HARDING · LOEVNER®

Global Equity

Performance

The Composite outperformed its benchmark in the fourth quarter and was in line for the year.

Annual Review

Monetary policy has dramatically tilted toward reflation around the world.

The collection of emerging markets stocks in the portfolio is a result of our analysis of companies within global industries.

Non-US equities stand at breathtaking discounts to their US counterparts.

Activity

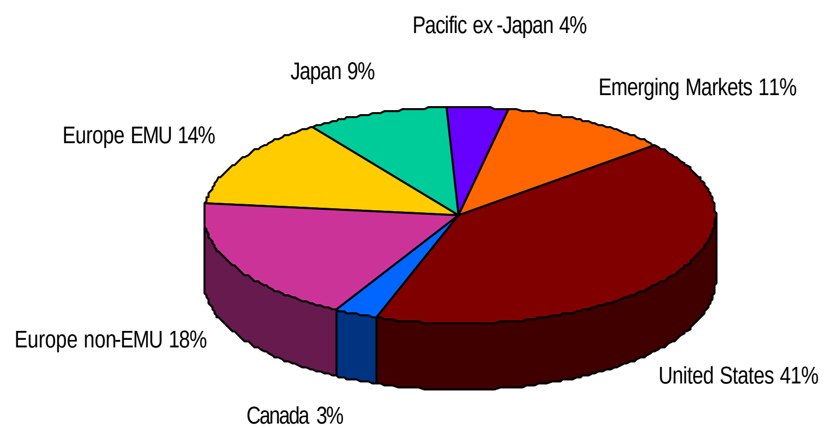
Bought: Banco Bradesco, Caterpillar, Emerson Electric, Heineken, Mitsubishi, Schlumberger, Securitas, Wolters Kluwer.

Sold: Asatsu, Cerus, Honeywell, Luxottica, Royal Dutch Petroleum, Suez, Teva Pharmaceutical.

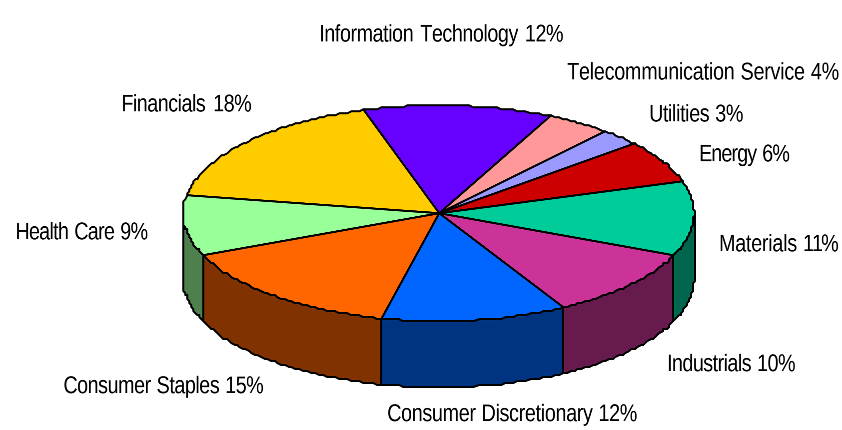
2002 Year End Report

Despite a rebound in the fourth quarter, 2002 was the third consecutive year of double digit negative returns for international equities. We are convinced that monetary and fiscal authorities will act decisively to prevent deflation. Our stock selection is informed by this conviction, which is further bolstered by the knowledge that the companies we favor are suited to exploit a continued difficult environment.

Region Distribution



Sector Distribution



The charts above provide a 'snapshot' of the Model Portfolio at December 31, 2002.

Executive Summary

- The Composite outperformed its benchmark in the fourth quarter and was generally in line for the year as a whole
- In our opinion, deflation will not occur
- Globally competitive businesses headquartered in emerging markets seem to offer opportunity—**Sasol**, **CVRD** and **TEVA**
- Reliable growth companies appear ignored—**Heineken**

Performance

The Composite rose by 8.4% in the fourth quarter, compared with an increase of 7.8% for its benchmark, the MSCI All Country World Free Index. For the calendar year to date, the portfolio fell by 19.4%, compared with a decline of 19.0% for its benchmark.

2002 was the year for 'stuff'; intangibles had a dreadful year.

2002 was the year for 'stuff', as we have come to call good old-fashioned, tangible materials. Among the best performing industrial groups were pulp & paper, mining—including gold mining—specialty chemicals, and of course, the means of moving 'stuff' around, the transport industry. Also strong were the traditionally 'defensive' sectors, such as beverages, household products, personal care, and electric utilities. Industries related to cyberspace, airwaves, finance or other intangible products—including information technology, software, wireless communications, semiconductors, media & entertainment, along with insurance (in Europe) and banks (in Japan)—had dreadful performance in the year.

Policy-making authorities have focused their attention on banishing the ghost of deflation.

Geographically, the US was a poor performer, with the S&P 500 index falling 22% in the year, while the NASDAQ composite index fell almost 32%. Europe as a whole fell 18%, paced by an awful German market, which fell 33%. Japan was the surprise performer, falling less than any other developed market, with a decline in US Dollars of 10%. Selected emerging markets fared better, with the stars being South Africa, which rose 28%, and the energy-heavy Russian index, which rose 16%, but an indexed collection of them all would have been hurt by the 31% decline of Brazil and 24% for technology heavy Taiwan. For the second year in a row, exchange rate movements cushioned performance for US

Bold indicates companies held in the portfolio. The percentage of each position appears on page 13 of this report. Although these holdings, as well as others mentioned in this report, were viewed favorably at the end of the reporting period, all portfolio holdings may vary in the future; and are not recommendations to buy or sell any security.

investors venturing abroad, with the Euro rising 18%, and the Yen 11% against the US Dollar.

Annual Review

Although the macroeconomic backdrop to investing has been haunted by the spectre of deflation, most policy-making authorities appear to agree that the world's economy now needs their focused attention to banish this ghost from the past. That said, we believe that the companies we own are better suited to weather—indeed, to exploit—a continued difficult environment than is the average company. Further, we believe that our willingness to search out companies with durable competitive advantages, wherever in the world they may be found, will produce good returns, provided we pay attention to the price we pay relative to the earnings growth we think we will get.

Earlier in the year the debate among the world's monetary authorities and investment strategists focused on whether the benign disinflation, slowing of price inflation that had fueled the 20-year bull market, was at risk of turning into deflation, or a vicious spiral of generally falling prices. In the last few months, that argument has subsided, because monetary authorities, and behind them, political bodies, have cut short the debate, not wishing to contemplate an answer in the affirmative. Or, to put it as a Federal Reserve analyst did in an ostensibly obscure report on Japan's experience of deflation in the past decade, central banks cannot afford to wait until all the evidence is in on the debate, but must act when the risks of general deflation rise to non-negligible levels. That is because, on the one hand, the policy alternatives to combat deflation have limited effectiveness (the old 'pushing on a string' problem), and, on the other hand, the risks of re-igniting inflation are smaller, and more easily dealt with by this generation of central bankers and fiscal authorities, who have conquered the great inflation of the seventies (and even the hyperinflation of the eighties in many developing countries).

Central banks must act when the risks of deflation rise to non-negligible levels.

The signs of their resolve seem clear. First, there was the large, half-point cut in overnight interest rates by the Fed in early November, rounding out the number of such cuts since the beginning of 2001 to an even dozen. Money market rates in the US are now just over 1%, and the concomitant growth in the broad money supply is hovering below 10%. In its turn, the reluctant, inflation-obsessed European Central Bank ignored its own inflation statistics (the latest release of consumer price inflation, at 2% in the Euro area, is above the ECB's stated target) in cutting interest rates in November, in a sign that they, too, agree that the mere risks of deflation merit departure from standard operating procedure. More interesting still was a November policy speech by Fed Governor Bernanke entitled "Deflation: Making Sure 'IT' Doesn't Happen Here," in which he echoed a startling policy proposal from the near-desperate Bank of Japan, noting that within the Fed's deflation fighting arsenal resides the power to stimulate liquidity and private credit growth still further by outright purchases not just of US Government securities, but also of mortgages and even corporate securities.

Fiscal stimulus, too, is mounting.

Meanwhile, fiscal stimulus is mounting. The Bush administration has fired its chief economic advisor, in part for leaking his $200bn estimate of the cost (read: fiscal stimulus) of a war in Iraq, even as Bush is spurring Congress to bring more prosaic fiscal stimulus to this year's budget. Steven Roach of Morgan Stanley reckons that the swing from small surplus two years ago to significant deficit in 2003 will represent the biggest fiscal stimulus since the Second World War. On the other side of the Atlantic, recriminations and sanctions regarding Germany's breaking the Maastricht accords that limit allowable budget deficits in EMU countries are fading into the background. And Japan, as we know, is already running some of the largest budget deficits on record of any developed country during peacetime.

The authorities will act decisively to prevent a Japanese-style deflation from derailing western economies.

We note this shift toward reflationary policies not because we would allow our opinion of it to set our portfolio strategy, but rather because it strengthens our conviction that, as we wrote last quarter, US and European authorities will act, and act decisively, to prevent a Japanese-style deflation from derailing western economies. That conviction, in turn, informs our stock selection, inasmuch as we must make assumptions about the future operating environment that our portfolio companies will face, and the financial alternatives that the shares will compete against. This is not easy when the headlines and the ticker tape are screaming crisis, but we bolster our own courage with the knowledge that it is the companies with the greatest financial strength and the most durable competitive advantages, the most capable (and honest) managements and the most robust growth prospects that have survived and even thrived (by exploiting competitors' weaknesses) during and after previous long, deep bear markets.

Emerging market companies have come to form a significant part of the portfolio.

We are willing to venture far afield to find companies that meet these criteria, as the emergence of a large weighting in the portfolio of companies domiciled in emerging markets demonstrates. This weighting, moreover, is one of the largest divergences in our portfolio from the geographic weightings of our benchmark index, as it has been for the past two years. We think that it is important to highlight how this collection of companies, added one at a time, has come to form such a significant part of the portfolio. Despite the temptation (proffered by those whose business is to analyze portfolios) to measure portfolio distribution ex post facto as an 'active' geographic allocation, that is not the focus, nor the method, of our investment process. Rather, our research effort—the first mover in our investment process—stresses the analysis of companies within their global industries. South African maker of synthetic fuels and chemical **Sasol** is a prime example of this. Research done on Sasol for our emerging markets portfolio, requiring the setting of the company within the context of its competitive position in its industry, along with our management due diligence and measures of financial strength and prospects for growth, excited the analyst more than any other company within its sector. Its unique competitive advantage is the intellectual capital created out of decades of government-subsidized development work on the Fischer-Tropps gas-to-liquids energy conversion process, the fruits of a single-minded South African drive for fuel self-sufficiency. Sasol's strategy for exploiting the process beyond converting its huge coal reserves to synthetic diesel fuel for domestic use, laid out by an able management, is both lucid and well advanced. This strategy makes possible dramatic future growth, since it can unlock heretofore stranded gas fields, turning the reserves into diesel fuel and specialty chemicals, at very low cost. The company's existing, highly-developed synfuels and chemicals (with no danger of supply interruptions caused by events in the Middle East) along with its exploration and production partner, ChevronTexaco, will fund the capital requirements of this growth strategy.

We have become attracted to the market share gains that generic drug manufacturers are capturing.

Likewise, our health care analyst, dismayed by the sheer quantity of ethical drugs losing patent protection over the near term, and the dearth of new ones making it through the regulatory approval process, was attracted to the market share gains that generic drug manufacturers are capturing in the US and other markets. The largest, **Teva**, happens to be based in Israel and has a unique advantage in the form of a special relationship with the Weizmann Institute in Rehovot, from which it gains substantial R&D efforts at costs largely subsumed by the Israeli government and other bodies. The analyst made the case that the growth prospects of this company—relative to its industry—outweighed the special risks attendant on its domicile. The stock became a very large holding in the portfolio until it was sold this quarter.

The consolidation in the iron-ore industry has given producers real bargaining power vis-à-vis their customers.

Longtime admirers and investors in metals producer **Rio Tinto**, we are persuaded that the dramatic consolidation in the mining of iron-ore is resulting in that rarest of situations, a basic materials industry in which the producers have real bargaining power vis-à-vis their customers. This prompted us to look at **CVRD**, the Brazilian producer of ore, through an industry lens rather than a geographic lens. The company shares 75% of world production of iron ore pellets with the other two largest producers, Rio Tinto and BHP Billiton. This year, steelmakers—the aforementioned customers—faced strong resistance to price cut demands during contract negotiations. The company's positive sensitivity to a depreciating Brazilian Real (most of its costs are denominated in Reais, while its main product is sold in Dollars) meant that we were unmoved by the panic that attended most Brazilian financial assets during the past year. Instead, we were comforted by the company's traditionally high-dividend payout, and the discounted price of its shares due to its Brazilian heritage.

It is not the case that attractive individual stock criteria are forced to override negative macroeconomic or strategic factors in our

Excess capacity and globalization issues remain structural forces that will impact pricing, sales growth, and profitability.

decision to own five emerging market companies. We can easily argue that emerging market companies carry a valuation discount related to concerns over corporate governance, transparency, and management abilities, whereas US companies, for example, are highly prized based on the same criteria, a premium that has been shown in many cases to be undeserved. Equally we can construct a demographic argument that growth will be higher in developing countries than in mature ones. Or, we can imagine that a global economy that has all fiscal and monetary throttles open wide will benefit the more cyclical, export-driven economies of developing countries even more than it does the developed nations. But our process begins with the identification of the company that has demonstrated management's abilities to exploit a competitive advantage, and where we can see continued growth prospects. Only then do we pause to wonder why it should trade at the price it does. It is the confluence of a broadened opportunity set that takes in companies of all domiciles, a solid understanding of industry dynamics, and finally, price that has led to the large weighting in emerging markets that has been so additive to performance this year.

If the confidence of investors, and the strength of economic growth, were to return to the ebullient levels of the late-1990s, our emphasis on the highest-quality companies (by our measures) might put us at risk for relative underperformance, since it is the weaker companies, with the highest operating and financial leverage, that benefit most from a shift from dangerous to benign environment. We think that type of environment is unlikely to be sustained for any period of time—despite our trust in the resolve of monetary authorities to use the arsenals at their disposal—precisely because the excess capacity creation and globalization issues that have ushered in the current state of affairs remain structural forces that will continue to exert their influence on company pricing, sales growth, and profitability. We believe that growth, and rising profits, will continue to be difficult to achieve and thus remain rare phenomena, and that the stockmarkets will come to prize those attributes more than they do today.

We find in our valuation work on companies, that the market today is paying little for such reliable growth. The Consumer Staples sector, comprised of such household names as foodmakers **Nestlé** and **Wrigley**, personal care product manufacturers **Colgate-Palmolive**, **Kao** and **L'Oreal**, and brewer **Heineken**, is the clearest example of this phenomenon. These companies were never among the fastest growing companies during the heady days of the last decade, but they share some of the lowest variability in their growth of all the companies we follow, and the global sector as a whole has actually risen (by about 5%) while the benchmark index has fallen by nearly 50% since the TMT bubble peaked in March 2000. Despite this sterling relative performance, the stocks are discounting significantly less earnings growth than they have been delivering, and than we believe they are capable of delivering in future.

Beer consumption is as much related to demographics and weather as it is to disposable income growth.

A new purchase this quarter, Heineken is an excellent example of this phenomenon. The company, having established over the decades one of the few truly global brands of beer, grew its earnings at a compound rate of 14% over the past 10 years, and doubled its dividend. The company, long controlled by the Heineken family, has been managed with very conservative accounting and negligible leverage. Looking ahead, its competitive position will improve due to the ongoing consolidation of beer producers worldwide, along with the logistical advantages that come with economies of scale, which should ensure its ability to continue achieving and retaining price increases. Moreover, beer consumption is as much related to demographics and weather as it is to disposable income growth, and Heineken has invested heavily in developing countries where beer consumption is growing rapidly. Consequently, we believe that the company can grow its earnings at least two thirds as fast (say, 9%) for the next decade, especially since 'professional' management has taken the operational reins from the late Freddy Heineken. But, on our estimates, the market is currently pricing the shares as if earnings will only grow at 4-5% per annum, or else as if near-term earnings will decline by a third—both of which we consider unlikely. This theoretical mispricing, however, is not the sole attraction of the shares; after three years of declining prices many of the companies we follow look cheap to us. Rather, it is our relative certitude in their ability to deliver the postulated growth that attracts us to Heineken over other, similarly cheap, alternatives.

We must point out that there is one alternative explanation for the low price of the shares, which is that even if our earnings growth analysis is correct, the (Euro) interest rates we use to discount those future earnings are set to rise dramatically; i.e., that the reflation efforts described above will be so successful that investors will not be content (at the margin) to buy bonds until interest rates have risen back to the levels of 1997, before the European currencies merged to form the Euro. And as a result, investors will be less attracted to the growing dividends of Heineken as the fixed coupons of government debt rises. We view this as an asymmetry, with powerful investment potential: if a concerted effort to reflate economies succeeds dramatically and broad economic growth resumes, Heineken shares seem already to reflect that 'risk' (higher discount rates), but *not* the associated improvement in Heineken's growth rate beyond our expectation. On the other hand, if stimulative efforts by the authorities fail or, more likely, achieve the modest result of sustaining slow growth and price stability, very few companies will be able to match Heineken's earnings growth, which the market will eventually recognize.

Non-US equities stand today at breathtaking valuation discounts to their US counterparts.

Finally, we feel compelled to offer an endorsement not only for our global approach, but for non-US equity investing in general. Non-US equities stand today at breathtaking valuation discounts to their US counterparts following nearly a decade of near-continual underperformance. US outperformance and the associated strength of the Dollar may be seen as an example of a self-reinforcing crowd behavior, dominant over the short term but unsustainable in the long term. The perceived miracle of productivity, US corporate profit growth, and security that initiated this 'virtuous circle' has now been shown to be illusory, or at least highly exaggerated. While one can point to certain historical superiorities in the US economic model, particularly the adaptability of the labor force and the tradition of non-interference of government, these qualities are being imported and, by degrees, successfully implanted in the developed nations of Europe. Moreover, developing nations in Asia and Latin America are re-creating the dynamic, entrepreneurial environment that has characterized a younger US, and thereby unleashing the competitive power of their structural cost advantages. Thus, the relative trends in sustainable return on capital within and without the US are converging, or perhaps have already converged. One can never identify with confidence the factors that will end a period of self-reinforcing behavior, nor pinpoint the time when the cycle reverses. But the present moment of new focus on both structural and cyclical problems of the US economy, and a faltering of confidence in its currency, seems propitious.

We purchased eight new stocks in the quarter, and sold seven.

Activity

Reasons to own:

We bought:

Heineken—share price not reflecting growth potential.

Heineken, the international brewing company, as discussed earlier.

Caterpillar—new businesses and new markets moderating cyclicality.

Caterpillar, the world's largest producer of earthmoving equipment. Caterpillar is exploiting its powerful network of after-sales support and service centers to gain additional market share. Meanwhile, its business is evolving from primarily construction machinery towards a manufacturer of highly dependable engines that have found markets from consumer vehicles (trucks) to backup power generation equipment. Power generation, especially, will help moderate the cyclicality of its traditional business, while the company's ongoing expansion into new products, more services, and the new markets of China and Russia will drive growth over the next five years.

Wolters Kluwer—after a severe de-rating, the stock is undervalued.

Wolters Kluwer, the global publisher of professional materials and journals for the legal, medical and scientific communities, and a company that we owned for several years. Wolters has developed web-based distribution that allows it to leverage its expert content through customization of products and services. As always, the company continues to pursue add-on acquisitions that will supplement internal revenue growth, employing its ample free cash flows. The company has suffered a severe de-rating over the past few years, as fears of the Internet's revolutionary impact on publishing and the ability to copy proprietary content have increased.

Emerson—strong market share and attention to costs leading to high margins.

Emerson Electric, a global industrial components manufacturer focused on technologically-sophisticated areas such as remote plant and factory control, electrical power supply and management systems and climate control. Emerson is the largest supplier of key commercial/industrial components to the HVAC industry. Strong market shares, extensive (40%) overseas sales and production, along with keen attention to costs has led to industry leading margins, testimony to management's outstanding long-term track record of increasing earnings and dividends.

Schlumberger—size and scope, technology leadership.

Schlumberger, the world's premier oilfield supply company. Schlumberger's strength lies in its size as well as the scope of its products and services that range from specialized drilling equipment, to reservoir measurement systems, seismic and technical services. The company's new chief executive has taken the axe to the ill-fated Sema acquisition which took it outside its core competence, and which prompted a significant period of poor stock price performance. Schlumberger is the technology leader within the oilfield services industry. Its renewed focus will allow it to thrive as the oil producers' increased activity in evermore complex international offshore fields requires more intensive and sophisticated techniques. Nowhere is this more true than in the rapidly modernizing Russian oil industry, where Schlumberger is already active and well placed.

Mitsubishi—industry leader, well positioned for upturn.

Mitsubishi, the leading general trading company in Japan and the parent of the Mitsubishi Group. Mitsubishi is a peculiarly Japanese conglomerate with interests in LNG, metals, machinery, information systems, technology and media. Expertise gained in the core business of commercial transactions has enabled the company to expand through investments and participations into a variety of information, financial and logistical businesses. We believe Mitsubishi is well positioned to benefit from the upturn in the domestic and Asian economies.

Banco Bradesco—size, technology diverse product range.

Banco Bradesco, the largest private sector bank in Brazil, with 11 million customers in over 2,600 branches. The bank has aggressively invested in technology, and fully 75% of its transactions are electronic. Bradesco is the top underwriter of fixed income securities in Brazil, the fifth largest stockbroker, and the third largest M&A advisor. Bradesco, with leading market shares in most of its businesses, will profit from the high secular growth of financial services in Brazil over the next decade.

Securitas—focused business strategy with growing margins.

Securitas, the world's largest security service company. Securitas supplies manned guarding, alarm, and cash-in-transit services. Unlike many other business service companies, Securitas is focused on providing comprehensive coverage in a single service—security. The security business is fragmented, but Securitas is the single largest provider, having a 10% share in Europe and 6% in the US. The company has traditionally grown through acquisition, and then by offering new and extended security services to the acquired customers, allowing margins to grow.

Reasons to sell:

We sold:

Suez—failed expansion strategy.

Suez, the European utility conglomerate. Suez' strategy of achieving higher growth through exposure in developing economies now appears in disarray, after write-offs in Argentina, and withdrawal from the Philippines. At the same time, its other strength—the ability to offer bundled utility services to large industrial customers—has not had the impact on growth the company expected. Instead, the company has been forced to restructure, to alleviate concerns about its levels of debt.

Royal Dutch—failed to achieve stated financial milestones.

Royal Dutch, the global integrated oil company, which has failed to achieve many of its own goals for overall returns to shareholders. At the same time, it has faced increasing difficulty in replacing the oil reserves it consumes each year. We sold the stock to reinvest in Schlumberger.

Luxottica—open to US consumer retrenchment.

Luxottica, the large, low-cost producer of high-quality eyeglass and sunglass frames, which, although extremely well managed and a beneficiary of the demographic trends in the US and Europe, is overly exposed to a retrenchment of the US consumer through its large Lenscrafters and Sun Glass Hut retail subsidiaries.

Honeywell—financial strength issues.

Honeywell, an industrial and engineering conglomerate. As one by one, the pillars of the investment thesis developed flaws, from the extreme depth and length of the commercial aircraft recession, to the inability to put asbestos litigation risks behind them, to pension funding issues.

Teva—reached medium-term price targets.

Teva Pharmaceutical, the Israel-based producer of generic and branded pharmaceuticals, which was sold for valuation reasons after terrific absolute and relative performance. While we believe that generic drugs will continue to gain market share as part of the effort to reduce healthcare costs, Teva shares are near our estimate of fair value, while many healthcare stocks are at significant discounts to their fair value.

Cerus—insider selling will keep share price depressed.

Cerus, a biotechnology company, whose the products appear to be on target as we envisioned. However, the span of time until the revenues begin to flow is too long for the current market environnment, where immediate visibility gets a well-deserved premium. The result in Cerus' case was that there are insufficient new buyers to offset the selling that appears to be taking place from large shareholders whose lock-ups have ended and who face continued redemption calls for cash.

Asatsu—facing new and improved competition.

Asatsu, the Japanese advertising affiliate of WPP. Rising competition from Dentsu, which has found international affiliates of its own, and a better understanding of the bargaining power of advertising companies versus television and other Japanese media, led us to sell our holding, in order to fund a new holding in Mitsubishi.

Global Equity Holdings as of December 31, 2002

Company	Country	Weight (%)	Sector	Description
Oracle	US	4.2	Information Technology	Database management software firm
Rio Tinto	UK	3.3	Materials	Diversified mining company
Air Liquide	FRA	3.3	Materials	Industrial gas company
Vodafone	UK	3.1	Telecommunication	Telecommunication services provider
American Int'l Group	US	3.1	Financials	Insurance holding company
Allied Capital	US	2.9	Financials	Financial institution providing small business loans
Wrigley	US	2.9	Consumer Staples	World's largest chewing gum maker
Hutchison Whampoa	HK	2.8	Industrials	Ports, telecom, & property conglomerate
Merck	US	2.8	Health Care	Pharmaceutical company
Colgate-Palmolive	US	2.8	Consumer Staples	Consumer products company
Sasol	S AFR	2.7	Materials	Refined petroleum products producer
Pearson	UK	2.6	Consumer Discretionary	Print & broadcast media company
TJX Companies	US	2.6	Consumer Discretionary	Off-priced name brand stores
EnCana	CAN	2.6	Energy	Producer of natural gas
Kinder Morgan	US	2.5	Utilities	Natural gas transportation & logistics company
Nestlé	SWITZ	2.5	Consumer Staples	World's largest food company
L'Oreal	FRA	2.4	Consumer Staples	Personal care products manufacturer
Genentech	US	2.4	Health Care	Therapeutic biotechnology research company
Taiwan Semiconductor	TAIW	2.3	Information Technology	Dedicated IC foundry
Exxon Mobil	US	2.3	Energy	Global oil company
Berkshire Hathaway	US	2.2	Financials	Auto insurer & general reinsurer
Canon	JAP	2.2	Information Technology	Maker of image & information equipment
Heineken	NETH	2.1	Consumer Staples	International brewing company
Automatic Data Proc	US	2.1	Industrials	Business services outsourcing company
Novo Nordisk	DEN	2.1	Health Care	Prescription drug manufacturer
Kao Corporation	JAP	1.9	Consumer Staples	Household products maker
Banco Bradesco	BRAZ	1.9	Financials	Private sector bank
WPP Group	UK	1.8	Consumer Discretionary	Advertising & marketing services company
Securitas	SWED	1.8	Industrials	Security service company
Intel	US	1.7	Information Technology	Global semiconductor manufacturer
Baxter International	US	1.7	Health Care	Medical products supplier
Deutsche Bank	GER	1.6	Financials	Universal bank
Nomura Holdings	JAP	1.6	Financials	Brokerage firm
Mitsubishi	JAP	1.5	Industrials	Trading company
CVRD	BRAZ	1.5	Materials	Iron ore exporter & private railway operator
Wal-Mart de Mexico	MEX	1.5	Consumer Discretionary	Consumer goods & food retailer
Schlumberger	FRA	1.4	Energy	Oil services company
Dassault Systemes	FRA	1.3	Information Technology	CAD/CAM software designer
JPMorgan Chase	US	1.3	Financials	Large money center bank
Caterpillar	US	1.1	Industrials	Producer of earthmoving equipment
Wolters Kluwer	NETH	1.0	Consumer Discretionary	Global publisher of legal, tax, medical & business info
DBS Group	SING	1.0	Financials	Singapore's largest bank
AOL Time Warner	US	1.0	Consumer Discretionary	Large media company
Sony	JAP	0.9	Consumer Discretionary	Global entertainment media corporation
Emerson Electric	US	0.9	Industrials	Global industrial and electronics controls company
China Mobile	CHINA	0.9	Telecommunication Svcs	Cellular telephone operator
Close Brothers	UK	0.8	Financials	Small merchant bank
Atlantis Japan	JAP	0.7	Financials	Closed-end fund of small Japanese companies

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, 2002

	Annualized Returns for Trailing Periods (%)					Volatility[2]
	1 Year	3 Years	5 Years	10 Years	Since Inception[1]	Since Inception[1]
Global Equity (gross of fees)	**-19.4**	**-11.4**	**-0.2**	**6.7**	**8.7**	**13.8**
Global Equity (net of fees)	**-19.8**	**-12.1**	**-1.0**	**5.8**	**7.9**	**13.7**
MSCI All Country World Free Index[3]	*-19.0*	*-16.3*	*-1.9*	*6.3*	*4.7*	*14.4*
MSCI World Index	*-19.5*	*-16.4*	*-1.8*	*6.7*	*4.9*	*14.4*

[1]Inception Date: 11/30/89 [2]Annual Standard Deviation (%) [3]Benchmark Index

	Calendar Year Returns (%)										
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Global Equity (gross of fees)	**-19.4**	**-14.9**	**1.3**	**38.9**	**2.3**	**11.0**	**17.3**	**19.0**	**0.0**	**24.3**	**8.9**
Global Equity (net of fees)	**-19.8**	**-15.5**	**0.9**	**38.2**	**1.6**	**10.1**	**16.3**	**18.0**	**-0.9**	**23.2**	**8.1**
MSCI All Country World Free Index[3]	*-19.0*	*-15.9*	*-13.9*	*26.8*	*22.0*	*15.0*	*13.2*	*19.5*	*5.0*	*24.9*	*-4.2*
MSCI World Index	*-19.5*	*-16.5*	*-12.9*	*25.3*	*24.8*	*16.2*	*14.0*	*21.3*	*5.6*	*23.1*	*-4.7*

	Composite Information										
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Total market value of accounts ($M)	$117.7	$152.5	$107.5	$95.7	$179.4	$251.3	$188.1	$146.8	$112.5	$80.2	$63.3
Total firm assets ($M)	$1081.0	$1154.5	$1392.4	$1423.3	$1371.5	$1520.8	$1247.3	$635.1	$369.1	$252.1	$161.1
% of total firm assets	10.9%	13.2%	7.7%	6.7%	13.1%	16.5%	15.1%	23.4%	30.5%	31.8%	39.3%
Number of accounts	6	7	†	†	11	15	13	13	17	16	14
Dispersion: asset-weighted standard deviation	0.6%	0.4%	†	†	1.4%	1.5%	0.7%	1.7%	1.2%	4.6%	1.5%

† Five or fewer accounts

Portfolio Characteristics	
Weighted Average Market Cap ($ million)	$39580
Price/Earning (forecasted)	15.8 times
Price/Earning (trailing)	20.6 times
Price/Cash Flow	13.3 times
Growth Rate	10.1%
Price/Book	1.9 times
Yield	2.2%
Return on Equity	11.3%
Number of Holdings	48
% annual turnover (5 year average)	39%

Ten Largest Holdings	% Portfolio
Oracle (United States)	4.2%
Rio Tinto (United Kingdom)	3.3%
Air Liquide (France)	3.3%
Vodafone (United Kingdom)	3.1%
American Intl Group (United States)	3.1%
Allied Capital (United States)	2.9%
Wrigley (United States)	2.9%
Hutchison Whampoa (Hong Kong)	2.8%
Merck (United States)	2.8%
Colgate-Palmolive (United States)	2.8%

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 since October 31, 1989.

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.

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

HARDING, LOEVNER MAN AGEMENT, L.P.
50 Division Street • Suite 401
Somerville, NJ 08876

Contact: Robin Norton, CFA
Clarke Moody, CFA

Telephone: 908-218-7900
Fax: 908-218-1915
Website: www.hardingloevner.com