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- The Composite outperformed its benchmark for the quarter, but underperformed for the year.
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Composite Performance (as of December 31, 2004)

	Last Quarter	Last 12 Months	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ²	Volatility ³
Global Equity (gross)	12.6%	9.0%	5.2%	0.1%	8.3%	10.2%	13.7%
Global Equity (net)	12.4%	8.5%	4.7%	(0.6%)	7.5%	9.4%	13.6%
MSCI ACW ⁴	12.3%	15.8%	8.1%	(1.8%)	8.2%	7.2%	14.4%
MSCI World	12.1%	15.3%	7.5%	(2.1%)	8.6%	7.3%	14.3%

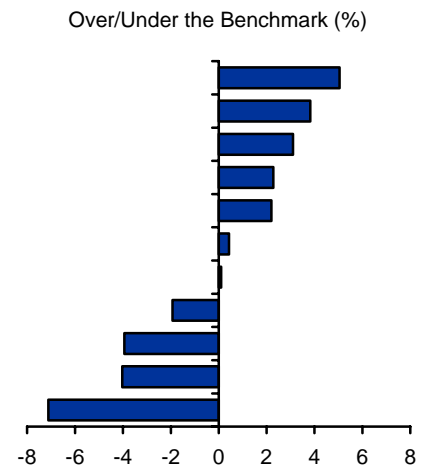
¹Annualized Returns, ²Inception Date: November 30, 1989; ³Annual Standard Deviation ⁴The Benchmark Index
Please read the above performance in conjunction with the footnotes on the back page of this report.

Outlook

- Style headwinds abating?
- What we mean by 'growth' companies
- The contravention of dividend theory

Current Composite Sector Exposure

Sector	HL Global	MSCI ACW
Info Technology	16.9%	11.9%
Industrials	14.1%	10.3%
Energy	11.2%	8.1%
Materials	8.0%	5.7%
Consumer Staples	10.7%	8.5%
Cash	0.4%	--
Cons Discretionary	12.2%	12.1%
Telecom Services	3.4%	5.3%
Utilities	--	3.9%
Health Care	5.9%	9.9%
Financials	17.2%	24.3%



Composite Activity

Purchases	Sector	Sales	Sector
China Merchants	Industrials	ABB	Industrials
General Electric	Industrials	JP MorganChase	Financials
LVMH	Cons Discretionary	WPP Group	Cons Discretionary
Tyco International	Industrials		

All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. A complete list of holdings appears on page 9 of this report.

Market Review

Equity markets soared in the fourth quarter, continuing the rally that began in August, as economic data began to show resilience in the face of high oil prices, and fears of a slowdown in Chinese investment and US consumption evaporated. As it has been for the entire year, the US was the laggard in the quarter, rising by 9% while the rest of the world rose by 15%. Standout performance came from emerging markets, which rose 17% in the quarter and 26% in the year.

International markets, led by the Emerging Markets, outpaced the US.

Market Performance (% Total Return)				
Market	Trailing 12 Months		4Q 2004	
	USD	Local	USD	Local
Canada	22.6	14.1	12.3	6.8
Germany	16.7	8.2	19.3	9.0
Japan	15.9	10.8	13.0	5.1
United Kingdom	19.6	11.5	12.6	6.1
United States	10.7	10.7	9.4	9.4
Europe EMU	22.1	13.3	18.9	8.6
Europe ex-EMU	20.5	11.9	13.2	5.6
Pacific ex-Japan	29.7	25.5	16.6	10.0
Emerging Markets	26.0	15.8	17.3	8.7

Source: Wilshire Atlas, MSCI

Dollar weakness was front page news, with the Euro gaining 9% against the US Dollar in the quarter, the British Pound 6%, and the Japanese Yen gained 7%. Even some of the Asian currencies appreciated noticeably against the Dollar, despite the steadfast refusal by China to countenance any revaluation of the Yuan: the Korean Won gained 11% and the Singapore Dollar 3%. Nearly a third of the global market index's return of 12% in the quarter was due to currency movements against the US Dollar, as was nearly a quarter of the full year's return.

Style influences have had a significant impact on performance.

Style influences continued to have significant impact on performance. Once again, the value half of the index outperformed the growth half in the quarter, bringing its cumulative outperformance to 8 percentage points in the year. Small cap stocks beat the overall benchmark by nearly ten percentage points. The Japanese market diverged from the rest of the world, the growth half of its market outperforming the value half in the quarter by five percentage points.

Top vs Bottom Quintile of Stocks in MSCI AC World Index (% Total Return)						
	9/30/02-12/31/04			9/30/04-12/31/04		
	Top	Bottom	Difference	Top	Bottom	Difference
Return on Assets	46.5	100.9	-54.4	10.0	16.6	-6.6
Return on Equity	52.3	90.4	-38.1	10.7	15.2	-4.5
Std Dev of ROE (5 Yr) ¹	58.5	73.1	-14.6	13.1	13.5	-0.4
Debt/Equity Ratio ¹	70.3	78.6	-8.3	9.3	13.9	-4.6
Profit Margin	50.2	97.3	-47.2	10.2	15.5	-5.2

¹ "Top" Quintile = lowest

Source: Wilshire Atlas, MSCI

The stunning headwind against high quality stocks.

Another style dimension that has attracted our attention this year is one that rarely is mentioned, that of business quality. We used objective measures of that subjective characteristic, based on the operating and balance sheet ratios used by the rating agencies and in our own company research process, to analyze the effect of quality on stock price performance in recent periods. The results, presented in the adjoining table, were stunning. We conclude that the quintile of companies with the highest business quality, according to each of these five measures, has underperformed the quintile with the lowest quality by an average of 33 percentage points over the two and a quarter years ending December 31. This huge headwind for stocks of high-quality companies continued—to our consternation—into the fourth quarter.

Portfolio Attribution

Our portfolio's return this year, relative to the benchmark, has been poor and we do not want to make excuses for it. That said, we can offer a logical explanation that is rooted in our deeply held belief in the merit of investing in high quality companies for the long term. While analyzing style effects on performance is fraught with complexity, we attribute the majority of recent underperformance to the portfolio style biases resulting from the rigorous and consistent application of our investment philosophy, which strongly emphasizes high business quality and earnings growth potential as essential characteristics of companies that make successful *long-term* investments.

We can attribute the majority of underperformance to a consistent application of our investment philosophy.

Sector Performance (%Total Return)		
Sector	Trailing 12 Months	4Q 2004
	USD	USD
Consumer Discretionary	15.5	13.9
Consumer Staples	12.8	11.9
Energy	28.4	7.1
Financials	18.8	14.2
Health Care	6.5	6.5
Industrials	20.2	12.2
Information Technology	3.1	13.5
Materials	18.5	11.5
Telecom Services	19.7	16.9
Utilities	28.8	14.7

Source: Wilshire Atlas, MSCI

Within sector and regional attribution there is little to note. Significant allocations in favor of emerging markets at the expense of the EMU area had little effect on performance, whereas the Industrials sector bets against Financials and Telecom Services, detracted. Favored by investors in the quarter, both of these industry sectors comprise mainly domestic businesses whose profits are largely unaffected by the depreciation of the Dollar, unlike multinational businesses whose US business contribution to the parent accounts would be diminished by translation of the weak US Dollar. But sector weighting effects were small compared to the growth and business quality style effects, which manifest themselves in the standard attribution analysis as 'stock selection'; they added almost one percent of relative performance in the quarter, and almost 5% in the year as a whole, spread across most of the sectors or regions. That spread and the corollary that the results cannot be traced to

We believe the headwinds of style are abating.

What we mean by 'growth' companies.

misguided industry or geographic allocations, reinforce the conclusion that systematic, or style-based, causes lie at the root of recent underperformance.

Outlook

We believe that the headwinds that have inhibited our style of investing in high quality growth companies are abating and set to reverse. The broad cyclical recovery of earnings from their trough following the economic slowdown now is decelerating rapidly, while the secular growth outlook of our preferred companies remains favorable. Meanwhile, the market appears to be extrapolating continued strong profit growth for all and valuing earnings of cyclical companies, in particular, too highly. In addition, it is placing an unusual emphasis on high current dividends, while unduly discounting prospective returns on capital investment for future growth.

We have looked for high future growth from companies that prefer to invest rather than pay large dividends, rather than from companies that are highly priced. Disciplined and able managements will exploit growth opportunities without falling victim to the excessive optimism that plagues most, with the evidence of discipline to be found in the measurements of quality that we spoke of earlier. The market, punished dreadfully for backing managements that had abandoned, sometimes fraudulently, all prudent estimates of returns on capital investment, has taken capital discipline to extremes, and gone overboard in discounting the price of companies that actually are both growing and high quality.

We often assert that we prefer to invest in 'growth' companies, but defining what we mean by that label bears explaining, because what we mean is different from the current investment jargon. Market index constructors, such as MSCI, and the strategists and commentators that use their output, split the overall market in two halves: one containing those stocks whose valuation, as a multiple of book value, earnings, etc., is above the average—the 'growth' half—and the other whose valuation is below, i.e., the 'value' stocks. The presumption is that, in an *efficient* market, stocks with the highest growth prospects will sell at the highest valuations. This construction has the virtue of simplicity, and ease of application; the only information one needs to identify such 'growth' stocks are share prices and historical financial data. As a tool for active portfolio management, however, it has the disadvantage of failing to distinguish between stocks of truly growing companies, and merely expensive, i.e., overpriced, stocks. In contrast, our approach to the identification of 'growth' is based upon our analysis and direct assessment of the prospects for the company's business, not upon an inference of growth based upon the fullness of its share price. To us, a growth company is one confronting high return investment opportunities, which it does and will continue to exploit in order to increase its base of revenues and earnings. This identification is necessarily subjective.

In seizing these investment opportunities, growth companies should in theory exhibit a lower dividend payout ratio than the average company. This stands to reason because retained earnings are the most efficient source of capital to fund such investments. Retained earnings avoid any payments to third parties, such as interest payments to lenders, or underwriting fees to investment bankers. Retained earnings or, more correctly, free cash flow can be employed regardless of conditions in capital markets, which are always unpredictable and occasionally downright hostile to

The tension between the growth pursuit and capital discipline propels managements to build shareholder wealth.

companies in need of capital. Managements of companies with ample investment opportunities, assuming they are properly incentivised to grow their businesses, have good reason to be stingy with dividends to shareholders.

But we try to be clear-headed investment thinkers, and we remind ourselves that the ultimate definition of a growth company is one that actually grows over time, especially one that grows its sales revenues and its earnings per share, and especially one that grows faster than the average company. Robert Arnott, in a startling academic study¹, has shown empirically that companies with *high* dividend payout ratios historically have grown faster than companies with *low* payout ratios. That is, what is obvious about optimal management behavior is apparently untrue in the real world: perversely, companies that ask shareholders to postpone their rewards far into the future obtain worse results from their capital investments than companies that provide their shareholders significant current returns in the form of dividends.

This contravention of theory with fact is, in our opinion, related to the intersection of growth with quality: How does management choose between investment alternatives, or indeed, decide to forego some investment opportunities? Possibly by having the discipline of paying dividends—i.e., providing current returns to shareholder capital—acting as a counterweight to the inherently unpredictable future returns on investment. Why is such a counterweight—the illusion/discipline of scarce capital—a desirable thing? Possibly because, as behavioral economists have demonstrated, human beings are genetically coded for optimism, and thus managements consistently overestimate the prospective returns to potential investment projects. With less low-cost capital readily available, the lowest, i.e., inadequate, return projects are squeezed out. Possibly because it forces management to be creative in operating the business more efficiently, generating higher margins and asset returns—or more conservatively, with less leverage and more stability. Capital discipline begets management attention to the business measures that we label collectively measures of ‘quality’. We have long been proponents of companies who scored highly on these measures along with being able to demonstrate their ability to grow: it is in the tension between the growth pursuit and capital discipline that propels managements and companies to build shareholder wealth over time.

The IT bubble of the late 1990s and the property bubble in Japan in the late 1980s are merely the starkest reminders in modern investment history of how herd mentality and skewed incentives can create excessive optimism about future returns to investment. Both episodes saw enormous amounts of capital invested for what turned out to be negative or negligible returns. Without proper governance, and without clear-headed management incentives, the emphasis on future returns at the expense of current returns has proven to be an excellent recipe for wasting shareholder capital. In other words, it is no coincidence that Arnott’s study arrived after the tech bubble had burst in a shower of corporate governance scandals and IPOs built on nothing but a business plan. And no accident that shareholders have grown more demanding of companies for current cash returns, encouraged by reductions in dividend taxation in a number of countries, particularly the US and Japan.

Scarred by the late 1990s, investors have become loath to accept promises of future returns in lieu of cash returns now, and have been vocal and active in communicating this preference. This vocal shareholder preference for current returns—and the

¹Arnott, Robert D. and Asness, Clifford S. “Surprise! Higher Dividends = Higher Earnings Growth.” *Financial Analysts Journal*, January/February 2003: 70-87.

The market has become absurdly hostile to companies that pursue sustainable growth opportunities.

High-quality companies are valued more cheaply than low-quality companies.

degree to which managements are paying attention to it—extends not only to increased dividend growth at the expense of new capital expenditures, but also to use of capital for acquisitions, which rely on management delivery of cost or revenue synergies to create a return on the capital employed. In one instance this quarter, friendly merger talks between French bank Dexia and the Italian Banca SanPaolo IMI were scotched by shareholders before they even got off the ground, despite the fact that both banks are themselves the successful products of earlier mergers. It is our impression that shareholders were reacting to the principle of merger, not to the facts as management perceived them. In our view, the natural reaction to the wasteful race to build the empires of the new era in the internet age has become a lopsided phobia that deters many executives from making even sensible investments; the market has become absurdly hostile to companies that pursue sustainable growth opportunities.

Some rare managements, of course, have demonstrated over long periods that they do not need the added discipline of dividend commitments to make sensible decisions about reinvesting capital ('free cash') generated within their businesses. **Berkshire Hathaway's** Warren Buffet is the classic case, with Berkshire paying not a penny in dividends, taking the theoretically pure stance that the Sage of Omaha has lots of high return investment opportunities—including, apparently these days, foreign currency cash deposits created synthetically in the foreign exchange derivatives market. But the market is currently quite skeptical that there are many such managers around, a situation that dismays many chief executives who have done a reasonably good job of delivering growth within their companies by retaining all the earnings. One such CEO we met with recently runs the Danish commercial services company ISS, which pays out a small dividend, eschewing current capital returns to shareholders in favor of bolt-on acquisitions in the various low-tech businesses they operate. Cash earnings per share have compounded at 12% during his tenure, but a frustrated Eric Rylberg complains that the market has ignored his company's record, allowing the shares to languish at what he considers to be valuations tempting enough to take the company private.

Such opinions regarding the mis-pricing of high quality growth companies (our fundamentally-based definition) are not limited to just Rylberg. The divergence is so extreme Merrill Lynch quantitative analysts estimate that high-quality companies (measured using similar yardsticks to those we used above) are valued more cheaply than low-quality companies, the result of both the pursuit by investors of high current yielding stocks, combined with the extrapolation of recent robust earnings recoveries for all companies, especially the least resilient, lowest-quality ones. They reckon, using consensus earnings, that the lowest-quality companies trade at price-to-earnings ratios that are between 30% and 100% greater than the highest quality companies. The differential is widest among European companies. In our view, such disparity cannot last. It will be eliminated either by an increase in buy-out and merger activity among the high-quality, growing companies, as Rylberg suggests, or else by the realization by investors that the aggregate profit outlook is much less rosy than current share prices imply, sending all stocks lower, with special prejudice for those of companies with less resilient businesses and lower organic growth.

Warning signs of the latter outcome—an end to the rapid and easy profit increases—abound. The most reliable signal, of course, is the impact of Federal Reserve policy on bond market yield curves. The former is raising short-term interest rates, and the

Bold indicates companies held in the portfolio. The percentage of each position appears on pages 9 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 holdings are subject to review and adjustment in accordance with our investment strategy and may vary in the future; and are not recommendations to buy or sell any security.

The portfolio is squarely positioned in companies that measure out at higher quality.

latter are flattening as longer-term yields actually have fallen this year, in a vote of confidence that inflation will stay under control. As ever, we're sure we're not good predictors of which of the two outcomes will play out. We are, however, more confident than usual that in either case, companies that are willing to seize investment opportunities (growth) and have the capability to do so (high quality) have an advantage over their competitors. The asymmetric risk/reward in the current mis-pricing of this advantage offers great opportunity for those investors who are willing to ignore current market fashion or refuse to presume that the recent past can be extrapolated into the future.

Portfolio Structure

Going into 2005, the portfolio is squarely positioned in companies that measure out at higher quality and higher trailing growth than the market averages. The average return on assets of the portfolio, along with the average profit margin, is greater than the overall market average, but with lower debt-to-equity and less volatility in the ROE over the past five years.

Ratio of Weighted Median of HL Composite to MSCI AC World Index as of 12/31/04

QUALITY	
Return on Assets	1.78
Return on Equity	0.97
Std Dev of ROE (5 Yr) ¹	0.80
Debt/Equity Ratio ¹	0.76
Profit Margin	1.08

¹ "Top" Quintile = lowest

Source: Wilshire Atlas, MSCI

The widespread failure of oil companies to deliver volume growth.

One industry that has seen the long term results of a preference for current returns over investing for future returns is Energy, which has witnessed a dearth of capital investments over the past ten to fifteen years, all while posting good financial results by drawing down reserves. The widespread failure of oil companies to deliver volume growth has led to the supply/demand imbalances that have given rise to current energy prices. We have focused our investments on companies that *have* invested, and are growing production volumes, making them hugely profitable in this environment surely, but good businesses even in less favorable pricing circumstances. **Sasol**, the South African synthetic fuels refiner, has underway a \$3.3 billion capital expenditure program that will exploit stranded gas fields in Qatar, as well as produce the cleanest diesel fuel yet recorded, from a variety of feedstock, including coal, heavy crude, and gas. **EnCana**, the Canadian gas company, had organic production growth of 12% this year thanks to ambitious capex, but its management had the gumption to add yet more reserves and production by acquiring the US company Tom Brown, with exploration and production properties adjacent to its own in the Colorado Rockies

Within the Financials industry, opportunities for growth tend to come from a combination of technology investment, marketing spend, and acquisition—all of which require a corporate culture of discipline and efficiency. We own **Bankinter**,

***Within Financials,
growth comes from
technology,
marketing and
acquisitions.***

***We will back
managements
prepared to invest for
growth.***

the Spanish commercial bank which saw early the potential efficiency and customer satisfaction possibilities of a highly sophisticated technology platform that was integrated with a modest branch network. It has been able to grow its customer base, its assets, and its earnings more rapidly than its competitors by being willing to choose heavy investment over greater dividend payouts for a number of years. We own **Erste Bank**, which remains committed to its acquisition and modernization program of Central and Eastern European banking franchise, where the idea of paying out the level of dividends that most European banks pay out is dismissed with a long list of potential investment opportunities. This region essentially without retail banking services and products for half a century, but is now busy refurbishing or replacing the bulk of its dilapidated housing stock, financed by a rapidly developing mortgage market. We also own **Wells Fargo**, the US industry's leader in marketing to its own customers so that it can sell multiple products to the same person, a feat that is often attempted but rarely achieved, and one that brings true revenue synergies to its many acquisitions of smaller community banks that previously offered only a limited range of banking services. These banks' attention to investment opportunities give us confidence that their earnings will continue to grow faster than their peers', while their capital discipline that has caused their 'quality' measures to shine gives us confidence that the growth will be more resilient or reliable than their peers.

We also have not been shy in backing managements prepared to invest (or acquire) for growth, at the risk of violating current corporate fashion. **Canon**, the Japanese office equipment and camera maker, has long been dismissive of the need to kowtow to shareholders, arguing instead that its primary loyalty is to itself and its employees. But Canon management has seen clearly that the greatest way to deliver on its commitment to its employees' well-being is through making profits, operational excellence, constant innovation and investment for the future. The end result is a long track record of new products, growing revenues and earnings, high margins and returns achieved with low leverage. **Nestlé** is another longtime holding that has repeatedly bucked conventional wisdom by investing in its own brands, acquiring additional brands and businesses, and investing heavily in new geographies for its existing stable of products. We continue to own **Mitsubishi Corporation**, first bought when its management showed a very un-Japanese attitude towards restructuring and delivering better returns to shareholders after a long period of unproductive investment typical of Japanese companies. But the company's new president, with whom we met earlier this year, has clearly stated that his company must once again focus on growth, and to do that must emphasize investment: unfashionable news indeed in the general environment of recovery from a decade or more of wasteful capital investment in Japan. In the US, we once again own **Oracle**, whose chairman Larry Ellison has flouted conventional wisdom in Silicon Valley and on Wall Street by launching and winning a hostile takeover bid in the Information Technology sector with the pile of cash the company had accumulated from its high return business. We aren't sure yet, but we suspect that he may have a better vision of the future than does Microsoft, in its \$32 billion return of cash to shareholders via a special dividend.

We have made one adjustment, with Arnott's finding in mind, to our preference for companies willing to seize investment opportunities. We have explicitly embraced rapid dividend growth among Japanese company managements as a sign that they

**Again, Japan as
exception to the rule.**

have changed their behavior about balancing shareholder returns against investment opportunities. The evidence over the past twenty years has been overwhelming that most Japanese managements have had no concern whatsoever for shareholder returns, even the ones who paid the concept lip service, and have been awful (or negligent) at judging whether the returns to capital investment would exceed the cost of the capital being invested. As we wrote in our mid-year report, the Japanese companies we own are growing dividends significantly faster than the average Japanese company, which in turn is growing dividends faster than the average company in any other major market, including the US. Interestingly, these companies—among the best managed in Japan—still have a much lower dividend payout ratio than the overall market or than even our lower-yielding portfolio.

According to Merrill Lynch's quantitative analysis, the US has, within the overall makeup of its benchmark, the highest percentage of high-quality companies. Not surprisingly, emerging markets and Asia-Pacific have the lowest percentage. We have begun raising the US weighting in the portfolio, a trend that we will accelerate, reversing the large underweight that we have carried consistently over the last three years, as we focus the portfolio even more on high quality and growth. If the US is to improve on its external imbalance, its companies must necessarily be increasing their share of global sales, aided by the now weaker US Dollar. If there are investment opportunities to be found, the one trillion dollars of cash that has accumulated on the balance sheets of US corporations will be more gainfully employed, or else ceded by M&A or dividends to someone who will.

Global Equity Holdings as of December 31, 2004
Supplemental Information

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Comcast	United States	1.3	Cable operator
	Denway Motors	China	0.9	Automobile & bus producer
	LVMH	France	1.1	Luxury goods group
	Pearson	United Kingdom	1.5	Education & publishing company
	Sony	Japan	1.0	Electronics & entertainment media company
	TJX Companies	United States	2.9	Off-priced name brand stores
	VNU	Netherlands	1.8	Market research company
	Viacom	United States	1.7	Media & entertainment group
Consumer Staples	Coca-Cola	United States	1.1	Soft drinks company
	Coca-Cola Femsa	Mexico	1.1	Soft drink bottler
	Colgate-Palmolive	United States	1.0	Consumer products company
	Estee Lauder	United States	1.1	Manufacturer & marketer of skin care, makeup & fragrances
	Heineken	Netherlands	1.2	International brewing company
	L'Oreal	France	1.7	Personal care products manufacturer
	Nestlé	Switzerland	1.9	Global food company
	Wal-Mart de Mexico	Mexico	1.6	Consumer goods & food retailer
Energy	EnCana	Canada	3.2	Producer of natural gas
	Exxon Mobil	United States	1.2	Global oil company
	Kinder Morgan	United States	2.6	Natural gas transportation & logistics company
	Sasol	South Africa	2.0	Refined petroleum products producer
	Schlumberger	France	2.2	Oil services company
Financials	American Int'l Group	United States	2.1	Insurance holding company
	Bangkok Bank	Thailand	1.5	Commercial bank
	Bankinter	Spain	1.2	Small Spanish bank
	Berkshire Hathaway	United States	1.0	Auto insurer & general reinsurer
	Deutsche Bank	Germany	2.3	Universal bank
	Erste Bank	Austria	1.6	Savings & retail bank
	JPMorgan Chase	United States	1.6	Money center bank
	Kookmin Bank	South Korea	1.5	Retail-oriented bank
	Nomura Holdings	Japan	1.1	Brokerage firm
	Standard Chartered	United Kingdom	1.1	Multinational commercial bank
	Sumitomo Mitsui Financial	Japan	1.0	Commercial bank
	Swiss Re	Switzerland	1.9	Large reinsurer
Wells Fargo	United States	0.9	Super regional bank	
Health Care	Abbott Labs	United States	1.3	Health care products & pharmaceuticals producer
	Medco Health Solutions	United States	1.1	Pharmaceutical benefits manager
	Merck	United States	1.1	Pharmaceutical company
	Novartis	Switzerland	1.4	Multinational life sciences company
	Qiagen	Netherlands	1.1	Laboratory equipment supplier
Industrials	Caterpillar	United States	3.1	Producer of earthmoving equipment
	China Merchants	China	0.9	Global port operator
	Emerson Electric	United States	1.7	Global industrial & electronics controls company
	General Electric	United States	1.4	Diversified products & services company
	Mitsubishi Corp.	Japan	2.3	Trading company
	Tyco Int'l	United States	1.0	Industrial products manufacturer
Information Technology	Analog Devices	United States	2.0	Analog mixed-signal computer chip maker
	BEA Systems	United States	0.6	Internet software developer
	Canon	Japan	1.1	Maker of image & information equipment
	Dassault Systemes	France	1.6	CAD/CAM software designer
	Hirose Electric	Japan	1.2	Manufacturer of electrical connectors & components
	Keyence	Japan	2.0	Detection & measuring control equipment maker
	Oracle	United States	2.8	Software company
	Qualcomm	United States	2.6	CDMA wireless communications technology firm
	Rohm	Japan	1.6	Custom chip producer
	Samsung Electronics	South Korea	2.5	Electronic equipment maker
	Taiwan Semiconductor	Taiwan	1.4	Dedicated IC foundry
Materials	Air Liquide	France	1.2	Industrial gas company
	Air Products & Chemicals	United States	1.1	Industrial gas company
	JSR	Japan	2.1	Specialty chemicals manufacturer
	Praxair	United States	1.2	Industrial gas company
	Rio Tinto	United Kingdom	2.4	Diversified mining company
Telecom Services	Vodafone	United Kingdom	3.4	Telecommunication services provider

Specific securities, portfolio holdings and sector/region weights are subject to review and adjustment in accordance with our investment strategy, may vary in the future, and should not be considered recommendations to buy or sell any security.

Supplemental information presented complements the Global Equity composite presentation which is located on the back page of this report.

Contributors to Returns Relative to the Benchmark

Largest Holdings	GICS Sector	Region	Return	Average Wt.	Contribution
Vodafone	Telecom Services	Europe ex-EMU	15.1%	3.5%	0.51%
EnCana	Energy	Canada	23.5%	3.1%	0.69%
TJX Companies	Cons Discretionary	United States	14.2%	2.9%	0.41%
Caterpillar Inc.	Industrials	United States	21.9%	2.9%	0.62%
Oracle	Info Technology	United States	21.6%	2.8%	0.56%

Positive Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
EnCana	Energy	Canada	23.5%	3.1%	0.69%
JSR Corp.	Materials	Japan	35.7%	2.0%	0.63%
Caterpillar Inc.	Industrials	United States	21.9%	2.9%	0.62%
Oracle	Info Technology	United States	21.6%	2.8%	0.56%
Vodafone	Telecom Services	Europe ex-EMU	15.1%	3.5%	0.51%

Negative Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
ABB*	Industrials	Europe ex-EMU	(10.0%)	1.0%	(0.16%)
Analog Devices	Info Technology	United States	(4.7%)	2.2%	(0.11%)
AIG	Financials	United States	(3.3%)	2.2%	(0.08%)
JP Morgan Chase*	Financials	United States	(4.0%)	0.3%	(0.06%)
Qiagen	Health Care	Europe EMU	(3.2%)	1.2%	(0.04%)

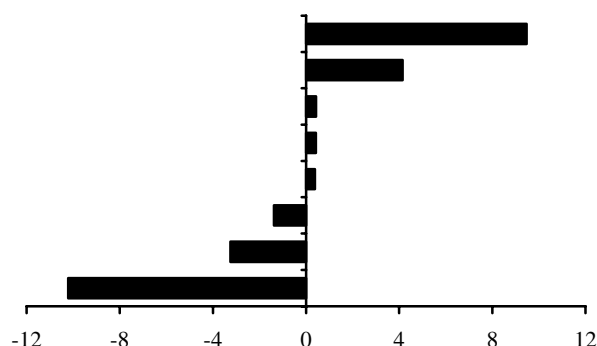
All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. The portfolio is actively managed; therefore holdings may not be current.

*Security owned for partial period; return shown is for the actual period owned in the portfolio.

Current Composite Regional Exposure

Region	HL Global Equity	MSCI ACW Index
Emerging Markets	14.7%	5.2%
Japan	13.3%	9.2%
Cash	0.4%	--
Canada	3.2%	2.8%
Europe EMU	14.9%	14.5%
Europe ex-EMU	13.6%	15.0%
Pacific ex-Japan	--	3.2%
United States	39.9%	50.1%

Over/Under the Benchmark (%)



Portfolio Characteristics

Characteristics	HL Global	ACW	Characteristics (3 Years)	HL Global	ACW
Avg Wtd Market Cap (\$B)	\$43.8	\$68.2	Alpha	(1.97)	0.00
Price/Earnings (Trailing)	24.0x	20.8x	Beta	1.02	1.00
Price/Cash Flow	13.0x	11.8x	R-Squared	0.96	1.00
Price/Book	2.7x	2.6x	Sharpe Ratio	0.11	0.15
Dividend Yield	1.5%	2.1%	Standard Deviation	15.31	14.79
Return on Equity	15.8%	16.7%	Correlation	0.98	1.00
Number Holdings	60	2405	Turnover (Average)	42%	---

Source: Wilshire Atlas

Average Weighted Market Capitalization is the product of a security's price and the number of shares outstanding. *Price/Earnings* is the ratio of a firm's closing stock price and its trailing 12 months' earnings per share. *Price/Cash Flow* is the ratio of a firm's closing stock price and its fiscal year end cash flow per share. *Price/Book* is the ratio of a firm's closing stock price and its fiscal year end book value per share. *Dividend Yield* is indicated dividend rate divided by current price, expressed as a percent. *Return on Equity* is the net income divided by total common equity outstanding, expressed as a percent.

Alpha is a measure of risk-adjusted return. *Beta* is a measure of the portfolio's sensitivity to the market. *R-Squared* is a measure of how well a portfolio tracks the market. *Sharpe Ratio* is the return over the risk free rate per unit of risk. *Standard Deviation* is the statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. *Correlation* is the statistical measure of the degree to which the movements of two variables are related. *Turnover* is the ratio calculated by dividing the lesser of purchases or sales by average capital, expressed as a percent.

Supplemental information presented complements the Global Equity composite presentation which is located on the back page of this report.

Global Equity Composite Performance Summary 2004 Fourth Quarter Report

	HL GLBL EQ (Gross)	HL GLBL EQ (Net)	MSCI ACW ¹	MSCI WORLD	Internal Dispersion ²	Number of Accounts	Composite Assets (\$M)	Firm Assets (\$M)	% Firm Assets
2004	9.0%	8.5%	15.8%	15.3%	†	†	82	1529	5
2003	32.5%	32.0%	34.6%	33.8%	†	†	127	1357	9
2002	-19.4%	-19.8%	-19.0%	-19.5%	0.6	6	118	1082	11
2001	-14.9%	-15.5%	-15.9%	-16.5%	0.4	7	152	1154	13
2000	1.3%	0.1%	-13.9%	-12.9%	†	†	108	1392	8
1999	38.9%	38.2%	26.8%	25.3%	†	†	96	1423	7
1998	2.3%	1.6%	22.0%	24.8%	0.5	11	179	1372	13
1997	11.0%	10.1%	15.0%	16.2%	0.6	15	251	1521	17
1996	17.3%	16.3%	13.2%	14.0%	0.2	13	188	1247	15
1995	19.0%	18.0%	19.5%	21.3%	0.6	13	147	635	23
1994	0.0%	-0.9%	5.0%	5.6%	0.4	17	113	369	31

¹Benchmark Index; ²Asset-weighted standard deviation (gross of fees). †Five or fewer accounts

Global Equity Composite contains fully discretionary U.S. dollar-based global equity accounts and for comparison purposes is measured against the MSCI All Country World Index (gross dividends). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg; prior to July 1, 1997 it was Reuters. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 49 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 developed market countries. You cannot invest directly in this Index.

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 Partners & Company, LLP has verified firmwide compliance since October 31, 1989, 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 investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate global equity accounts is 1.00% annually of the market value of assets up to \$20 million; 0.50% of amounts from \$20 million to \$100 million; negotiable for amounts over \$100 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

Balanced portfolio segments are not 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.

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