle, utility companies have been under continuous pressure due to the (often ill-managed) deregulation of the industry—in varying degrees happening globally. The California electricity crisis (remember that one?) was a result of clumsy deregulation, and ended in the bankruptcy of Southern California Edison. But the pain of difficult de- or re-regulation has been felt from Britain to Brazil this year as well. California's crisis intensified scrutiny of electricity trading practices of the largest players, contributing to the bankruptcy of Enron and the credit impairment of many of the leading participants in the vanguard of electricity deregulation, even outside the US. Utilities as a global sector performed much worse than the overall market, both in the year and in the fourth quarter.

Normally defensive stocks—utilities and big pharmaceuticals—have failed in their role as safe havens.

Pharmaceutical companies, normally resistant to the business cycle, fell prey to the pressure of generic competition, the changing competitive position of their customers (increasingly large HMOs or governments rather than individuals), and to encroachments on the sanctity of intellectual property rights by governments both in developing countries (AIDS drugs in South Africa) and in developed (US threats to abrogate patent rights for anthrax drug Cipro). The largest companies, products of past blockbusters, are finding it harder and harder to find and get approval for new drug compounds that are big enough not only to replace those going off patent, but to grow even larger revenues at the pace management and investors are used to. Hence, health care stocks performed almost as badly as the market overall for the year as a whole, and worse than the market in the fourth quarter, when investors began looking for stocks of companies whose business might improve with an upturn of the business cycle. Our embrace of smaller companies in the Health Care sector, such as **Elan** and **Cerus**, and of generic drugmaker **Teva Pharmaceutical**, helped to shelter the portfolio from these effects.

The usually mundane topic of accounting standards is having significant effects around the world.

One other development deserves special mention this year. That is the renewed focus that has come to the usually mundane topic of corporate accounting. The Enron bankruptcy, being so far reaching in its effects, and the rapidity of the company's fall from grace, are bringing US accounting standards under intense political scrutiny. That is ironic, given that US accounting standards have been for so long the yardstick by which all others have been measured. But changes in accounting standards and practices are having significant effects elsewhere in the world as well. For instance, in the UK, there is a change in how companies must account for value changes in their pension assets, with negative changes being connected to their income statements. This is already beginning to affect British pension fund attitudes towards equity versus debt, with potentially large long-run consequences for UK markets. You will hear more on these topics from us—and in general business literature—in the future.

We believe that our shift back into risky sectors was a substantial contributor to performance in the year's final quarter.

Portfolio Review

We have written earlier about our shift back into risky sectors and companies in the first half, an unwinding of the defensive stance in the portfolio that was so successful in calendar 2000. Among the highlights of that shift was the reversal of an underweight position in the information technology sector, accomplished by adding to the strongest companies among our existing holdings, such as **Oracle**, **Intel**, and **Dassault Systemes**. That decision hurt us in the year overall, but was a substantial contributor to performance in the final quarter, especially since the stocks we owned outperformed what was already a highperforming sector. We had also added to holdings of smaller companies, such as **Asatsu**, **Quintiles**, **Cerus**, and **Close Brothers**, believing that growth was being differently appraised based on irrelevant size differences. That decision added to performance both in the year and in the quarter. Thirdly, we added to holdings of companies based in emerging markets (**Taiwan Semiconductor**, Brazilian iron-ore produce **CVRD**, Israeli generic pharmaceutical maker Teva), for much the same reason as for adding to small companies: the market was pricing growth far more modestly in unfashionable places. Once again, this decision was additive for the year, and particularly so in the fourth quarter.

In the aftermath of the attacks of September 11th, we did not flinch from this higher risk profile, and indeed cranked up the aggressiveness of the portfolio a notch in several dimensions. We added **Munich Reinsurance** to our existing holdings of **Berkshire Hathaway** and **AIG**, believing that returns to the highly cyclical reinsurance business would rise dramatically as both pricing and demand for coverage increased in the wake of the World Trade Center underwriting losses. In the quarter, this has actually detracted from performance, since insurance has under-performed the overall market, but our other financial holdings have more than made up the difference in this sector where we maintain nearly a market weighting. We also added holdings of non-US telecoms **Vodafone** and **Deutsche Telekom**, which had suffered large stock price declines, at the expense of our large holding in Bell South, which had not. Combined with our holding in **China Mobile**, our telecom holdings dramatically outperformed the global sector, which had poor returns in the quarter and in the year.

We cranked up the aggressiveness of the portfolio a notch in several dimensions.

As bottom up investors, our company selections often lead our portfolio into substantial divergences from market benchmark index weightings. But currently, that is not the case. At year end, we have very modest weighting differences by industrial sector from our benchmark. And in the fourth quarter's performance, that shows clearly: not a drop of our outperformance in the quarter can be credited to our sector bets. Rather, the 300-odd basis points of better performance than the benchmark in the quarter is entirely due to stock selection. At the moment, we can only describe ourselves as agnostic as to sector preference, but at least it is clearer than usual from the numbers this quarter that stock picking is our focus, not top down asset allocators.

Our outperformance versus the benchmark in the quarter is entirely due to good stock selection.

That is less clear from looking at our geographic weightings. We continue to find it difficult to identify companies in Japan that meet our fundamental criteria, but also recognize that the economic situation in

We have trimmed our holdings in the US over the year, and sold even more aggressively in the fourth quarter, attracted by the relative valuations of similar companies outside the US.

Japan is so difficult that it is a rare company indeed that could overcome such difficult operating and social conditions. Hence, we own only three holdings there, two of which are smaller companies, **Asatsu**, the Japanese affiliate of **WPP**, the global advertising and marketing services company and **Atlantis Japan Growth Fund**, a small-cap investment company.

On the other hand, as has often been the case, we find a number of companies based in other parts of Asia that meet our criteria, and consequently are 'over'-represented there, if the benchmark weights are to be the criteria. Taiwan is a case in point, a country where we own a single holding, **Taiwan Semiconductor Manufacturing Corp (TSMC)** that creates a weighting six times the benchmark weight for that country. Post hoc attribution analysis gives us credit for astute geographical country selection, but the reality is that we are unlikely to have invested there had we not been attracted to the dynamism and sound business model of TSMC.

One additional divergence from the benchmark deserves mention here. Having trimmed holdings in the US over the course of the year as they outperformed the rest of the world, we sold more aggressively in the fourth quarter in order to fund purchases of companies outside the US. Many factors were involved in the series of decisions that led to this result, not least the relative valuations of similar companies, which led us to favor non-US companies. We also have written before of our attraction to shares of companies operating in the weak currency environment of the Euro, which increases those companies' competitiveness against companies operating from the strong dollar. But we also feared that in the wake of the September attacks, investors everywhere would act differently from previous crises, in which reliably the dollar benefited from its safe haven status; we believed that in a sustained bout of terrorist activity, for the first time including the US, investors would want to have their money closer to home—and thus any economies dependent on foreign capital, such as is the US, would find themselves at a disadvantage. The result is a position where the portfolio begins 2002 underweight US companies relative to its benchmark, at a time when benchmark revisions (for free float) are actually increasing the benchmark's US weight.

As we begin the year having experienced the sharp rally in share prices in the quarter just ended, we are compelled to ask ourselves whether stock markets are accurate in predicting a robust recovery. We remain fully invested, but admit to awaiting the jury, which is still out, in our opinion. After all, the world is still awash in excess manufacturing capacity, while the US economy continues to run a current account deficit of 4% of GDP and a tiny domestic savings rate, and Japan's economy shows little sign of structural improvement. These are 'balance sheet' type issues that do not improve quickly. But when we examine some of the key factors that affect 'income statement' items of the global economy, the positive factors stack up rather rapidly, sustaining our optimism for the short and medium term. For instance, monetary policy remains stimulative, with short-term interest rates in the largest economies significantly lower in the last twelve months. Moreover, world credit markets have also begun to discount recovery, with long-term rates creeping higher even as short-term rates remain low, historically a good predictor of economic recovery. Similarly, oil prices are nearly half of what they were a year ago, another form of stimulus as energy, heating, and gasoline costs decline for businesses and consumers alike. Generally, optimism is the natural condition of equity investors, provided there is general confidence that the world is operating in ways that are familiar. With the absence of further terrorist events or of military setbacks in Afghanistan now the norm, consumer confidence is supporting investors' confidence that the recovery will take place more or less on schedule. The investors' dilemma, of course, is judging the degree to which that recovery has been priced into securities prices.

Global economic 'balance sheet' issues show little sign of improvement, but positive 'income statement' factors are stacking up rapidly.

Activity

During the quarter we bought stocks of three companies and added to five. We also sold five and reduced two.

We bought new holdings in:

Alberta Energy, Canada's largest producer of natural gas. Gas prices have fallen substantially from the highs reached in the California energy crisis, as have the shares of gas producers. But natural gas is replacing other fossil fuels in a variety of energy uses on secular basis, in part because of its relative cleanliness. And we also believed that the prospect of US-led military action in a Muslim country would remind investors and corporate risk managers alike of the benefits of nearby and secure energy supplies.

Munich Reinsurance, the world's largest reinsurance company. As mentioned earlier, Munich Re has outstanding financial quality, yet its shares trade at a significant discount to their asset backing. We believe that the shares' deep underperformance in the last few years is unjustified and that returns from the cyclical insurance business will be improving.

We like AOL Time Warner's subscription-based revenue model.

AOL Time Warner, the world's largest media company. We are attracted by the subscription-based business model, which makes the business much more durable over time, especially given the very large base of established customers. Equally important is the gigantic free cash flow that the combined businesses—cable television, magazines, and internet services—provide, which should allow the management to exploit the weakness of other firms whose models were well conceived but whose operations were poorly financed. We expect to see continuous innovation in marketing between the various media channels that grows revenues effectively.

We added to holdings in **Amdocs**, the telephone billing software provider; in **Cerus**, the developer of blood platelet and virus de-activation technology; in database software maker **Oracle**; in periodical and educational publisher **Pearson**; and in **Vodafone**, the world's largest mobile telephone company.

We sold holdings in:

Allianz, a large general insurance company. We sold Allianz to fund the purchase of Munich Reinsurance.

Bristol-Myers Squibb, the global pharmaceutical and specialty products manufacturer. We have grown increasingly concerned about large pharmaceutical companies' ability to create replacements for large blockbuster drugs that have driven past profitability, and by the threats to intellectual property rights discussed earlier.

Carrefour, the second largest food retailer in the world. Carrefour's defensive qualities no longer come cheaply relative to the valuations of other companies that meet our criteria. Also, we were concerned about the quality of earnings that underpin the company's stated goal of 15% earnings growth for 2001, which is heavily dependent on the fourth quarter.

Hewlett-Packard, the global producer of computing, measurement and communications devices. We have been disappointed at management's execution of sweeping plans to reorganize the company around services rather than manufactured products. Meanwhile, the personal computer market has, at best, matured and HP's attempt to counter Dell's increasing market share through merger with another victim of Dell's success, Compaq, smacks of desperation and brings further execution risk.

Wolters Kluwer, the global publisher of legal, tax, medical, and business information. Wolter Kluwer's share price was very resilient during the dramatic declines of September, to fund the purchase of additional shares of Pearson.

We also reduced holdings of **Baxter International**, which had risen dramatically in the year to become a very large position, and sold the Cap Gemini warrants, which we had received in a distribution from **CGIP** earlier in the year.

Global Equity Holdings as of December 31, 2001

Company	Country	Weight (%)	Sector	Description
Wrigley, Wm.	US	3.9	Consumer Staples	World's largest chewing gum maker
Taiwan Semiconductor	TAIW	3.9	Information Technology	Dedicated IC foundry
Hutchison Whampoa	HK	3.5	Industrials	Ports, telecom, & property conglomerate
Allied Capital	US	3.4	Financials	Financial institution providing small business loans
Suez	FRA	3.1	Utilities	Multi-utilities company
Intel	US	2.8	Information Technology	Global semiconductor manufacturer
American Int'l Group	US	2.8	Financials	Insurance holding company
IBM	US	2.6	Information Technology	Integrated information technology company
Baxter International	US	2.6	Health Care	Medical products supplier
Rio Tinto Ltd.	UK	2.6	Materials	Diversified mining company
Schering-Plough	US	2.4	Health Care	Pharmaceutical & consumer product manufacturer
Imperial Oil	CAN	2.3	Energy	Integrated oil company
Oracle	US	2.3	Information Technology	Database management software firm
Royal Dutch Pet	NETH	2.3	Energy	Global integrated oil company
Vodafone	UK	2.1	Telecommunication	Telecommunication services provider
Viacom	US	2.1	Consumer Discretionary	Diversified media company
WPP Group	UK	2.1	Consumer Discretionary	Advertising & marketing services company
Exxon Mobil Corp	US	2.0	Energy	Global oil company
Nestlé Reg	SWITZ	2.0	Consumer Staples	World's largest food company
Automatic Data Proc	US	2.0	Industrials	Business services outsourcing company
Novo Nordisk	DEN	1.9	Health Care	Prescription drug manufacturer
Wells Fargo	US	1.9	Financials	Commercial bank
Berkshire Hathaway	US	1.8	Financials	Auto insurer & general reinsurer
AOL Time Warner	US	1.8	Consumer Discretionary	Large media company
Munich Re	GER	1.8	Financials	World's largest reinsurance company
Pearson	UK	1.8	Consumer Discretionary	Print & broadcast media company
Deutsche Bank	GER	1.8	Financials	Universal bank
Alberta Energy	CAN	1.7	Energy	Producer of natural gas
CGIP	FRA	1.6	Industrials	Investment holding company
Air Liquide	FRA	1.6	Materials	Industrial gas company
Li & Fung	HK	1.6	Consumer Discretionary	Trading & logistics company
Sony Corp.	JAP	1.6	Consumer Discretionary	Global entertainment media corporation
JPMorgan Chase	US	1.6	Financials	Large money center bank
Deutsche Telekom	GER	1.5	Telecommunication	Incumbent telephone company & mobile operator
Cerus	US	1.4	Health Care	Biotechnology company
SmartForce	IRE	1.4	Information Technology	Computer software training firm
Colgate-Palmolive	US	1.4	Consumer Staples	Consumer products company
DBS Group	SING	1.4	Financials	Singapore's largest bank
Wal-Mart de Mexico	MEX	1.4	Consumer Discretionary	Consumer goods & food retailer
Dassault Systemes	FRA	1.4	Information Technology	CAD/CAM software designer
Atlantis Japan	JAP	1.3	Financials	Closed-end fund of small Japanese companies
Quintiles	US	1.3	Health Care	Outsourcing partner for healthcare companies
Teva Pharmaceutical	ISR	1.2	Health Care	Producer of branded & generic pharmaceuticals
Luxottica	ITA	1.2	Health Care	Low cost producer of eyeglass frames
Amdocs	ISR	1.1	Information Technology	Telecom customer & billing solutions provider
CVRD	BRAZ	1.0	Materials	Iron ore exporter & private railway operator
China Mobile	CHINA	1.0	Telecommunication Svcs	Cellular telephone operator
Grupo Televisa GDR	MEX	1.0	Consumer Discretionary	Spanish language media company
ISS Int'l Service	DEN	1.0	Industrials	Cleaning services company
Elan	IRE	0.9	Health Care	Drug research & development company
Asatsu	JAP	0.9	Consumer Discretionary	Advertising company
Close Brothers	UK	0.9	Financials	Small merchant bank

All portfolio holdings and sector allocations are subject to review and may vary in the future; and are not recommendations to buy or sell any security.

Global Equity Composite Performance

As of December 31, 2001

	Annualized Returns for Trailing Periods (%)					Volatility**
	1 Year	3 Years	5 Years	10 Years	Since Inception*	Since Inception*
Global Equity (gross of fees)	**-14.9**	**6.2**	**6.4**	**9.9**	**11.5**	**13.6**
Global Equity (net of fees)	**-15.5**	**5.4**	**5.5**	**9.0**	**10.6**	**13.5**
*MSCI All Country World Free Index****	*-15.9*	*-2.8*	*5.2*	*8.1*	*7.0*	*14.4*
MSCI World Index	*-16.5*	*-3.1*	*5.7*	*8.5*	*7.2*	*14.3*

* Inception Date: 11/30/89
** Annual Standard Deviation (%)
***Benchmark Index

	Calendar Year Returns (%)										
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Global Equity (gross of fees)	**-14.9**	**1.3**	**38.9**	**2.3**	**11.0**	**17.3**	**19.0**	**0.0**	**24.3**	**8.9**	**29.4**
Global Equity (net of fees)	**-15.5**	**0.9**	**38.2**	**1.6**	**10.1**	**16.3**	**18.0**	**-0.9**	**23.2**	**8.1**	**28.3**
*MSCI All Country World Free Index****	*-15.9*	*-13.9*	*27.3*	*21.7*	*14.7*	*13.1*	*18.2*	*5.4*	*25.5*	*-4.3*	*19.5*
MSCI World Index	*-16.5*	*-12.9*	*25.3*	*24.8*	*16.2*	*14.0*	*21.3*	*5.6*	*23.1*	*-4.7*	*18.7*

	Composite Information										
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Total market value of accounts ($M)	$152.5	$107.5	$95.7	$179.4	$251.3	$188.1	$146.8	$112.5	$80.2	$63.3	$41.8
% of total firm assets	13.2%	7.7%	6.7%	13.1%	16.5%	15.1%	23.4%	30.5%	31.8%	39.3%	29.3%
Number of accounts	7	†	†	11	15	13	13	17	16	14	12
Dispersion: asset-weighted standard deviation	0.2%	†	†	0.5%	0.6%	0.2%	0.6%	0.4%	1.1%	0.7%	†

† Five or fewer accounts

Portfolio Characteristics	
Weighted Average Market Cap ($ million)	$54,360
Price/Earning (2002 forecasted)	20.0 times
Price/Earning (2001 historical)	22.7 times
Price/Cash Flow	14.2 times
Growth Rate	14.6%
Price/Book	2.7 times
Yield	1.5%
Return on Equity	12.5%
Number of Holdings	52
% annual turnover (5 year average)	33%

Ten Largest Holdings	% Portfolio
Wrigley (United States)	3.9%
Taiwan Semiconductor (Taiwan)	3.9%
Hutchison Whampoa (Hong Kong)	3.5%
Allied Capital (United States)	3.4%
Suez (France)	3.1%
Intel (United States)	2.8%
American Intl Group (United States)	2.8%
IBM (United States)	2.6%
Baxter Intl (United States)	2.6%
Rio Tinto (United Kingdom)	2.6%

Global Equity Composite contains fully discretionary U.S. dollar-based global equity accounts and for comparison purposes is measured against the MSCI All Country World Free Index. Effective October 31, 2001, MSCI has discontinued the original version of the All Country World Index series in favor of the 'Free' version of the series, which excludes a portion of the market capitalization of several emerging markets that is restricted to foreign investors, but is otherwise identical. Returns include the effect of foreign currency exchange rates. Information regarding the benchmark, including the percentage of the composite invested in countries or regions not included in the benchmark, is available upon request.

Harding, Loevner Management, L.P. has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the US and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report. Ashland Accounting, LLP has verified firmwide compliance with the Composite construction requirements of the Standards and performed a Performance Examination (Level II) of gross of fees returns of the Global Equity Composite, one quarter in arrears.

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

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

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Actual returns will be reduced by custodial fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

No balanced portfolio segments are included, nor is this composite a sub sector of a larger portfolio. Leverage is not used in this composite.