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Market Environment Highlights

- European stocks have a great run in 2006.
- US market lags the rest of the world for the fifth consecutive year.
- Tumbling oil prices cause Energy to trail Utilities, Telecom Services, and Consumer Staples.

Composite Performance (as of December 31, 2006)

	Last Quarter	Last 12 Months	3 Years ¹	5 Years ¹	10 Years ¹	Since Inception ^{1,2}	Volatility ³
Global Equity (gross)	7.7%	19.2%	15.1%	10.2%	8.3%	11.1%	13.4%
Global Equity (net)	7.7%	18.7%	14.5%	9.7%	7.6%	10.3%	13.3%
MSCI ACW ⁴	9.2%	21.5%	16.1%	11.3%	8.2%	8.2%	13.9%
MSCI World	8.5%	20.6%	15.2%	10.5%	8.1%	8.2%	13.8%

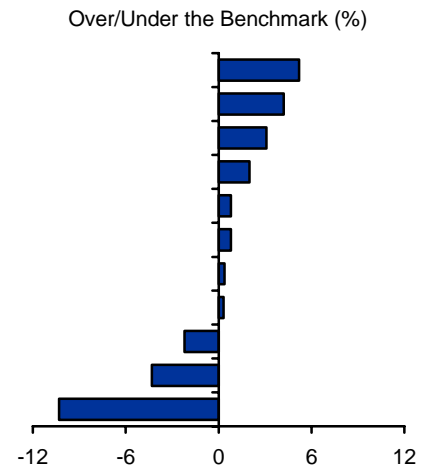
¹Annualized Returns; ²Inception Date: November 30, 1989; ³Annual Standard Deviation; ⁴The Benchmark Index
Please read the above performance in conjunction with the footnotes on the back page of this report. Past performance is not indicative of future results.

Outlook Highlights

- Credit derivatives experience broad acceptance and exponential growth.
- Housing booms are fading from the landscapes of the UK, Australia, and the US.
- The US Federal Reserve and other central banks pursue greater price stability.

Current Portfolio Sector Exposure

Sector	HL Global	MSCI ACW
Health Care	13.8%	8.6%
Info Technology	14.9%	10.7%
Industrials	13.5%	10.4%
Materials	8.5%	6.5%
Cash	0.8%	--
Consumer Staples	8.6%	7.8%
Telecom Services	5.4%	5.0%
Energy	10.0%	9.7%
Cons Discretionary	8.9%	11.1%
Utilities	--	4.3%
Financials	15.6%	25.9%



Purchases and Sales

Purchases	Sector	Sales	Sector
Walgreens	Cons Staples		

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.

The current portfolio sector exposure is shown as supplemental information only and complements the Global Equity Composite presentation which is located on the front and back covers of this report.

China's index rises dramatically.

Market Environment

With a strong finish in the fourth quarter, stocks had a remarkable run this year, extending the upswing to a fourth consecutive year. European stocks were very strong, returning 34% to US-based investors, aided by an 11% rise in the value of the Euro. Spain rose 50% in the year, Sweden rose 45%, while Switzerland lagged with a 'mere' 28% return. Southeast Asian markets were also strong, led by Singapore's 47% rise. Emerging markets did well again, despite the deep correction in the second quarter, rising 32% in aggregate, with over half of that return coming in the fourth quarter alone. China's index rose by an eye-popping 83% in the year, and by more than a third in the final quarter. Turkey's 13% rise in the fourth quarter could not make up for the sharp fall it suffered (appropriately, with its unhealthy inflation and fiscal imbalances) in the second quarter, and thus it ended the year down 7%. Japan was the odd man out among developed international markets, rising by just 6% for the year. Again, and for the fifth year in a row, the US market played laggard to the rest of the world, rising only 15% versus 27% for the non-US benchmark.

Market Performance (% Total Return)				
Market	Trailing 12 Months		4Q 2006	
	USD	Local	USD	Local
Canada	18.4	17.7	7.1	11.6
Germany	36.8	22.4	14.4	9.9
Japan	6.3	7.3	5.0	6.0
United Kingdom	30.7	14.6	10.3	5.3
United States	15.3	15.3	6.8	6.8
Europe EMU	37.3	22.7	12.1	7.7
Europe ex-EMU	31.7	16.7	11.0	6.2
Pacific ex-Japan	33.2	26.1	16.9	12.1
Emerging Markets	32.2	27.5	17.6	14.4

Source: Wilshire Atlas, MSCI (as of December 31, 2006)

Technology and Health Care lag behind other sectors.

Looking at the world from a sector perspective, Utilities and Telecom Services—traditionally considered “defensive”—performed well in the quarter and for the full year, but so did Materials, generally considered cyclical. Health Care and Information Technology, two sectors that contain many growth companies, were laggards in the fourth quarter, and trailed in the full year as well. Real estate (within Financials) and automobiles (within Consumer Discretionary) were additional industry groups that performed well in both the quarter and the year, standing out from their sectors, while retailing (within Consumer Discretionary) trailed.

Portfolio Attribution

The Composite returned 7.7% in the quarter, behind the benchmark MSCI All Country World Index, which rose 9.2%. For the year as a whole, the Composite rose 19.2%, trailing the 21.5% return of the benchmark.

**Sector Performance of the MSCI All Country World Index
(%Total Return in USD)**

	Trailing 12 Months	4Q 2006
Consumer Discretionary	20.9	11.2
Consumer Staples	21.6	6.6
Energy	20.9	10.2
Financials	25.4	9.1
Health Care	10.5	1.7
Industrials	20.1	10.0
Information Technology	9.9	6.8
Materials	31.3	14.9
Telecom Services	34.3	14.4
Utilities	37.6	12.8

Source: Wilshire Atlas, MSCI (as of December 31, 2006)

***Relative returns get a
boost from emerging
markets holdings.***

Performance for the year suffered primarily from sector allocation. We owned large positions in two of the worst performing sectors, Health Care and Information Technology, and owned nothing in the Utilities sector, one of the best performing. Some of the positive stock selection within sectors reflected, to a certain extent, the presence of emerging markets-related holdings in retailing (**Li & Fung**), banks (**Standard Chartered** and **Erste Bank**), transportation (**China Merchants**), and telecom (**China Mobile**), but these were offset by drag from US holdings in health care equipment and services (**Medtronic**, **Medco**), insurance (**AIG**), capital goods (**3M**), and Japanese holdings in tech hardware (**Hirose**, **Keyence**, **Yokogawa**). Geographically, emerging markets holdings boosted relative returns once again for the year, with an overall return for our substantial emerging markets holdings better than the MSCI Emerging Markets Index return (and much better than the developed markets return.) We note that our broad Global benchmark now accords emerging markets more than 8% of the overall index weight, up from 5% in 2000. China alone, with an aggregate market capitalization of more than \$2 trillion, accounts for nearly 10% of the emerging markets, and 1% of the Global benchmark. (For what it's worth, our significant holdings in China sizzled even more than the MSCI China Sub-Index).

Performance in the quarter was hurt by the overweight in Health Care, along with poor stock selection in Energy (**Encana**, **Schlumberger**), Materials (**JSR**), and capital goods (**Caterpillar**, within Industrials).

The 'growth' half of the non-US market was a relatively unhappy place to shop for stocks in the year, with the MSCI All Country World Growth Index trailing the MSCI All Country World Value Index, 17% to 26%, including a small advantage for value in the fourth quarter. In Japan and the US, things were even worse for growth investors, with 'growth' trailing 'value' by more than 1300 bps in both markets. Large cap stocks

Bold indicates companies held in the portfolio during the quarter. The percentage of currently held positions appears on page 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.

Some market participants embrace “risk-love.”

outperformed small cap stocks for the year as a whole, but not during the fourth quarter. Quality factors, such as the level and variability of profitability, did not have a clear-cut role in explaining returns.

Outlook

“At least as far as the markets are concerned, perhaps the main thing we have to fear is lack of fear itself.”

—Larry Summers, former US Treasury Secretary

We have noted, as have others, that the low stock market volatility and the razor-thin yield spreads for all manner of credit risks are symptomatic of two important forces at work. The first is one we focus on pejoratively, namely, the cyclical embrace by market participants of all stripes of risk (“risk-love”), by which we mean the pursuit of returns in seeming disregard of the risks entailed. The risk reduction effects of diversification are being used to justify the headlong pursuit of “non-correlated” assets, from private equity to commodities to emerging markets to real estate, without regard for their prospective returns. In reality, the returns from these asset classes from here on will be determined by the price paid for them *today*—not the price paid three or five or eight years ago (i.e., not the prices that helped determine recent returns). With deregulation fostering ever greater financial innovations and investment strategies, investors—including pension sponsors and endowment trustees—are extrapolating the recent experience of high returns combined with low volatility (i.e., low risk) into future ones, rather than coolly appraising the likely availability of such returns.

The second, more fundamental force—better macroeconomic regulation—has driven risk premia lower on a secular or more permanent basis, a fact we were reminded of this past quarter in the raft of obituaries commemorating the life of Milton Friedman, the great monetarist, who died in November. In a January editorial in the *Wall Street Journal*, he pointed to the source of lower risk in assessing the legacy of the retiring US Fed chairman:

“Even more important, inflation was much less variable. ... Greater price stability had far-reaching effects. By greatly reducing the uncertainties, enterprises could use their resources more efficiently and steadily. Price stability fostered innovation and supported a high level of productivity. ...It has long been an open question whether central banks have the technical ability to maintain stable prices. Their repeated failures to do so suggested that they did not -- whence, in part, my preference for rigid rules. Alan Greenspan's great achievement is to have demonstrated that it is possible to maintain stable prices. He has set a standard. Other central banks around the world, whether independently or by following his example, are following suit.”

Trend of financial deregulation accompanies greater stability of inflation.

This greater stability of inflation and, therefore, of monetary policy has been accompanied by the trends of financial deregulation and globalization. Greenspan himself had focused on the positive effects of the dispersion of risks across the financial system (and indeed, the whole economy) made possible by derivatives and by liquid, active markets. But it was James Carville who captured more colorfully the role of financial markets in reinforcing good government policies of all stripes, with his comment that, if there is reincarnation, “I want to come back as the bond market, ‘cause then you can intimidate everybody.” This quarter saw Thailand’s military government reverse in just one day a new policy imposing a punitive withholding tax on new portfolio investments by foreigners, responding with alacrity to extremely adverse market reaction. It seems that the global equity market (presumably as personified by proprietary trading desks and hedge funds) has taken over from Carville’s bond vigilantes. With capital able to flow across borders with few inhibitions, but with large impacts, even finance ministers backed by armies are prone to blink. This reinforces the (correct) impression that individual risks in the world have been falling over the past quarter century.

Credit derivatives are the latest invention enabled by financial deregulation to experience broad acceptance and exponential growth, with the volume outstanding roughly doubling again this year. But John Plender, writing in the *Financial Times*, reminds that in the insurance industry, the availability of insurance for individual risks over time will necessarily increase the willingness to accept (ignore?) risks, because they *can* be insured, i.e., passed on to someone else. While reducing the individual’s risk, the process increases the risks of the whole system, not least because of moral hazard. The same principle would seemingly apply to loan syndication, loan securitizations, and, nowadays, credit derivatives. The loan originators believe they need pay less attention to the risk of each individual credit decision, because they are not forced to keep it on their own books for the life of the loan. The credit derivative buyers are happy to accept the risk because a) they are building a diversified portfolio of credit risks—reducing the effects of any single bad risk; b) the history of the credit losses (before the moral hazard perhaps took root) indicate modest or declining risk—reflecting the careful efforts of the lender in different circumstances than today (or tomorrow); c) the monetary authorities have continuously delivered an increasingly stable macroeconomic environment—itsself reducing cyclical or policy risks; and d) they believe they can sell/hedge any of the risks they have taken on to some other participant. But surely if the originator is lowering standards to satisfy through-put targets, with no obvious costs to him for doing so, the loss history will be misinformation, at least for the credit system as a whole. The low costs of borrowing are likely as much a product of this mis- or non-pricing of systemic risk as they are of the lower individual risks themselves.

The housing booms in the UK, Australia, and the US are fading, if not crumbling. Housing starts are down 40% in the US, inventories of homes for sale have expanded, and prices are either flat or falling, depending on local market conditions. In this environment, it is uncomfortable to think about the after-effects of lowered credit

The US sees a 40% decline in housing starts.

Global trade in goods and services creates employment.

standards, consumption funded by home equity withdrawals, and the deep penetration of mortgage debt fostered by a combination of policy directives to increase homeownership, financial innovations of back-end loaded mortgage products, and a long, mostly uninterrupted, rise in home prices. One anecdote will suffice: 20% of all mortgages originated in California this past year were “payer’s option” type loans, which allow the borrower to pay interest and principal, or interest only, or reduced interest (deferring the rest into greater principal). Of Washington Mutual’s payer’s option borrowers, half are currently choosing deferral. And as Angelo Mozilo, Chairman of Countrywide Financial, another large US lender, has indicated, these borrowers might be naively optimistic. “The average age of our borrowers is about 38 years old. They have never in their adult lives seen values going down. The concept is alien to them.” We suspect that the borrowers will cry foul when they discover that the equity in their homes has been eroded (or destroyed) from both sides: rising debt principal as well as falling house prices. We worry that the political pressure to ‘do something’ will be great, and that banks—or mortgage bond investors—will be coerced into ceding claims on their rightful collateral, with ‘surprising’ loan losses a follow-on result.

But away from this US/UK-centric (and dour) view of consumption and debt, let us consider what the next era could and should look like. The Thai example is instructive as much for its rarity as for its absurdity. As Friedman pointed out in his praise of Greenspan, other central banks—and indeed many political leaders in the developing world—are following the Fed’s example and pursuing greater price stability in order to deliver the consistent macroeconomic environment that allows both companies and individuals to extend their investment horizons. Companies from China to Brazil can exploit the globalization trend by investing in areas of comparative advantage, whether it is iron ore and cellulose production in Brazil, electronics assembly plants in China, or software and data processing services in India. Thus, global trade in goods and services is creating both wealth and employment where it has been scarce before. With the prospect that there will be stable environments and thus richer employment opportunities, individuals in developing countries are likely to prove to be outstanding illustrations of Milton Friedman’s other great contribution to economics, the Permanent Income Hypothesis, which argues that individuals have a reasonably accurate sense of their income prospects over many years, and prudently adjust their spending accordingly. In the case of younger individuals in developing markets, the long-term prospects are much brighter than for their parents or grandparents, and consumption for them is already rising to levels that shock the older generations. Fortunately, individuals can, with confidence, take advantage of interest rates compressed by mobile global capital, taking out mortgages to buy or build new homes, often for the first time in two or more generations. Thus, we applaud the creation and harnessing of enormous new productive capacity and labor in China and the rest of Asia, not least for the global supply-side effects that keep inflation under control in the US and elsewhere even as liquidity and financial credit growth fuels sustained consumption growth.

Still, we are troubled that much of the demand for all this ‘stuff’ has been provided by US consumers, who have taken on ever greater levels of indebtedness to do so; we are nervous that demand in the credit-driven economies will not easily overcome a stagnant or falling housing market because of the debt dynamics associated with financing consumption. Worse, we are wary that political pressure over outsourcing, more properly known as the globalization of trade in services, will dovetail with the housing swoon and possible mortgage debacle in the US (and elsewhere), to fan the flames of protectionism—which could derail the whole virtuous circle set in motion and sustained by financial deregulation, stable macroeconomic policy, and globalization.

In short, we worry that stability—the ‘good’ force lowering risk premia—has naturally sown the seeds of the ‘bad’ force, reckless risk-love, by creating moral hazard and complacency that are difficult to manage if and when they infect the system. The problem is that we make no claims that we are able to predict when that happens, only suspect that we are close.

Portfolio Structure

We have made very little change to the portfolio in the fourth quarter, and it thus remains positioned for an environment in which earnings growth is more difficult to achieve. Specifically, we remain underweight Consumer Discretionary and Financials companies (the latter significantly so), in line with our fears expressed above about the US consumer indebtedness, and we remain overweight Health Care and Information Technology, with smaller overweight in Industrials. We maintain significant holdings in Japan, with just over a tenth of the portfolio, as well as in the Emerging Markets, although we trimmed holdings in South Korea and China in the quarter. Recall that we have closed the large underweight position in the US that we had carried for a number of years. We have an overweight of Swiss-domiciled companies, and an underweight of UK-domiciled firms, but these reflect the aggregation of bottom-up stock choices rather than country views.

There are strong demographic trends that support spending on health care around the world. In developing markets, per capita income is rising, and governments generally are in good financial shape, so demand is rising fast from a low base. In more mature economies, the population is aging inexorably, and health care is coming to be regarded politically as an entitlement; the consumption of pharmaceuticals and medical devices is rising rapidly as a result, and with little regard to economic cycles. We own multinational companies that are not dependent on a single health care system, and generally are the leaders in their respective therapeutic fields. We own US biotech giant **Genentech**, whose rich R&D pipeline continues to yield positive surprises, particularly in cancer treatments. We also own Genentech’s controlling shareholder **Roche**, which in addition is a producer of medical diagnostic equipment, including molecular diagnostics. With its exclusive right to sell Genentech’s new products outside the US, it remains underappreciated by investors. Uniquely for a large

Worries arise that political pressure over outsourcing could fan the flames of protectionism.

Demographic trends encourage spending on health care around the world.

Nestlé is one of our longest-held companies.

company, Roche's capital returns have been improving recently due to both rising margins and better asset efficiency, while managing strong sales growth at the same time. Another Swiss-domiciled holding is **Alcon**, the global leader in eye-care pharmaceuticals, surgical instruments, and artificial ocular lenses, and similar to Roche, a company exhibiting a strong trend of improving returns on capital, while a growth stumble earlier this year provided an attractive entry point. **Medco**, the US-based prescription benefits manager, remains the low-cost provider in this industry niche which brings cost savings to health plans and insurers by using its buying power to negotiate lower prices from drug companies and by driving rapid adoption of generics through the customer base, while shifting drug distribution towards mail order fulfillment. Its share price was hurt by doubts about its ability to retain margins in the face of resistance by large customers, and by doubts about the business model after its largest competitor agreed to merge with drugstore chain CVS at a modest price. We are unfazed by this year's lackluster share price performance by the Health Care sector; our companies have launched new products, and continue to grow both revenues and earnings at least as fast as our expectations, while fears of greater regulatory and pricing pressures, along with patent expiries, have dampened valuations for the entire group.

Aggregated as an industry sector, Consumer Staples company returns on capital have been above long-term averages, and historic sales growth is also above the global average. While Consumer Staples companies tend to derive their high returns from strong and stable margins, our companies have been able to raise returns on capital by pursuing more efficient balance sheets as well, which is reflected in asset turnover above long-term trends for the industry. **Nestlé** remains one of our longest held investments. Although by far the largest company in the food industry, it is still earning above-average sales growth and above-average total shareholder returns, consistently finding new areas to invest its cash flows at attractive rates of return. **Walgreens**, the US drug retailer and our only new holding this quarter, is unique in its ability to take advantage of higher prescription demand through organic store growth. In the past five years, prescriptions filled in the US grew 18% while the number of pharmacies rose only 2%. Meanwhile, the number of Walgreens stores has grown by 55%. Its proven business model will continue to take profitable market share from independent pharmacies in a fast-growing market.

In Information Technology, our largest holding is **Cisco Systems**, which we view as a key beneficiary of the long-term drive to create or consume faster and deeper telecommunications systems around the Internet, including the race to exploit Voice-Over-Internet-Protocol. We also own **Qualcomm**, owner of critical intellectual property used by mobile phone equipment manufacturers, who themselves are locked in a battle for market share dominance that hurts their margins even as it increases volumes for Qualcomm. In Japan, we own optical sensor producer **Keyence**, one of the highest margin, fastest-growing companies in our portfolio, along with **Yokogawa**, a producer of factory automation equipment, whose products are in demand as Japanese companies return to capital expansion after many years of shrinking. Japan has been

out of favor this year as the domestic economy has lost steam, and investors have pursued 'hot' markets elsewhere. But these companies have become more attractive as their prospects remain undimmed but their stock prices have languished. Given that the globalization of all industries is driven by technology advances—including the industrial automation that is Japan's specialty—we remain highly confident in these companies.

In addition, we own domestically-oriented Japanese companies, rounding out our full weighting in that market. There are very strong diversification arguments in favor of domestic Japanese stocks within a global portfolio, because these stocks tend to have low correlation to the rest of the global market. In addition, we continue to believe that Japan is slowly emerging from its long depression, with individuals sitting on hoards of cash that policy-makers are steering toward higher return assets, including especially stock investments. Finally, if the US consumer is nearing his limits of debt-financed consumption, the Japanese consumer cannot be said to be even close to hers. An older population is one that spends from savings. Our holding in **Sumitomo Realty & Development** reflects the trend of urban migration in Japan to high-service condominiums. **Nomura Securities** is a beneficiary of rekindled risk-taking, as lump sum retirement payments surge over the next few years, as well as a new trend toward mergers and acquisitions, including hostile takeovers, in corporate Japan.

***Japan may be
emerging from its
depression.***

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Li & Fung	Hong Kong	3.0	Trading company
	LVMH	France	1.1	Luxury goods group
	Pearson	United Kingdom	1.4	Education & publishing company
	TJX Companies	United States	0.9	Off-priced name brand stores
	Viacom	United States	2.7	Media & entertainment group
Consumer Staples	Coca-Cola	United States	1.2	Soft drinks company
	Colgate-Palmolive	United States	2.3	Consumer products company
	L'Oreal	France	2.2	Personal care products manufacturer
	Nestlé	Switzerland	1.9	Global food company
	Walgreens	United States	1.0	Drug store chain
Energy	EnCana	Canada	2.1	Producer of natural gas
	Exxon Mobil	United States	3.3	Global oil company
	Sasol	South Africa	1.4	Refined petroleum products producer
	Schlumberger	United States	3.1	Oil services company
Financials	American Int'l Group	United States	2.7	Insurance holding company
	Bankinter	Spain	1.3	Small commercial bank
	Erste Bank	Austria	1.2	Savings & retail bank
	Kookmin Bank	South Korea	1.0	Retail-oriented bank
	Nomura Holdings	Japan	1.0	Brokerage firm
	Standard Chartered	United Kingdom	2.5	Multinational commercial bank
	Sumitomo Realty & Dev	Japan	3.1	Real estate developer
	Swiss Re	Switzerland	1.2	Reinsurer
	Wells Fargo	United States	1.6	Super regional bank
Health Care	Abbott Labs	United States	2.0	Health care products & pharmaceuticals producer
	Alcon	Switzerland	1.4	Eye care company
	Genentech	United States	0.9	Therapeutic biotechnology
	Medco Health Solutions	United States	1.9	Pharmaceutical benefits manager
	Medtronic	United States	2.4	Medical devices company
	Novartis	Switzerland	1.2	Multinational life sciences company
	Qiagen	Germany	2.0	Laboratory equipment supplier
	Roche Holding	Switzerland	1.2	Pharmaceutical company
	Synthes	Switzerland	0.9	Medical device company
Industrials	3M Co.	United States	2.9	Industrial technology firm
	Caterpillar	United States	2.3	Producer of earthmoving equipment
	China Merchants	China	2.7	Global port operator
	Emerson Electric	United States	3.0	Global industrial & electronics controls company
	Fanuc	Japan	0.9	Machine tool maker
	General Electric	United States	1.9	Diversified products & services company
Information Technology	Analog Devices	United States	1.8	Analog mixed-signal computer chip maker
	Automatic Data Proc	United States	1.2	Payroll and tax-filing processor
	Cisco Systems	United States	3.1	Internet networking company
	Dassault Systemes	France	1.3	CAD/CAM software designer
	eBay	United States	1.1	On-line marketplace
	Hirose Electric	Japan	0.9	Manufacturer of electrical connectors & components
	Keyence	Japan	2.2	Detection & measuring control equipment maker
	Qualcomm	United States	1.4	CDMA wireless communications technology firm
	Samsung Electronics	South Korea	1.0	Electronic equipment maker
	Yokogawa Electric	Japan	1.1	Industrial process control equipment company
Materials	Air Liquide	France	1.4	Industrial gas company
	Air Products & Chemicals	United States	1.0	Industrial gas company
	JSR	Japan	2.3	Specialty chemicals manufacturer
	Praxair	United States	1.2	Industrial gas company
	Rio Tinto	United Kingdom	2.7	Diversified mining company
Telecom Services	America Movil	Mexico	1.5	Cellular service provider
	China Mobile	China	3.0	Cellular service provider
	Orascom Telecom	Egypt	1.0	Cellular 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.

Portfolio holdings shown are supplemental information only and complement the Global Equity Composite presentation which is located on the front & back page of this report.

Contributors to Returns

Last Quarter				Last 12 Months			
Largest Holdings	Return	Weight	Contribution	Largest Holdings	Return	Weight	Contribution
Schlumberger	2.0%	3.3%	0.07%	Sumitomo Rlty & Dev	48.0%	4.0%	1.72%
Exxon Mobil	14.7%	3.2%	0.46%	Schlumberger	31.1%	3.3%	0.91%
Sumitomo Rlty & Dev	9.1%	3.1%	0.29%	EnCana	2.6%	3.0%	0.22%
Cisco Systems	18.8%	3.1%	0.54%	Emerson Electric	20.7%	3.0%	0.60%
Emerson Electric	5.8%	3.0%	0.18%	Caterpillar	7.9%	2.9%	0.38%
Largest Contributors				Largest Contributors			
Largest Contributors	Return	Weight	Contribution	Largest Contributors	Return	Weight	Contribution
China Merchant	40.9%	2.1%	0.77%	Sumitomo Rlty & Dev	48.0%	4.0%	1.72%
Li & Fung	25.2%	2.7%	0.63%	Li & Fung	82.9%	2.3%	1.60%
Cisco Systems	18.8%	3.1%	0.54%	China Merchant	92.9%	2.1%	1.48%
China Mobile	22.6%	2.4%	0.50%	Cisco Systems	59.6%	2.6%	1.35%
Exxon Mobil	14.7%	3.2%	0.46%	China Mobile	59.5%	1.6%	1.21%
Largest Detractors				Largest Detractors			
Largest Detractors	Return	Weight	Contribution	Largest Detractors	Return	Weight	Contribution
Medco Health Solutions	(11.1%)	1.9%	(0.25%)	TEVA Pharmaceutical*	(19.8%)	0.7%	(0.27%)
Caterpillar	(6.4%)	2.5%	(0.17%)	Analog Devices	(6.7%)	1.9%	(0.23%)
Hirose Electric	(14.5%)	1.0%	(0.16%)	Yokogawa Electric*	(16.3%)	1.0%	(0.23%)
Samsung Electronic	(6.3%)	0.9%	(0.09%)	Qualcomm	(11.3%)	1.7%	(0.21%)
Dassault Systemes	(5.7%)	1.3%	(0.08%)	Hirose Electric	(14.4%)	1.2%	(0.18%)

Percent weight figure shown is the average percent over the period.

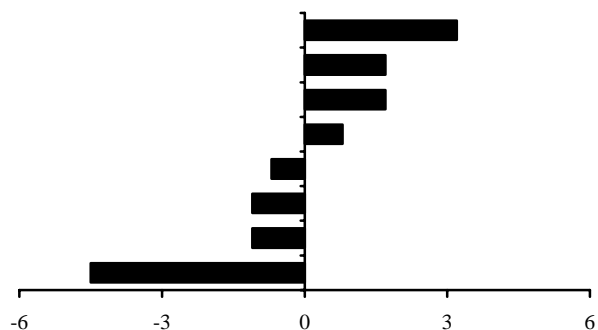
*Security owned for partial period; return shown is for the actual period owned in the portfolio.

All holdings are subject to review and adjustment in accordance with the 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. The complete list of holdings can be found in page 9 of this presentation.

Current Portfolio Regional Exposure

	HL Global Equity	MSCI ACW Index
Emerging Markets	11.4%	8.2%
United States	46.5%	44.8%
Japan	11.6%	9.9%
Cash	0.8%	--
Pacific ex-Japan	3.0%	3.7%
Canada	2.1%	3.2%
Europe ex-EMU	14.2%	15.3%
Europe EMU	10.4%	14.9%

Over/Under the Benchmark (%)



Portfolio Characteristics

Characteristics	HL Global	MSCI ACW	Characteristics (3 Years)	HL Global	MSCI ACW
Avg Wtd Market Cap (\$B)	\$72.9	\$72.8	Alpha	(1.81)	0.00
Price/Earnings (Trailing)	20.9	17.7	Beta	1.12	1.00
Price/Cash Flow	16.5	12.3	R-Squared	0.92	1.00
Price/Book	4.1	2.8	Sharpe Ratio	0.36	0.49
Dividend Yield	1.4%	2.1%	Standard Deviation	9.43	8.11
Return on Equity	24.1%	20.9%	Correlation	0.96	1.00
Number Holdings	56	2751	Turnover (Average)	25.9%	---

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.

Portfolio attribution, region weights and statistics are shown as supplemental information only and complement the Global Equity Composite presentation which is located on the front and back covers of this report.

Source: Wilshire Atlas (Run Date January 5, 2007); Harding Loevner Global Equity Composite

Global Equity Composite Performance Summary 2006 Year End 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)
2006	19.2%	18.7%	21.5%	20.6%	†	†	102	4720
2005	17.2%	16.8%	11.4%	10.0%	†	†	85	2562
2004	9.0%	8.5%	15.8%	15.3%	†	†	82	1524
2003	32.5%	32.0%	34.6%	33.8%	†	†	127	1357
2002	(19.4%)	(19.8%)	(19.0%)	(19.5%)	0.6	6	118	1082
2001	(14.9%)	(15.5%)	(15.9%)	(16.5%)	0.4	7	152	1154
2000	1.3%	0.1%	(13.9%)	(12.9%)	†	†	108	1392
1999	38.9%	38.2%	26.8%	25.3%	†	†	96	1423
1998	2.3%	1.6%	22.0%	24.8%	0.5	11	179	1372
1997	11.0%	10.1%	15.0%	16.2%	0.6	15	251	1521
1996	17.3%	16.3%	13.2%	14.0%	0.2	13	188	1247

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 47 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 these Indices.

Harding, Loevner Management, L.P. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). 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. Composite performance is presented gross of foreign withholding taxes. Past performance is not indicative of future results. Additional information regarding the policies for calculating and reporting returns is available upon request.

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.

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

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