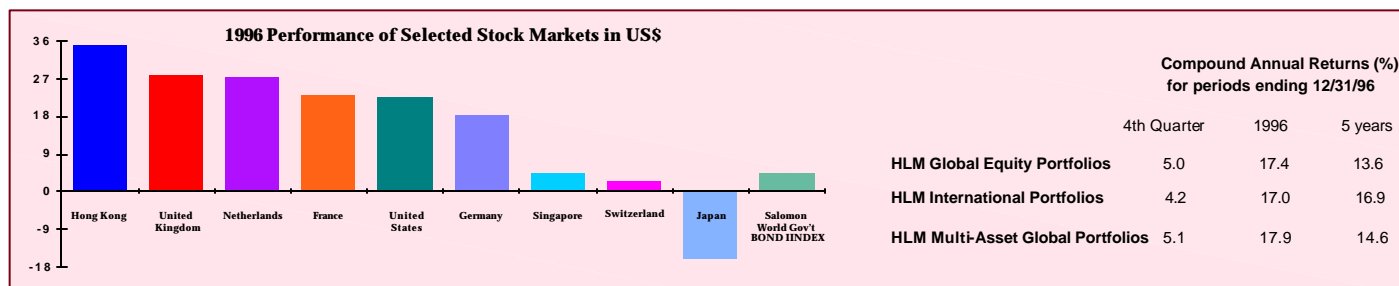
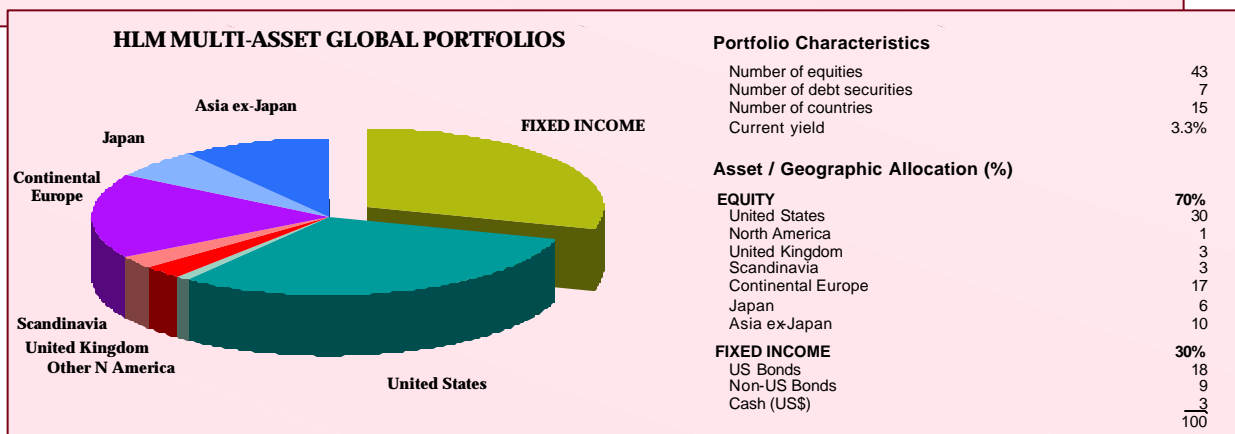
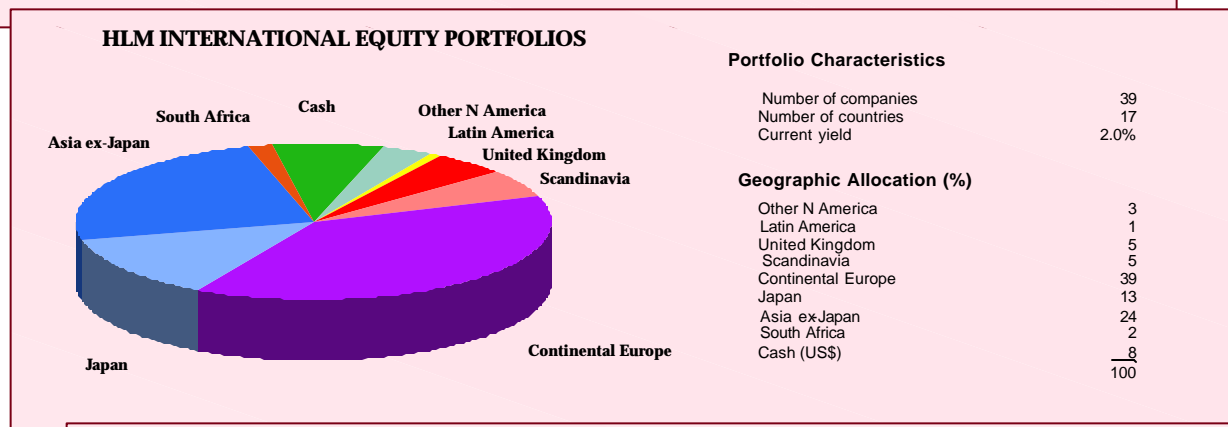
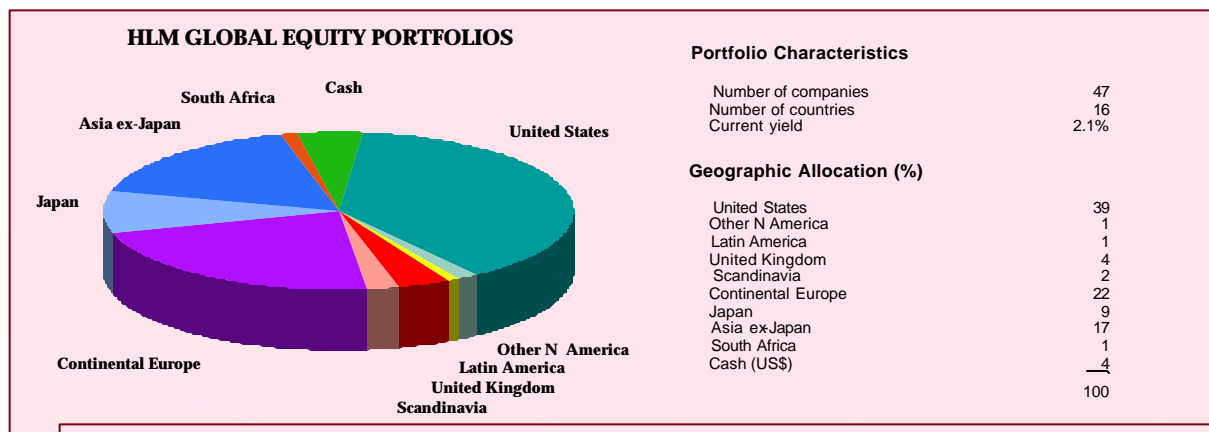


HARDING, LOEVNER MANAGEMENT

Global and International Investing

1996 Year End Report



This material is excerpted from reports to clients of Harding, Loevner Management. The tables and charts above provide a 'snapshot' of representative portfolios at December 31, 1996. See inside for details of performance.

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OVERVIEW OF HLM PORTFOLIOS

HLM offers three closely-related investment programs. *Global Equity* is a conservative program intended to form the core of an investor's equity portfolio, comprising common stocks and convertible securities of high-quality, growing companies, both US and non-US. *International Equity* is a focused program for investors seeking long-term capital appreciation through investment in growing companies outside of the US, including large and small companies in mature markets as well as established companies in emerging markets. *Multi-Asset Global* is a tailored program in which global equities and fixed income securities (taxable and/or tax-exempt, as appropriate) are combined in customized fashion to meet the investor's particular requirements for income, growth and stability.

PERFORMANCE

World stock markets rose by 4.4% in the fourth quarter, as very strong share prices in the US, Europe and Southeast Asia outweighed the negative effect of a decline in Japan, and weakness in the Yen and the continental European currencies. Excluding the US, markets rose only 1.4%. For the year as a whole, world markets returned 13.2%, or 6.5% excluding the US.

Overall, 1996 was a good year for our portfolios — attributable in large measure to the success achieved by their constituent companies in growing their

earnings and dividends. *Global equity portfolios* returned 17.4%, ahead of the world index, and roughly in line with peer group indices, such as the Lipper Global Fund Index, which rose by 16.3%. (Lipper returns are reported net of fees.)

International equity portfolios rose by 17.0% in the year, versus 6.5% for the FT World ex-US Index and 14.4% for the Lipper International Index. *Multi-asset global portfolios* rose by 17.9%, versus 14.7% for the Lipper Global Flexible Index. Further details of performance can be found in the appendices.

REVIEW

The world economy in 1996 continued to be characterized by modest growth, modest inflation, and stable interest rates. As we have stated before, these are very favorable conditions for financial markets, and in particular, for equities, as companies focus on developing their businesses without external shocks distracting management attention, and as investors extrapolate the current environment and are more comfortable holding long-term assets.

A favorable *macro*-economic environment, however, concealed harsh operating conditions at the *micro*-economic, or individual firm, level. The world has enjoyed a 'Goldilocks' economy, in which growth is neither too hot—leading to inflation and higher interest rates—nor too cold—with weak demand and faltering earnings. This environment, however, is also one in which corporations compete fiercely for

market share, lose the ability to raise prices, face intense pressure to cut costs, and find that their hitherto profitable niches attract competition from all quarters of the globe. In the Goldilocks economy, only the most able firms can prosper—irrespective of where they are based. They must have outstanding management, the ability to take products to the global market, and ample financial resources—more specifically, the ready access to equity capital that only comes from an established reputation for generating wealth for shareholders.

A glance at some of the portfolio companies whose share prices had the largest 1996 gains gives a sense of how these qualities manifest themselves; it is striking that the largest gains were not concentrated in any one country or one region, but rather came from all over the world:

- **Johnson Electric** has invested heavily in a doubling of its production capacity in China for small motors, and has had mediocre share price performance for some time. We have owned and watched the company throughout this investment cycle, and we bought additional shares at low prices just as the building phase was ending. The Hong Kong-based company is set to finish the current fiscal year with more than a 40% increase in profits, and is well placed to exploit the growing use of electric micro-motors in consumer and industrial products. Its shares rose 55%.
- **Sime Darby**, the Malaysian-based regional conglomerate, finally deployed its large cash hoard—a prized asset but a drag on profitability—by making an investment in financial services, taking over the country's fourth largest bank. This sector is both highly profitable and fast growing in Malaysia, and the company's adroit management, with the government's blessing, should be able both to strengthen and to exploit its new acquisition's position significantly. Its shares rose 48%.
- **Rentokil**, the rapidly growing, UK-based clinical hygiene and office maintenance services company, acquired a much larger, less profitable industrial services company, BET, in a bid to reinvest its growing free cash flow in similar businesses to its own while adding

geographic and segment diversification. The acquisition will give its proven management plenty of scope to find cost efficiencies as well as synergy with its own operating units. In spite of a large share issue to fund the acquisition, the shares rose 44%.

- **Schlumberger** has prospered by reaping some of the rewards that accrue to having won the struggle to dominate its industry. This company's technological advantage over its competitors in measurement and analysis for oil drilling, combined with the large market share it has won, brings with it pricing power that accretes directly to profits when its industrial cycle is expanding. Its shares rose 44%.
- **Wolters Kluwer's** management had the vision to see that, if it were to reinvest its large cash flows and continue to grow at its accustomed high rate, it needed to expand beyond its home base in Europe. It seized the opportunity to acquire CCH, its US counterpart, last December, relying upon its unused financial capacity to meet the \$2 billion asking price without calling on shareholders for additional equity capital. As a result of the acquisition, it has further strengthened its global dominance of the tax and legal publishing industry, and set the stage for continued rapid growth in future. Its shares returned 39%.
- The final example highlights the ability of superb corporate performance to provide good stock market returns even in a poor stock environment. **Honda Motor**, operating in a depressed home economy, proved again its ability to renew its market position with innovative product design and engineering, including a special talent for building diverse cars on a common platform—illustrated most vividly by their popular new minivan built on the chassis of the venerable Accord. Honda's sales and earnings have grown rapidly as a result. The shares rose 38% in dollar terms, in spite of the weakness of the Japanese currency and stock market.

Backing the consistent ‘winners’—the strongest companies in their respective industries—was rewarding in the harsh competitive environment of 1996, and we believe will continue to be so, around the world, in 1997. The US is home to more of these global leaders than any other market, leaders that we believe are the winners in the current business environment. Most of the US companies in the global portfolios are prime examples of financially strong, multinational businesses with managements who strive to provide good returns to shareholders—companies such as **Exxon**, **Boeing**, **Abbott Labs**, **Wrigley**, and **Colgate-Palmolive**—and as such should rank among the best able to deliver on our expectations of earnings and dividend growth. They have certainly done so in 1996, and we have been rewarded with excellent share price performance from most of the US holdings. The US companies in global portfolios kept pace with the sharp (+23%) rise of S&P 500.

Choosing to own the most successful companies often means being tolerant of high stock prices, since others come to value their qualities as well. We are not prepared, however, to continue to own a company whose management slips from past high standards of behavior or performance, or where the operating environment deteriorates to the extent that our confidence in the firm’s prospects is eroded. Several companies fell afoul of our standards in the fourth quarter, including **Hochtief**—for poor financial disclosure, **Ito Yokado**—for a tepid response to increasing competition, and **Unitor**—for management failure.

If backing consistent winners paid off in 1996, so did our focus on achieving absolute returns rather than on ‘beating the index’. This was seen most starkly in Japan whose stock market is dominated by banks, utilities and other companies that are domestically oriented. Amidst a deteriorating domestic economic environment, the Japanese stock market fell. Companies that embraced a global marketplace and prevailed in international competition, however, were rewarded with better stock prices. The Japanese holdings in your portfolio are not representative of Japan’s overall stock market, but instead emphasize exporting companies that compete globally, and are less reliant upon domestic demand. While the market index fell by 16%, in US dollars, the Japanese

holdings in our portfolios generally provided positive returns.

Two areas that hurt performance in 1996 were ‘emerging’ markets and smaller companies—in the first instance due to poor stock market sentiment, and in the second instance due to poor business performance. Several of the emerging stock markets that are home to our companies suffered large declines. Thailand, for example, fell 40%, and South Africa was down 15%. Our companies in these two countries—**Bangkok Bank**, **Siam Cement** and **Libsil**—posted good business results, but their shares did not escape the market weakness. Smaller companies were almost uniformly disappointing and our move early in the year to increase exposure of the international portfolios to this sector proved misguided. Companies such as German DIY retailer **Hornbach** and Swiss chemical maker **Sika** provided poor share price performance in line with poor earnings results. We underestimated their disadvantage in being small players in competitive industries, and overestimated the shelter afforded by their domestic market niche.

In global portfolios, our technology investments were a drag on performance. The companies we chose in this sector—**Silicon Graphics**, **Motorola**, and **AMP**—each had greater problems than we anticipated coping with heightened competition and continuous innovation, along with their consequence, falling product prices.

In 1996, most major currencies weakened significantly against the US dollar. The Deutschemark, for example, fell nearly 7%, the Yen by 11%, and the Swiss Franc by over 13%. But the fundamental value of shares of multinational companies, which constitute more than two thirds of equity holdings, is little affected by such exchange rate movements. We have always regarded the diversity, in currency terms, of our portfolio companies’ underlying revenues to be an inherent advantage, and it is the principal reason that we do not routinely hedge currency exposures arising from our equity investments abroad.

OUTLOOK

The year ahead appears set to bring more of the same: market commentators are nearly unanimous in

prognosticating slightly faster, but still modest growth, with few inflationary pressures. While the very unanimity disconcerts us, we must agree with the forecast. It implies little change in interest rates, and a continuation of fierce global competition.

Common valuation measures in most stock markets around the world are high, by historical comparison. The US and Switzerland, in particular, stand out as markets where ratios—such as price-to-book-value, price-to-earnings, price-to-cash-flow, and dividend yield—are conspicuously expensive in relation to their own long-term averages. The competitive potency of the many multinational companies from the US has resulted in it having a disproportionate share of the winners in the ‘Goldilocks’ economy. The Swiss market is anticipating the benefits of change sweeping a number of its major industries, such as banking and pharmaceuticals, that will improve profitability and competitiveness. In addition, both countries are home to a number of global growth companies. Such companies will have higher valuations—and deserve them—in an environment of scarce growth and low interest rates.

This latter point is important. While valuation measures are high relative to the last ten years, these markets—and the US market in particular—are not *overvalued*, given the low level of interest rates and inflation, and the continuing growth of corporate earnings. Typically, bull markets only end when stocks do become overvalued *and* interest rates rise. It appears that the shares of the S&P 500 companies have risen roughly twice as much in 1996 as their earnings. But this by itself does not imply that, in the absence of earnings disappointments or rising interest rates, we should expect the market to decline. In fact, the term ‘Goldilocks economy’ was first coined to describe the situation in the US, and the concept of shareholder friendliness was originated with US companies. Both of these influences support the continuation of current favorable conditions for the stock market.

That is not to say that we have no worries about the US stock market. We have. We wonder when the wealth generated by six successive years of positive stock market returns will finally spur consumer spending and the real economy, creating the conditions that would lead to higher interest rates. We wonder whether the current bull market in the

US will broaden beyond the S&P “50” and the New America Index (comprised of companies such as InVision Technologies and XLConnect Solutions). We worry that international investors, who have traditionally been attracted to the US market in its late bull market stages, will never arrive, seemingly replaced by their central banks, who now own nearly a third of all Treasury Bonds and Notes outstanding (an extra worry in and of itself, since any change on this front could lead to higher interest rates and a weaker dollar). And we wonder how the newest large class of investors—the mutual fund shareholder—will act once faced with a period of flat or negative returns. However, these are questions we cannot answer, only ponder. We will continue to back the global leaders who have the financial strength and the proven management to turn opportunities into earnings or dividends when others cannot, in a portfolio of large, high quality companies deserving of their valuations. Because we see few valuation discrepancies among sectors, the US stocks in the global portfolios, accounting for 38.9% of their value, remain exceptionally well-diversified with a more-or-less even balance amongst cyclical and non-cyclical companies.

One larger sense in which we are backing the winners regards the macro-economic backdrop in Europe. Our view of the European Monetary Union, which is set to begin its final countdown at the end of 1997, is that the countries who have always believed in sound finances and strong currencies have won a major economic, if not ideological, argument. The hard currency countries—Germany and the Netherlands within EMU, and Switzerland without—will need to make few major adjustments as EMU approaches. The other countries in Europe, whose financial management has been more inconsistent, and whose failures have shown up in weaker currencies over time, have traded the freedom to determine their own macro-economic policies for the benefits of monetary integration. They are currently in the midst of wrenching adjustments, anticipating the more disciplined regime ahead.

It is no coincidence that we have found many more companies fitting our investment criteria in these three hard currency countries than in all the rest of Europe: their managements are long accustomed to competing in a slow growth environment, where progress comes only from productivity gains or

innovation, and earnings growth is measured in real, not inflated, terms. Approximately two thirds of the European companies in our portfolios at year end are based in Germany, Switzerland, or the Netherlands.

As we wrote earlier this year, the notion of companies placing the interests of shareholders above those of other 'stakeholders' has been gaining widespread acceptance outside the US. Our hobby horse has become a fashion statement this year, as more companies and more market participants focus on this issue. These same three countries at the core of hard-currency Europe have been in the vanguard of this change. Most managers of large European companies are now able to discuss their capital investments in light of their cost of capital, and to describe the steps they are taking to improve shareholder returns. This development is nothing short of revolutionary. Nowhere is the trend more evident than in Germany, where companies such as **Bayer, Daimler Benz** and **Deutsche Bank** have committed themselves to return-on-equity targets, disposal of under-performing assets, and institution of management incentives based on share price and profitability. Moreover, the German government has committed itself to removing the legal obstacles to share repurchases by German companies and to abolishing the wealth tax, which heretofore penalized owners of highly-valued companies.

We generally allow very few exceptions to the high standards we have set in our criteria of growth, management, financial strength, and competitiveness, but we should mention two such exceptions here. During the year we added **Daimler Benz** and **Michelin**, companies which, while strong and globally competitive, have not had successful records of generating superior returns for shareholders. In each case, management has recently set itself a new course, aligning its interests more directly with shareholders' interests. We have invested in the belief that they will pursue these new goals of delivering substantially better shareholder returns as vigorously as they pursued earlier goals of building now enviable market positions.

The changes in European attitudes are certainly warranted by the problems looming in the form of unfunded pension liabilities, unemployment, and the need for capital investment in Eastern Europe. Still, the rate of change has been startling, especially

when compared with the glacial pace of change in Japan, which faces equally significant challenges. The Japanese government, while continuing to talk about reforms, has only managed gradual, reactive, or symbolic steps to make the economy more efficient and flexible. Japanese financial institutions remain opaque to outside observers. There remains a great danger that their actual problems vastly outsize current, pessimistic estimates. We take as a guide the case of Hyogo Bank, which was recently shut down with negative net worth roughly ten times its previously declared non-performing loans. It is a rare manager in Japan (although some do exist) who is not still focused on maximizing aggregate revenues and aggregate profit, rather than shareholder returns. The weaker yen has led exports and offshore earnings to recover, allowing many companies to breathe a bit easier, lessening the urgency of change. The most visible innovations are coming either from smaller companies, who must foster change in order to survive and grow, or from the global exporting companies, who face a broader array of competitors and opportunities. Our Japanese holdings—**Honda, Canon, Denso, Mitsubishi Heavy Industries, Canon Sales, Atlantis Japan**—are dominated by these agents of change.

In contrast to the attention attracted by Europe, Southeast Asian markets became deeply unfashionable in 1996. Indeed, most market indices in the region remain below their peaks reached in early 1994. Almost all the governments in the region still have sensible economic policies, notably light regulation and taxation, which foster capital investment and corporate profitability. The regional companies in the portfolio tend toward the larger multinational companies, financial or industrial, of which there are relatively few. Hence they neither look like, nor perform like, the local market indices or the typical Southeast Asian portfolio, which often include heavy weightings of property, utility, and 'concept' stocks. While investments in these countries contributed less than did European companies to our returns this year, our companies are still growing their earnings and dividends in line with our expectations, and we are strongly committed to our holdings in the region.

We visited nearly all of companies we own in Southeast Asia during the fourth quarter, and we remain enthusiastic, for example, about owning

Bangkok Bank and **Siam Cement**, two of the biggest and best-managed companies in Thailand—especially when priced at just over ten times next year’s earnings. We own three of the best companies in Hong. Their recent business results and share price performance have been excellent, as has been, more generally, Hong Kong’s business climate in the run up to June 1997 and the transfer of sovereignty from Britain to China. Hong Kong is once again part of China, and we can think of no better way to invest in the largest emerging market of all than through shares in **Hutchison Whampoa**, the Hong Kong conglomerate whose port facility and infrastructure subsidiaries are directly and deeply involved with the expansion of the Chinese economy and its trade with the world.

ACTIVITY - INTERNATIONAL PORTFOLIOS

New holdings during the quarter were:

- **Daimler Benz**, one of Europe's largest industrial concerns, and maker of Mercedes-Benz trucks and luxury cars, civil and military aircraft, and railroad equipment (in a joint venture with ABB), with interests in information technology and financial services. Since 1995, the new CEO, Jurgen Schrempp, has directed the company in the most radical commitment yet seen by a German industrial company to measuring and, then, to enhancing the creation of value for shareholders.
- **Hong Kong and China Gas**, a company, and a business franchise, we have long admired and previously owned. We have sold shares twice in the past—once when their property activities began to comprise more than the redevelopment of old production facilities, and once when the share price more than fully reflected the company's predictable growth. We have reinvested at an attractive valuation, and following management reassurances that no further commitments to property will be made. The company's outstanding combination of market position, financial strength, and growth prospects remain unique in Asia.

We also added to our position in:

- **RTZ**, now the world's largest mining company, and the only one with a AA credit rating. This financial strength, combined with geographic diversity and a commitment to being the low cost producer of each mineral it produces, makes it a good example of a global leader.

We sold positions in:

- **Hochtief**, which has steadfastly refused to abandon its disdain for public shareholders in spite of those around it losing theirs. Its global business reach and vast, undervalued asset base have either not been enough, or not been well enough deployed, to compensate for the dreadful construction business within Germany. In the new world, lack of disclosure and attention to shareholders is unacceptable,

no matter how compelling underlying asset values may be.

- **Ito Yokado**, which, despite its strength and previous successes, appears to be failing to adapt to the changes appearing in the Japanese retailing industry. Ownership of Seven-Eleven is not sufficient to offset the risks in its core, general retailing business, where it continues to make large business and financial commitments to a superstore format that is losing market share.
- **Unitor**, which, in an effort to diversify away from its core global business as a ship chandler, made a number of ill-fated investments and whose management was unable to articulate and execute a coherent strategy.
- **Randsstad**, which became significantly overpriced as the market began to extrapolate its rapid growth of recent years, valuing this cyclical company as a growth company. We prefer to watch from the sidelines and see how the company fares when the cycle turns.

ACTIVITY - GLOBAL PORTFOLIOS

In addition to establishing new holdings in **Daimler Benz**, **Hong Kong and China Gas**, and **RTZ**, described above, we also added two new US companies to global portfolios:

- **Allied Signal**, a large manufacturer of automotive, aerospace, and engineering components which has transformed itself over the past five years under the chairmanship of Lawrence Bossidy, improving its market position and profitability, exiting poor businesses, and linking management incentives with shareholder returns; and
- **Electronic Data Systems (EDS)**, the world's largest data processing service provider. As this rapidly growing market expands, the multinational spread of EDS's business will allow it to grow as well, and with its renewed independence from General Motors, gain many new clients. We believe it

to be a global winner and a beneficiary of technological innovation.

We *sold* positions in **Ito Yokado** and **Unitor**, explained above, as well as in:

- **Silicon Graphics**, which is failing to cope with competition for its hardware-based, high-quality computer graphics products as more powerful software is combined with more powerful PCs to create graphics nearly as good at lower cost. Its acquisition of Cray Research in an attempt to move to a higher level of complexity, does not constitute an adequate response.
- **Unocal**, which had reached our price target and accomplished all of the business objectives that we had anticipated, including selling Union 76, its refinery and service station businesses.
- We also sold **Blenheim Exhibitions** and **FlightSafety**, which were subject to takeover bids.

ACTIVITY - MULTI-ASSET PORTFOLIOS

In spite of the benign backdrop, the biggest bond markets around the world had lackluster returns in 1996. To a great extent, bonds had already discounted this economic scenario last year, and with no further changes, had less attractions to offer optimistic investors. Returns in dollars of fixed income securities from Germany, Switzerland, the Netherlands, and Japan—the ‘hard currency’ countries—also suffered from the strength of the US currency. Thus, the Multi-Asset Portfolio benefited from its concentration on US dollar and hedged non-dollar bonds—though we hasten to point out that focus derives from a quest for stability rather than from any special ability to predict exchange rate movements. Indeed, the strength of the currencies and bond markets of the peripheral countries of Europe—such as Sweden and Spain—as they moved closer to Monetary Union, was one of the bright spots in fixed income markets; we remained on the sidelines. Much has been made of the convergence of European bond yields, but the fact is that *most* high-yielding bond markets, from Australia to Venezuela, have improved relative to the least

risky ones—US or German Government Bonds. The sector with the highest returns, for example, was emerging market debt, as investors’ confidence spilled over to the credit quality of these countries’ governments. Argentina, with its unyielding commitment to wringing inflation out of its economy, to sustaining its currency peg to the US dollar, and to reforming its bureaucracy, was a prime beneficiary of this trend; the Multi-Asset Portfolio holds Argentine Brady Bonds.

There were a number of transactions in the fourth quarter:

- We sold **Silicon Graphics**, which is failing to cope with competition for its hardware-based, high-quality computer graphics products as more powerful software is combined with more powerful PCs to create graphics nearly as good at lower cost. The cash raised was used to fund the purchase of **Electronic Data Systems (EDS)**, the world’s largest data processing service provider. As this rapidly growing market expands, the multinational spread of EDS’s business will allow it to grow as well, and with its renewed independence from General Motors, gain many new clients. We believe it to be a global winner and a beneficiary of technological innovation.
- We sold a portion of the large holding in **Sime Darby**, which had rapidly appreciated in price, to buy **HSBC Holdings**, better known as the Hong Kong and Shanghai Bank. HSBC is now the world’s largest bank, with \$15 billion in equity capital and 40% of its assets in the fast growing region of Southeast Asia. Management has improved its internal risk controls, which has helped it avoid large loan losses in this decade. Earnings per share have tripled over the past 5 years, while dividends and book value have doubled.
- We replaced **Cyprus Amax Minerals** with **RTZ**, in order to upgrade the quality of the portfolio.
- We sold **Associates First**, which had reached our price target, and which is exposed to rising consumer loan delinquencies

to fund the purchase of **US West**, the communications company providing telephone services to 14 western US states. Since US West spun-off its media businesses, it looks very much like a traditional Bell fixed line telephone company. Its high dividend yield fully reflects both the fears of new competition entering local telephone service and the historically slow growth of earnings in this side of the business.

- We sold **Rowan Companies' 11.875% bonds due 2001**, which were facing imminent call to fund the purchase of **GPA 8.75% bonds due 1998**. Guinness Peat Aviation, once the largest airplane leasing company in the world, has been through a drastic restructuring of its business and

balance sheet after its heavy leverage nearly bankrupted it in the aviation downturn of the late eighties. It now survives with a much smaller fleet of planes, less debt, and corporate partnerships with GE and Boeing.

- We also sold **Ito Yokado, Hochtief**, and **Blenheim Exhibitions**, reduced the large holdings in **Bayer, Honda, and Colgate-Palmolive**, and purchased **US Treasury 7% Notes due 2006**, to implement our reallocation to fixed income away from equities.

INTERNATIONAL EQUITY PORTFOLIO HOLDINGS

as of December 31, 1996

Company	Country	Weight	Description
Royal Dutch	NETH	4.3%	Premier oil company operating worldwide
Bankinter	SPA	4.2%	High quality Spanish bank concentrating on services to individuals & small businesses
ABB	SWITZ	3.5%	Leading worldwide capital goods company with focus on power generation
Astra	SWE	3.3%	Manufacturer & distributor of medicines for intestinal & cardiovascular diseases
Hutchison Whampoa	HK	3.3%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Bayer	GER	3.2%	World's fourth largest chemicals company & tenth largest pharmaceuticals company
DBS Bank	SING	3.2%	Singapore's largest & most diversified bank
Rentokil Initial	UK	3.0%	Provider of wide range of services to commercial sector
Surveillance	SWITZ	2.9%	Worldwide provider of trade certification, testing & loss adjustment services
Nestlé	SWITZ	2.8%	World's largest food company
Denso	JAP	2.8%	Global manufacturer of auto parts for Toyota and other leading car makers
Keppel	SING	2.7%	Conglomerate with main interests in ship repair, ship building, banking & property
Sime Darby	MAL	2.7%	Largest conglomerate in Malaysia, with interests in plantations, manufacturing & banking
Canon	JAP	2.6%	World's leading producer of wide range of visual image & information equipment
Deutsche Bank	GER	2.6%	One of Europe's premier universal banks
Wolters Kluwer	NETH	2.6%	Dutch publisher of legal, tax, medical, & business information
Honda	JAP	2.6%	World leader in automobile production & largest manufacturer of motorcycles
Bangkok Bank	THAI	2.5%	Thailand's largest & strongest bank
Mitsubishi Heavy	JAP	2.5%	Leader of the industrial segment of the Mitsubishi group
Munich Re	GER	2.3%	Largest provider of reinsurance worldwide
Michelin	FRA	2.2%	World's largest & most innovative tire manufacturer
Norsk Hydro	NOR	2.1%	Norwegian producer of North Sea oil & gas, aluminum & petrochemicals
Daimler-Benz	GER	2.1%	One of Europe's largest industrial concerns
HK Gas	HK	2.1%	Monopoly provider of piped town gas in Hong Kong
IHC Caland	NETH	2.0%	World's premier manufacturer of dredging vessels & mooring equipment
Imperial Oil	CAN	2.0%	Canada's largest integrated petroleum company
RTZ	UK	2.0%	One of world's largest & most diversified mining companies
Novartis	SWITZ	1.9%	Swiss multinational pharmaceutical & specialty chemicals company
Singapore Press	SING	1.9%	Largest & one of the best-run newspaper companies in Singapore
Gaz et Eaux	FRA	1.9%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Johnson Electric	HK	1.8%	Manufacturer of small precision motors used in cars & consumer products
Siam Cement	THAI	1.6%	Thailand's largest industrial group
Canon Sales	JAP	1.6%	Independent marketing arm of Canon & domestic distributor of Canon & Apple products
Libsil	S AFR	1.6%	Holding company with investments in South African Breweries & Standard Bank
Nestlé Malaysia	MAL	1.3%	Importer & manufacturer of branded food products such as coffee, cereals & candy
Atlantis Japan	JAP	1.3%	Closed-end fund invested in smaller Japanese companies
Partner Re	BERM	1.1%	Bermuda's most strongly capitalized property reinsurer
Far East Levingston	SING	0.9%	Leading contractor for offshore oil & power businesses
Quilmes	ARG	0.8%	Leading producer of beer & soft drinks in Latin America

INTERNATIONAL EQUITY PERFORMANCE SUMMARY

as of December 31, 1996

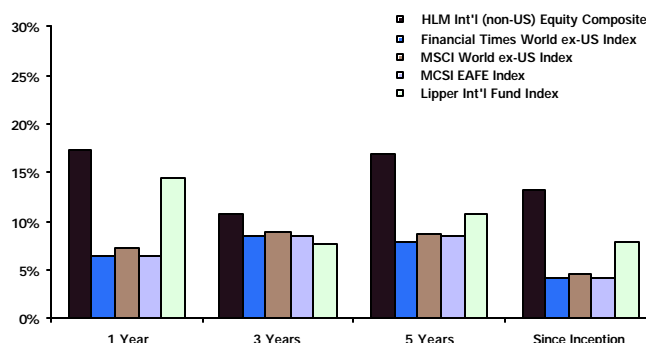
	Calendar Year Returns						
	1996	1995	1994	1993	1992	1991	1990
HLM International (non-US) Equity Composite	17.0	13.2	2.5	46.3	9.9	21.9	-12.9
<i>Financial Times World ex-US Index</i>	6.5	10.4	8.4	32.1	-13.1	13.3	-23.1
<i>Morgan Stanley Capital Int'l World ex-US Index</i>	7.2	11.8	7.6	32.6	-11.9	12.4	-22.8
<i>Morgan Stanley Capital Int'l EAFE Index</i>	6.4	11.6	8.1	32.9	-11.9	12.5	-23.2
<i>Lipper Int'l Fund Index</i>	14.4	9.3	-0.9	39.2	-4.3	13.2	-12.4

	Average Annual Returns for Periods Ending 12/31/96			
	1 Year	3 Years	5 Years	Since Inception*
HLM International (non-US) Equity Composite	17.0	10.7	16.9	13.1
<i>Financial Times World ex-US Index</i>	6.5	8.4	7.9	4.1
<i>Morgan Stanley Capital Int'l World ex-US Index</i>	7.2	8.9	8.5	4.6
<i>Morgan Stanley Capital Int'l EAFE Index</i>	6.4	8.6	8.5	4.3
<i>Lipper Int'l Fund Index</i>	14.4	7.7	10.7	7.9

*Inception Date: 09/30/89

NOTES:

- Returns shown are time-weighted total returns, and include reinvestment of dividends.
- Returns from all cash reserve and equivalents, bonds and/or convertible securities used in place of equities are included in performance calculations.
- Composite calculations have been weighted by account size.
- Figures include all international equity accounts under discretionary management from their inception dates, including accounts no longer in existence.
- No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- No selective periods of performance have been utilized.
- Results are presented after brokerage commissions but before management and custodial fees. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce annual returns for international composite by approximately 1.0%.
- Lipper Index performance is after fees and expenses.



Account Summary Information:

- Number of accounts included in composite: 1989: (1); 1990: (2); 1991: (3); 1992: (4); 1993: (5); 1994: (14); 1995: (26); 1996: (54)
- Total market value at year-end of accounts included in composite ('000): 1989: (\$10,899); 1990: (\$10,599); 1991: (\$6,770); 1992: (\$12,061); 1993: (\$23,003); 1994: (\$110,370); 1995: (\$347,107); 1996: (\$862,602)

GLOBAL EQUITY PORTFOLIO HOLDINGS

as of December 31, 1996

Company	Country	Weight	Description
Royal Dutch	NETH	4.5%	Premier oil company operating worldwide
Schlumberger	US	3.4%	Premier supplier of technical services & equipment to the petroleum industry
Thermo Electron	US	3.3%	World leader in environmental monitoring, analysis instruments & biomedical products
Hutchison Whampoa	HK	3.3%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Fed Nat'l Mtg Assoc	US	3.1%	Government-sponsored agency that buys & repackages mortgages
Colgate	US	3.1%	Leading global consumer products company
Dover	US	3.0%	Diversified capital goods manufacturer
ABB	SWITZ	2.8%	Leading worldwide capital goods company with focus on power generation
Nestlé	SWITZ	2.8%	World's largest food company
Surveillance	SWITZ	2.8%	Worldwide provider of trade certification, testing & loss adjustment services
Honda	JAP	2.7%	World leader in automobile production & largest manufacturer of motorcycles
Abbott Labs	US	2.5%	Producer of broad range of health care products including pharmaceuticals
Wolters Kluwer	NETH	2.5%	Dutch publisher of legal, tax, medical & business information
Mitsubishi Heavy	JAP	2.4%	Leader of the industrial segment of the Mitsubishi group
Exxon	US	2.4%	Premier global oil company
Daimler-Benz	GER	2.3%	One of Europe's largest industrial concerns
Gaz et Eaux	FRA	2.3%	Investment company in Lazard Group, holding strategic stakes in major listed companies
AMP	US	2.3%	World's leading manufacturer of electrical connectors used in electronic products
Deutsche Bank	GER	2.2%	One of Europe's premier universal banks
Cummins Engine	US	2.2%	Leading manufacturer of fuel-efficient diesel engines for trucks & industry
HK Gas	HK	2.2%	Monopoly provider of piped town gas in Hong Kong
Union Pacific	US	2.1%	Second largest railroad & fourth largest trucking company in US
Investor	SWE	2.1%	Holding company for Wallenberg family interests in Swedish industrial concerns
Sime Darby	MAL	2.1%	Largest conglomerate in Malaysia, with interests in plantations, manufacturing & banking
Exel	US	2.0%	Insurer specializing in excess liability coverage for large corporations
Bangkok Bank	THAI	2.0%	Thailand's largest & strongest bank
Motorola	US	1.9%	Electronics company producing semiconductors, communications equipment & computers
Johnson Electric	HK	1.9%	Manufacturer of small precision motors used in cars & consumer products
Keppel	SING	1.9%	Conglomerate with main interests in ship repair, ship building, banking & property
RTZ	UK	1.9%	One of world's largest & most diversified mining companies
Wrigley, Wm. Jr.	US	1.8%	World's largest producer of chewing gum
EDS	US	1.7%	Computer services company & "solutions provider"
Canon	JAP	1.6%	World's leading producer of wide range of visual image & information equipment
Rentokil Initial	UK	1.5%	Provider of wide range of services to commercial sector
Nestlé Malaysia	MAL	1.4%	Importer & manufacturer of branded food products such as coffee, cereals & candy
Canon Sales	JAP	1.3%	Independent marketing arm of Canon & domestic distributor of Canon & Apple products
Boeing	US	1.3%	World's largest manufacturer of jet aircraft, & America's largest exporter
Partner Re	BERM	1.2%	Bermuda's most strongly capitalized property reinsurer
Siam Cement	THAI	1.1%	Thailand's largest industrial group
Allied Capital	US	1.0%	Financial institution making equity linked loans to small businesses
Libsil	S AFR	1.0%	Holding company with investments in South African Breweries & Standard Bank
Atlantis Japan	JAP	1.0%	Closed-end fund invested in smaller Japanese companies
Allied Signal	US	1.0%	Aerospace, auto, chemical & fibre manufacturing company
Wicaksana	INDON	0.8%	Distributor of branded consumer goods in Indonesia
Quilmes	ARG	0.8%	Leading producer of beer & soft drinks in Latin America
Union Pacific Resources	US	0.8%	Domestic oil & gas exploration & production company
Scania	SWE	0.1%	World class heavy-duty truck & bus manufacturer

GLOBAL EQUITY PERFORMANCE SUMMARY

as of December 31, 1996

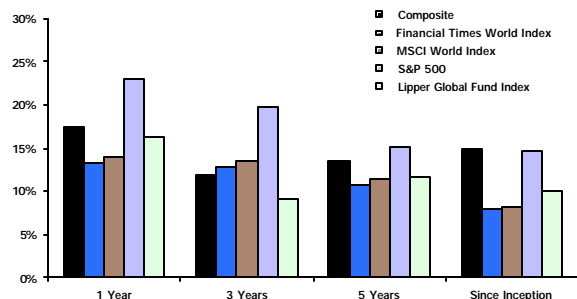
	Calendar Year Returns						
	1996	1995	1994	1993	1992	1991	1990
HLM Global Equity Composite	17.4	19.0	-0.1	24.2	9.1	31.6	3.6
<i>Financial Times World Index</i>	13.2	19.6	5.9	22.6	-5.1	19.6	-17.0
<i>Morgan Stanley Capital International World Index</i>	14.0	21.3	5.6	23.1	-4.7	18.7	-16.4
<i>S&P 500</i>	23.0	37.5	1.3	10.1	7.7	30.2	-3.1
<i>Lipper Global Fund Index</i>	16.3	14.0	-2.2	32.8	0.1	20.3	-9.1

	Average Annual Returns for Periods Ending 12/31/96			
	1 Year	3 Years	5 Years	Since Inception*
HLM Global Equity Composite	17.4	11.8	13.6	14.9
<i>Financial Times World Index</i>	13.2	12.8	10.8	7.9
<i>Morgan Stanley Capital International World Index</i>	14.0	13.5	11.4	8.3
<i>S&P 500</i>	23.0	19.7	15.2	14.6
<i>Lipper Global Fund Index</i>	16.3	9.2	11.6	10.0

*Inception Date: 11/30/89

NOTES:

- Returns shown are time-weighted total returns, and include reinvestment of dividends.
- Returns from all cash reserve and equivalents, bonds and/or convertible securities used in place of equities are included in performance calculations.
- Composite calculations have been weighted by account size.
- Figures include all global equity accounts under discretionary management from their inception dates, including accounts no longer in existence.
- No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- No selective periods of performance have been utilized.
- Results are presented after brokerage commissions but before management and custodial fees. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce annual returns for global composite by approximately 1.0%.
- Lipper Index performance is after fees and expenses.



Account Summary Information:

- Number of accounts included in composite: 1989: (1); 1990: (4); 1991: (7); 1992: (14); 1993: (17); 1994: (17); 1995: (13); 1996: (13)
- Total market value at year-end of accounts included in composite ('000): 1989: (\$1,564); 1990: (\$15,311); 1991: (\$36,637); 1992: (\$64,513); 1993: (\$93,197); 1994: (\$112,683); 1995: (\$147,062); 1996: (\$187,985)

MULTI-ASSET GLOBAL PORTFOLIO - EQUITY HOLDINGS

as of December 31, 1996

Company	Country	Weight	Description
Royal Dutch	NETH	3.5%	Premier oil company operating worldwide
Exxon	US	2.9%	Premier global oil company
Schlumberger	US	2.8%	Premier supplier of technical services and equipment to the petroleum industry
Investor	SWE	2.8%	Holding company for Wallenberg family interests in Swedish industrial concerns
Surveillance	SWITZ	2.6%	Worldwide provider of trade certification, testing & loss adjustment services
Dover	US	2.5%	Diversified capital goods manufacturer
Hutchison Whampoa	HK	2.5%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Abbott Labs	US	2.4%	Producer of broad range of health care products including pharmaceuticals
Thermo Electron	US	2.4%	World leader in environmental monitoring, analysis instruments & biomedical products
ABB	SWITZ	2.3%	Leading worldwide capital goods company with focus on power generation
Fed Nat'l Mtg Assoc	US	2.3%	Government-sponsored agency that buys & repackages mortgages
Deutsche Bank	GER	2.2%	One of Europe's premier universal banks
Bayer	GER	2.1%	World's fourth-largest chemicals company and tenth-largest pharmaceuticals company
Nestlé	SWITZ	2.1%	World's largest food company
AMP	US	2.1%	World's leading manufacturer of electrical connectors used in electronic products
Cummins Engine	US	2.0%	Leading manufacturer of fuel-efficient diesel engines for trucks & in industry
Gaz et Eaux	FRA	2.0%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Honda	JAP	2.0%	World leader in automobile production & largest manufacturer of motorcycles
Mitsubishi Heavy	JAP	1.9%	Leader of the industrial segment of the Mitsubishi group
Colgate	US	1.9%	Leading global consumer products company
Union Pacific	US	1.7%	Second largest railroad & fourth largest trucking company in US
Keppel	SING	1.7%	Conglomerate with main interests in ship repair, ship building, banking & property
Bangkok Bank	THAI	1.6%	Thailand's largest & strongest bank
Rentokil Initial	UK	1.5%	Provider of wide range of services to commercial sector
Boeing	US	1.4%	World's largest manufacturer of jet aircraft, & America's largest exporter
Canon	JAP	1.2%	World's leading producer of wide range of visual image & information equipment
Partner Re	BERM	1.2%	Bermuda's most strongly capitalized property reinsurer
Allied Capital	US	1.1%	Financial institution making equity linked loans to small businesses
Sime Darby	MAL	1.1%	Largest conglomerate in Malaysia, with interests in plantations, manufacturing, & banking
Michelin	FRA	1.1%	World's largest & most innovative tire manufacturer
Johnson Electric	HK	1.0%	Manufacturer of small precision motors used in cars & consumer products
RTZ	UK	1.0%	One of world's largest & most diversified mining companies
HSBC	HK	1.0%	Hong Kong's leading bank with a global spread of business
US West Communications	US	1.0%	Traditional bell telephone company with large dividend yield
Royce Micro-Cap Trust	US	1.0%	Closed end investment fund focused on very small companies
Wrigley, Wm. Jr.	US	0.9%	World's largest producer of chewing gum
Far East Levingston	SING	0.9%	Leading contractor of offshore oil and power businesses
EDS	US	0.9%	Computer services company & "solutions provider"
Motorola	US	0.8%	Electronics company producing semiconductors, communications equipment & computers
Siam Cement	THAI	0.8%	Thailand's largest industrial group
Atlantis Japan	JAP	0.7%	Closed-end fund invested in smaller Japanese companies

Union Pacific Resources	US	0.7%	Domestic oil & gas exploration & production company
Scania	SWE	0.1%	World class heavy-duty truck & bus manufacturer

MULTI-ASSET GLOBAL PERFORMANCE SUMMARY

as of December 31, 1996

	Calendar Year Returns						
	1996	1995	1994	1993	1992	1991	1990
	HLM Multi-Asset Global Composite	17.9	21.4	1.7	25.6	7.9	25.6
<i>60/40 Global Balanced Index**</i>	9.7	19.5	4.6	18.8	-0.9	18.3	-6.0
<i>Lipper Global Flexible Fund Index ***</i>	14.7	16.9	-4.5	23.0	2.2	16.1	-2.8
<i>Lipper Balanced Fund Index</i>	13.0	24.6	-2.5	11.7	7.3	25.8	0.7

	Average Annual Returns for Periods Ending 12/31/96			
	1 Year	3 Years	5 Years	Since Inception*
	HLM Multi-Asset Global Composite**	17.9	13.3	14.6
<i>60/40 Global Balanced Index**</i>	9.7	11.1	10.1	9.2
<i>Financial Time World Index</i>	13.2	12.8	10.8	8.1
<i>Salomon World Government Bond Index</i>	3.6	8.1	8.6	10.3
<i>Lipper Global Flexible Fund Index</i>	14.7	8.7	10.1	8.8
<i>Lipper Balanced Fund Index</i>	13.0	11.4	10.7	10.9

*Inception Date: 08/31/89

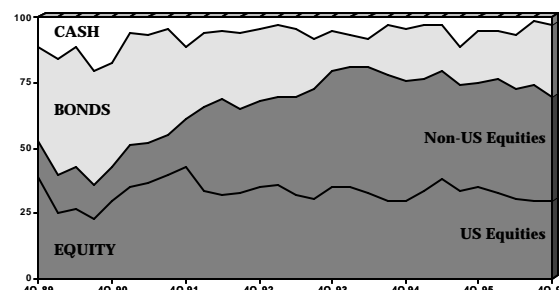
**60/40 Global Balanced Index is the weighted sum of 60% FT World Equity Index & 40% Salomon World Government Bond Index

***Lipper Global Flexible Portfolio Average used from 08/31/89 to 12/31/89; Index commences 01/01/90

	Calendar Year Returns						
	1996	1995	1994	1993	1992	1991	1990
	HLM Multi-Asset Global: Equity Component	21.1	21.8	2.5	29.9	8.1	34.6
<i>Financial Times World Index</i>	13.2	19.6	5.9	22.6	-5.1	19.6	-17.0
HLM Multi-Asset Global: Bond Component	8.6	26.7	-2.5	14.6	5.6	18.7	11.5
<i>Salomon World Government Bond Index</i>	3.6	19.0	2.3	13.3	5.5	15.8	12.0

NOTES:

- Returns shown are time-weighted total returns, and include reinvestment of dividends.
- Returns from all cash reserve and equivalents used in place of bonds or equities are included in performance calculations.
- Composite calculations have been weighted by account size.
- Figures include all tax-exempt multi-asset global accounts under discretionary management from their inception dates, including accounts no longer in existence.
- No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- No selective periods of performance have been utilized.
- Results are presented after brokerage commissions but before management and custodial fees. Management fees are described in our Form ADV Part II. Inclusion of standard management fees would reduce annual returns for HLM multi-asset global composite by approximately 1.0%.
- Lipper Index performance is after fees and expenses.



Account Summary Information:

- Number of accounts included in composite: 1989: (2); 1990: (2); 1991: (3); 1992: (3); 1993: (5); 1994: (9); 1995: (9); 1996: (8)
- Total market value at year-end of accounts included in composite ('000): 1989: (\$1,099); 1990: (\$1,136); 1991: (\$4,338); 1992: (\$4,487); 1993: (\$7,204); 1994: (\$26,401); 1995: (\$46,506); 1996: (\$74,478)

This product was previously named 'Tax-Exempt Global Balanced'. The name of this product and its corresponding composite performance series has been changed to reflect more accurately the product's broadly diversified nature; no change in the product's content or historical performance record has been made.

Harding, Loevner Management, L.P.

50 Division Street
Suite 401
Somerville, NJ 08876
Contact: Ric Reiter

<i>Telephone:</i>	<i>908-218-7900</i>
<i>Fax:</i>	<i>908-218-1915</i>
<i>E-Mail:</i>	<i>rreiter@hlmnet.com</i>