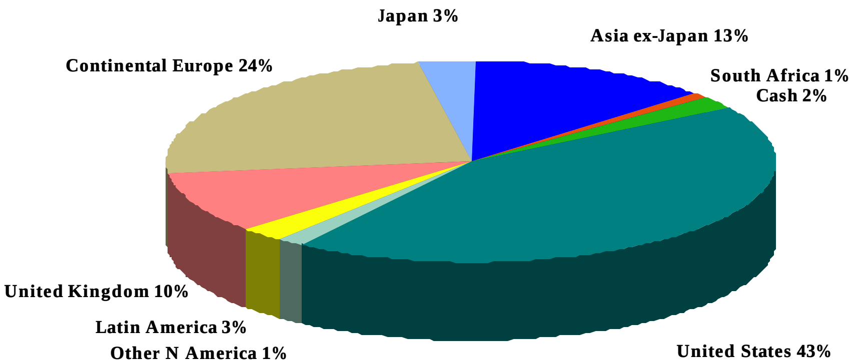
HARDING, LOEVNER MANAGEMENT, L. P.
GLOBAL AND INTERNATIONAL INVESTING
1998 Year End Report

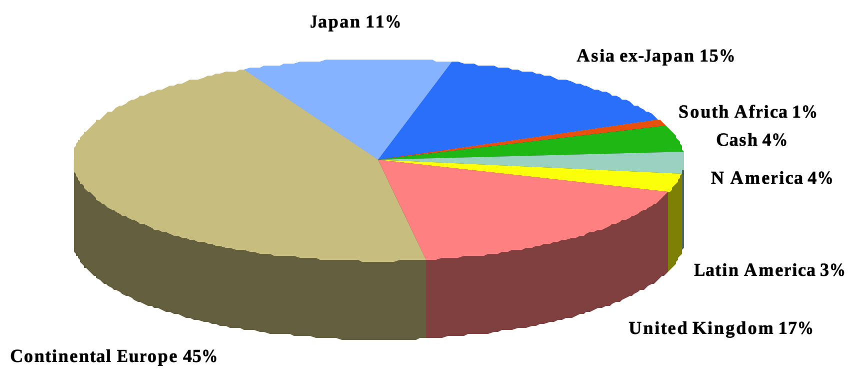
GLOBAL EQUITY PORTFOLIO



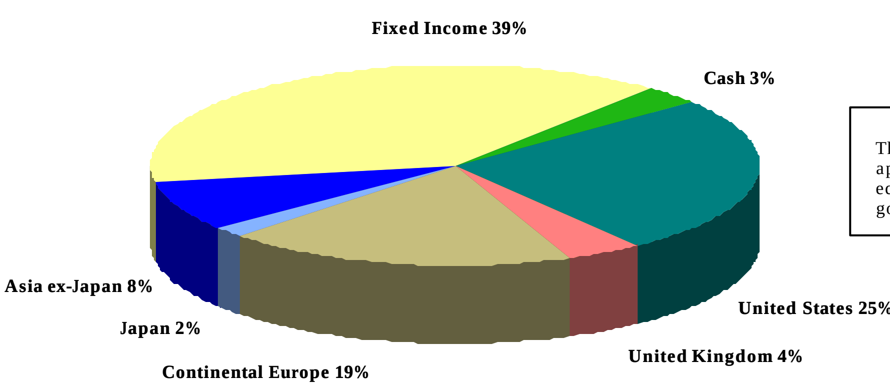
The seeks long-term capital appreciation through investments in equity securities of companies based both inside and outside the US.

INTERNATIONAL EQUITY PORTFOLIO

The *International Equity Portfolio* seeks long-term capital appreciation through investments in equity securities of companies based outside the US, including large & small companies in mature markets and established companies in emerging markets.



MULTI-ASSET GLOBAL PORTFOLIO



The ***Multi-Asset Global Portfolio*** seeks long-term capital appreciation and current income through investments in equity and fixed income securities of companies and government bodies throughout the world.

The charts above provide a ‘snapshot’ of the portfolios at December 31, 1998. See inside for details of performance.

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OVERVIEW

Harding, Loevner Funds, Inc. (the 'Fund') is a no-load, open-end investment company that currently has four separate diversified portfolios, each of which has distinct investment objectives and policies. Harding, Loevner Management, L.P., which manages $1.4 billion in assets for private investors and institutions, serves as the investment adviser to the Fund.

The *Global Equity Portfolio* is a program for investors seeking long-term capital appreciation through investments in equity securities of companies based both in- and outside of the United States. This mutual fund Portfolio is the successor to the HLM Global Equity Limited Partnership, whose net assets it assumed in a tax-free merger completed November 30, 1996. The Partnership began operation in September 1991.

The *International Equity Portfolio* is a more focused program, also designed for investors seeking long-term capital appreciation. It invests only in companies based outside of the United States, including large and small companies in mature stock markets as well as established companies in emerging markets. The International Equity Portfolio is the successor to the AMT Capital Fund, Inc.-HLM International Equity Portfolio, whose net assets it assumed in a tax-free merger completed October 31, 1996. The predecessor fund began operation in May 1994.

The *Multi-Asset Global Portfolio* is a program for investors seeking long-term capital appreciation and current income through investments in equity and fixed income securities of companies and government bodies from throughout the world. The Portfolio commenced on November 1, 1996.

The *Emerging Markets Portfolio* is a program for investors seeking long-term capital appreciation through investments in equity securities of companies based in developing markets outside the United States. The Portfolio commenced on November 9, 1998.

GLOBAL EQUITY PORTFOLIO

PERFORMANCE

The Portfolio rebounded 14.2% in the fourth quarter, from the losses in the third. Easing of monetary policies throughout the industrial countries quelled the rising panic over recession risks that had crushed equity markets in the prior quarter. The MSCI All-Country World Index gained 21.1%, while the Lipper Global Index of actively-managed mutual funds rose 17.2%.

REVIEW AND OUTLOOK

In our last letter we observed that accelerating price deflation, and the related series of financial accidents — most memorably, Russia's devaluation and default — were causing investors to avoid risky assets. This quarter we saw governments acting to address the concerns that had roiled markets. Interest rates were cut in all OECD countries, except in Japan, where badly needed bank reform and fiscal stimulus were finally put on the national agenda — their interest rates already having been pressed to the floor. The US Congress agreed to a refunding of the IMF, which allowed several developing country rescues to proceed, particularly the $40 billion financing package for Brazil. The Korean and Thai governments continued to take their IMF medicine of fiscal austerity, and began to exhibit signs of recovery, such as growing trade surpluses, firming currencies and rising domestic liquidity. As a result of these diverse policy actions, the risks of serial defaults, devaluations and possible global recession, which seemed so imminent three months ago, have receded.

The equity markets responded dramatically to the coordinated monetary easing and other liquidity-enhancing measures. Markets around the world rallied in the fourth quarter, ranging from 13% gains in both Germany and the UK to a doubling in Thailand. Even Japan, mired still deeper in recession, saw its stock market rise sharply in dollar terms. Most of this rise was attributable to strength in the Yen. It was, in all, a stunning demonstration of policy makers' ability to assuage investor anxiety — at least in the short run.

Our eight Asian stocks, domiciled in Hong Kong, Singapore, Thailand and Japan, rode the crest of the wave, contributing strongly to the Portfolio's return. Most notable was **Siam Cement**, the country's bellwether industrial concern, whose shares returned over 150% in the quarter, bringing them back (at least in local currency terms) to a level not seen since the regional crisis began in mid-1997. The company announced a business-restructuring plan in which it identified cement, petrochemicals and pulp & paper as its three core businesses and declared its intention to divest from its sprawling portfolio other, non-core businesses, using the proceeds to reduce its heavy-debt load. We see Siam Cement's action plan, and its subsequent recognition in the stock markets, as a paradigm for the steps that other regional concerns must take — and, increasingly, *are* taking — to achieve stability and ultimate recovery for themselves, and for the region's economies. We have recently increased our exposure to regional companies, in line with rising evidence of constructive behavior on the part of regional companies and our increasing confidence that a bottom in economic activity has been reached.

The Portfolio's US and European holdings rose strongly, but generally lagged their respective markets. Newly-added holdings, as a group, outperformed in relative returns. European markets were buoyed by the downward convergence of interest rates leading to the January 1 launch of the new European currency. 'Mega-cap' stocks again led the US market rise. It is worth remarking, again, on the extreme narrowness of the US market leadership. More than half of the S&P 500's 26% gain for the year is attributable to the appreciation of 12 large, well-known stocks, which together gained almost *one trillion dollars* in market value. We own only two of these, not coincidentally the most modestly priced: **Pfizer** and **Intel**. Our investment discipline, rooted in fundamental analysis and estimation of intrinsic value, leads us to purchase only those companies whose share prices offer the prospect of superior risk-adjusted returns in the long term. Even with interest rates now almost one point below last year's levels, it is difficult for us to demonstrate how others in the mega-cap group — notwithstanding their solid earnings growth prospects — can be worth in excess of 50 times trailing earnings.

As the Federal Reserve noted in its press release accompanying the most recent of its rate cuts, 'unusual strains [in financial markets] remain.' In our letter last quarter, we issued a list of concerns about the global economic outlook, including the worsening Japanese recession, the actual or threatened default of various indebted nations, the risk of a new round of competitive devaluations, and collapsing commodity prices, to name a few. Most of these problems stem, directly or indirectly, from the deepening trend of price deflation — the proximate cause of which is the excess of the world's manufacturing capacity over its consumption demand. This imbalance, and thus the deflationary trend, shows no sign of abating. No one is yet shuttering capacity, and consumption demand is increasingly constrained by the dependence of consumers (whether they be American families or developing nations) on borrowed funds. While recent policy actions have served to forestall imminent crisis, they do not eliminate the need for painful adjustment. The realistic goal of policy makers is not to prevent adjustment, but rather to sustain an environment in which adjustment can occur in an orderly way, over time, rather than precipitously.

The bias in global economic activity therefore remains downward, though, as we have just seen, it may be punctuated from time to time by the adrenal effect of injected liquidity administered by central bankers. So long as the trend remains, the aforementioned and other risks loom large in our thinking. This leads us to maintain our conservative posture in stock selection: favoring companies whose business prospects are less dependent on the business cycle, who can extract additional profits from even modest revenue growth, and whose shares are reasonably priced on an assumption of no inflation and slowing global activity.

ACTIVITY

As we wrote in our last letter, over the summer we sold or reduced holdings in companies whose earnings seemed especially prone to cyclical slowdown, in an effort to reduce the riskiness of the Portfolio in the face of the mounting recessionary threat. As that threat receded, we reinvested the cash that had been raised through these sales, favoring companies with a defensive business character and taking advantage of lower share prices where possible. We bought seven new companies for the Portfolio, and added to two existing positions.

In Southeast Asia, we established new positions in two companies whose franchise and financial strength should enable them to survive the current regional recession and resume long-term growth, but whose shares appeared to be priced by the market as though such an outcome were unlikely. They were:

Jardine Strategic Holdings (JSH), a Singapore-based investment holding company whose largest asset is Jardine Matheson, the Hong Kong trading firm. Other important holdings are Dairy Farm, a leading food retailer in Hong Kong and Australia; Hong Kong Land, the largest office space owner in Hong Kong's Central business district; and the Mandarin Oriental, a leading hotel in Hong Kong. JSH shares are trading at an approximate 50% discount to an already-depressed net asset value. We expect net asset value to rise as the Asian crisis eases and that the discount to net asset value will decline as well. The dividend, which we regard as safe, provides a current yield of approximately 8.5%; and

Singapore Press (SPH), the dominant publisher of English, Chinese and Malay language newspapers in Singapore. Newspaper advertising accounts for 75% of its total revenues, with the balance from circulation, magazines and other businesses. Strong cash flow has funded investments in some of Singapore's growth businesses: cellular telephones, cable TV and internet services. Despite a slowing economy, SPH's core newspaper business provides a resilient source of earnings. Favorable demographics support circulation growth, while accelerating economic liberalization is creating new advertising demand. The company has become more responsive to shareholders' interests, even returning some of its excess capital to shareholders via an effective share repurchase.

We monitor the business outlook and share price of many large, well-known companies that we judge to be global leaders in their industries. As our estimation of these companies' virtues is generally shared by other investors, their shares tend to trade at high valuations. Sometimes, though, an external event such as a generalized market correction drives share prices down to levels we consider bargains. In the third quarter, we added insurance giant **AIG** to the Portfolio after its price had dropped in the market turmoil. In this quarter we bought three more examples of global leadership:

Bic, the world's leading producer of pens, disposable razors, and disposable lighters, is an example of a European company adapting itself for improved shareholder returns. We purchased the shares after a slowdown in profit growth had caused them to drop sharply in price. The company has since announced a restructuring program to improve the efficiency of European operations;

Semiconductor manufacturer **Intel**. We took another look at Intel, and determined that this exemplar and beneficiary of (ex-Chairman) Moore's law, should be able not only to continue to double the speed of its processors every 18 months but to keep producing excess returns for years to come. The company rates highly in many of our qualitative criteria: low cost manufacturing, financial strength, dominant market share and, especially, management quality. Under a very conservative (even skeptical) set of assumptions, we still see Intel shares as substantially undervalued; and

Air Products and Chemicals, a US-based global industrial gas company. Air Products gives the Portfolio exposure to steady earnings growth from a diversified, recurring-revenue client base. With a below average valuation, industrial gases are an attractive business in an environment of low inflation and interest rates. Air Products will enjoy the fruits of recent heavy capital expenditures at a time when management has become more focused on better returns to shareholders.

Smaller and less-well known, but no less a global leader, is new holding:

Quintiles, a market leader in providing full-service contract research, sales, marketing and healthcare policy consulting and health information management services to the global pharmaceutical, biotechnology, medical device, and healthcare industries. The largest pharmaceutical outsourcing company in the world, Quintiles is positioned to grow its earnings in excess of 20% p.a. for years to come as its multinational customers increasingly rely on external specialists to manage large-scale clinical trials, and market targeted products to an ever more specialized and cost-aware medical community. The company recently announced the acquisition of Envoy, an electronic medical and pharmaceutical claims processing operation. Quintiles will use its unique database to assist its clients to target more effectively their research and marketing efforts.

Two existing holding experienced sharp price declines in the market correction, creating the opportunity to add to our positions; they were:

Aspen Technology, the dominant provider of "process optimization" software to the chemical and petrochemical industries, announced an earnings shortfall as the uncertain economic climate of the third quarter caused several large customers to delay orders. We feel confident that Aspen, with an unquestioned technical leadership in products and service, and the best customer list in the industry, will again be able to generate positive return for shareholders, a belief that is bolstered by a spate of buying by insiders and the hiring of three key senior executives from competitors Honeywell and Siebe. Aspen's shares rose over 30% since we added to the holding; and

WPP Group, the global UK-based advertising and marketing agency. We began to purchase shares of the company early in the third quarter. The concerns over a slowdown in advertising expenditures in the wake of a global slowdown caused the shares to drop by half. We purchased more shares, and have seen the stock double, returning to its former levels. The shares trade at an undeservedly large discount to its US-based peers, and we think that the firm's business should prove resilient even in a downturn, as branded goods producers keep up 'adspend' to protect the pricing power their brands generate.

These new and additional purchases, in aggregate, contributed strongly to the Portfolio's returns in the fourth quarter. We expect to use future instances of price weakness in the shares of the companies whose businesses we most admire to make similar, opportunistic purchases.

We sold several positions to raise cash for redemptions during the quarter, and made several other trades in the quarter as part of our ongoing effort to upgrading the business quality of the Portfolio, and make it more resistant to slowing global growth. We *swapped*:

Our position in **Sola International** for exposure to **Luxottica**. Both companies are global market leaders in the optical business: Sola in the lens manufacturing side, and Luxottica in manufacture of frames and optical retailing. New product introductions that were expected to enhance Sola's earnings growth did not materialize in the face of managed-care cost containment pressures in the US, while Luxottica's LensCrafters retail chain has initiated a new managed-care product and service line to address the needs of the fast-growing managed-care insurance providers that will augment revenues.

We *sold*:

SGL Carbon, the German carbon and graphite manufacturer. The company proved more vulnerable than we anticipated to weakness in the steel industry, to which its supplies carbon electrodes for electric arc furnaces, while its high tech (and purported high growth) engineered products business demonstrated an inability to pick up the slack; and

Surveillance, the Swiss-based global inspection and verification firm, after being surprised by the company's revelations about serious declines in operating conditions — previously withheld information which had not emerged even in recent meetings with management.

We *reduced*:

Our large positions in US financials **Allied Capital** and **Fannie Mae**, which together still make up more than 6% of the Portfolio; and

Siam Cement, as the impressive share run up during the quarter resulted in an overly-large position within the Portfolio.

INTERNATIONAL EQUITY PORTFOLIO

PERFORMANCE

The Portfolio's value rose by 17.9% in the quarter. The MSCI All-Country World ex-US Index rose by 20.3%. The Portfolio benefited from its holdings in emerging markets in general, and from those in Southeast Asia in particular, but suffered from its exposure to European cyclical companies. Quick and concerted action by Central Banks restored confidence to financial markets in the fourth quarter. In particular, the change of direction by the US Federal Reserve Board, from worrying about the inflationary implications of rapid US growth to recognizing the deflationary dangers in the world at large, was a decisive factor. It took action on several fronts — following on from September's intervention to engineer a private sector bailout of the teetering Long Term Capital Management. It cut US short-term interest rates — three times — and indicated its willingness to do so again if financial instability continued; it cajoled European Central Bankers into joining in despite preparations for the launch of European Monetary Union; it exhorted Congress to recapitalize the International Monetary Fund, which in turn launched a rescue package for Brazil, the keystone economy of Latin America.

Confidence was restored, and equity markets soared. The rise was not as uniform as the prior quarter's decline, however. Although premia for most risky assets returned to more normal levels, investors were discriminating. They responded enthusiastically to an improved fundamental outlook for Southeast Asia, for example, where economic activity and corporate profitability have stopped deteriorating. Thailand, the first country to be flooded by the deflationary tide in July 1997, saw its market rise by 103%, helped along by a stronger currency; in Singapore, stock prices rose by 69%, while in Hong Kong they jumped 30%. The Portfolio's holdings in these markets did even better than their respective market averages.

The IMF offered Brazil a life line, but its politicians seem unable to agree on how to take it. Congressional failure to implement the fiscal reforms demanded by the IMF means that the outlook in Brazil, and consequently in Latin America as a whole, in contrast with Southeast Asia, has *not* stopped deteriorating. The Portfolio has no holdings in Brazil, where the market was flat. The Portfolio does have holdings in Mexico, where the corporate environment is more closely tied to the vigor of the US economy. Although returns did not match those in the Asian emerging markets they were still respectable, at 11%.

Developed markets rose more sharply than in any quarter in a decade. Even before European Monetary Union became an accomplished fact, the new European Central Bank flexed its muscles, coordinating a widespread cut in interest rates among the members of the Union. Those, such as the UK, that chose to remain on the outside, followed suit. Equity markets responded enthusiastically. The UK market rose by 14%, the German and French by 13% and 21%, respectively. Prices in countries such as Spain and Ireland, once on the fringe of Europe but now with the same currency as those countries at its heart, also jumped. The Spanish market rose by 29%. Japanese stocks returned 27% in dollars, but most of that return came from the startling appreciation of the Japanese Yen. In local terms, the market rose by just 5%. There are a few glimmers of hope that the Government is beginning to face the reality of the country's financial and economic disaster, but the longer it takes, the bigger the problem, and the more costly the solution. No recovery in Japan's domestic economy is yet clearly in sight.

MARKET REVIEW

During the quarter, most of our wishes — bleated at the moment of maximum despair in late September — were fulfilled. US and European interest rates were cut, a rescue package for Brazil was consummated, normal activity in credit markets resumed, and confidence in equity markets was restored. Imbalances and, thus, risks remain, however. If the world is not to slip from a benign, disinflationary environment to a perilous, deflationary one, much depends on the continuing insatiability of the US consumer. Consumption expenditure has now grown to the extent that the US household savings rate is negative , i.e., US families are dipping into their assets, or they are borrowing, to finance spending. Their confidence to do so is increasingly derived from their faith in the perpetuation of the bull stock market — faith that was reconfirmed in the quarter by the highest (to wit, monetary) authorities. Although we welcome Mr. Greenspan's leadership in turning the focus of monetary policy, we are concerned that in doing so he has helped to inflate further prices of financial assets, enlarging a bubble that will be very hard to burst safely. Investors' expectations for returns are now unrealistically high, particularly as deflation looms. The most recent stage of the bull market has been powered by declining interest rates, i.e., lower returns to long-term capital. Equity investors, their long-term expectations biased by recent experience, have yet to take on board that this means lower long-term returns for them as well. The process of reconciling perception and reality could be painful.

European stocks are expensive by historic standards, as are those in the US, but the degree of speculative activity is lower. European's rising affection for equities has not yet become an infatuation, but is nonetheless a force for positive change — encouraging companies to turn away from safeguarding their traditional constituents (e.g., banks, customers, and employees) and increasingly to focus on shareholders. Another, related, force for the rise of an equity culture in Europe is the accentuation of competitive pressures since the early 1990s by customs union, and from January 1, 1999, from currency union. Companies increasingly need to be big to compete effectively in Europe; to be big they need to make acquisitions, and cannot afford to do so with lowly-priced equity. One tactical element in pursuit of the goal of higher share prices is demonstrating to financial markets that the interests of shareholders come first. We think the outlook for European stock prices is well underpinned by the increasing returns for shareholders that can be squeezed from still-flabby operations, even in an environment where economic growth is slow. European Monetary Union provides the world with a new potential reserve currency. At the moment, just 19% of the world's reserves are held in those currencies that have become the Euro, while 70% are in US Dollars. We think that, over time, that balance will shift. The world's second largest holder of foreign currency reserves, the People's Bank of China, has already indicated that it will sell Dollars and buy Euros to rebalance its portfolio. Such shifts will put downward pressure on the Dollar, and may reveal that the strong dollar of recent years was a temporary phenomenon.

Companies in Japan have yet to learn the same lesson as those in Europe. Capital has been freely available, at least until recently. Now that the credit crunch has begun to hit, however, there are glimmerings of changing corporate culture in Japan. Companies are increasingly willing to lay off surplus staff, to reward managers for performance, not for seniority, and to seek profits not market share. Our Japanese companies are at the vanguard of this trend which is spreading, albeit slowly, to the rest of corporate Japan. This trend is long-term, and structural, in nature and has, perversely, had the effect of delaying rather than accelerating the advent of cyclical recovery. Much has been said of how the rest of Asia cannot recover until Japan does. This is simply not the case. The Japanese economy has been moribund for a decade, but the 'Asian crisis' has been with us for eighteen months. There are already signs that it may have passed its worst. Above all, recoveries in the trade positions have been remarkable, fuelling current account surpluses across the region and enabling interest rates to fall precipitously. The combination of surplus, lower rates, and economic growth, of course is exactly the sort of 'virtuous circle' previously observed at the start of bull markets in this region. The bad news is that trade surpluses are the result of a collapse in domestic demand, and, hence, of imports, not because of a surge in exports. Exports have, however, been steady, continuing to feed the demands of the US consumer. One good thing to emerge from the crisis are the signs of a radical shift in corporate discipline. Companies in the Portfolio such as **Siam Cement**, **DBS Bank** and **Singapore Press** are re-engineering both their business and financial structure in response to a new attention to shareholders. Indeed, in Singapore, one of the few countries in the world where we believe government intervention works, higher shareholder returns have become official policy. Risks remain in Southeast Asia, of course, not just that the US consumer may tire, or protectionism may rise, but also that the commitment to restructuring may waver in the face of recovery. We believe the need for, and demands of, foreign equity capital will provide the necessary discipline, and that, in the next cycle, economic growth may be more muted, but that the rewards that will accrue to owners of equity will be great.

Latin American risks center around Brazil. The pressures to devalue are still intense despite an IMF rescue package designed to forestall speculation against its currency. In Brazil, a fractured political process has always made policies with long-term benefits but short-term pain hard to impose. Voters in Brazil have demonstrated that they have no wish to risk a return to hyper inflation. Politicians obsessed by pork-barreling have failed to enact the legislation necessary to comply with the requirements of the IMF rescue package. They have left the country facing recession, caught between higher interest rates if there is not a currency devaluation and higher inflation if there is.

Despite the appearance that all is well in the Goldilocks economy that the world has enjoyed for most of the decade, it is not. Great disequilibria exist — the US consumer spends too much, and saves too little. Should the dollar weaken significantly, the ability to finance that spending, at today's low nominal interest rates, may end. The reverse is true in Japan, where the consumer very wisely waits until deflation makes tomorrow's prices more attractive than today's. Massive trade deficits in the US risk a rise of protectionism. Stock prices are high, and in some sectors (internet stocks in the US, for example) are clearly forming a speculative bubble. Europe looks a relative haven of peace, with improvement in corporate profitability still accelerating, with a new currency that should be strong for a number of years. Above all, the world still faces a glut of manufacturing capacity, and it may take years for the gap between demand and supply to be closed, all the while putting downward pressure on prices and squeezing corporate margins. The good news is — inflation is still not an issue!

PORTFOLIO REVIEW

Our Portfolio differs greatly from a capitalization-weighted market index of our investment universe (say, the Financial Times Actuaries World ex-US Index). It differs particularly in the following two respects: it contains far fewer companies in regulated industries, such as utilities and telecommunications which together amount to 16% of the Index; and it has far greater weight in small- and medium- sized companies than the Index. The Portfolio also differs from those, on average, that other international equity managers own: it less closely resembles the Index, in terms of country and sector allocation; it has, again, greater weight in small- and medium-sized companies; and it is far more concentrated (the top ten holdings constitute over 32% of the equities).

INDEX	3 MONTH RETURN	1 YEAR RETURN	3 YEAR RETURN
United Kingdom			
FTSE 100	*13.8*	*15.7*	*71.0*
FTSE Small Cap	2.1	-9.6	14.4
Germany			
Dax	*13.1*	*27.9*	*91.1*
Dax Mid Cap	6.4	15.2	32.2
France			
CAC 40	*23.5*	*40.9*	*85.0*
SBF Midcap	6.5	11.2	44.8
United States			
S&P 500	*20.8*	*26.9*	*99.8*
S&P 600 Small Cap	14.8	-4.0	43.6

All this is to say that we take significant relative, or 'active' risk (being more willing to deviate substantially from the Index, and our peers) in pursuit of lower absolute risk (being less willing to lose money). The reasons for this stem from our investment philosophy, and from the way we have implemented it. We are bottom-up investors, who seek to earn absolute returns, not just to achieve relative returns by beating an Index. We seek to pay reasonable prices for companies that meet our requirements that they be financially-strong, and well-managed, that they have global operations or a defensible business franchise, and that they are able to grow at above-average rates over long periods of time. We seek, moreover, to have a portfolio, not just a collection of fine companies. This entails that we diversify the Portfolio, for example, by country and industrial sector, but also on other dimensions. Nowhere in these criteria do we insist that companies be of a particular size, based in a particular country or operate in a particular industry.

As a result, we buy those companies that offer the highest prospective, risk-adjusted returns, subject only to the requirement for diversification. The results of this process are that, relative to the Index and our peers, our Portfolio comprises companies that: are cheaper, based on their average price-earnings ratio — i.e., we are careful about prices we pay; are more profitable, based on the return they achieve on their net assets; and have grown those net assets at a higher rate over the last five years.

In recent years, our investment style has led us to own more and more small- to medium-sized companies. Stock prices of large companies have risen sharply in recent years, but those of smaller companies have not. The table above shows returns in the three leading European markets from big and medium/small-sized companies. Returns from big companies are in italics.

To what extent is this extreme divergence justified by future prospects? To be sure, large companies appear to have certain enduring advantages over smaller ones: they are better able to compete globally; they can resist price cuts from customers; they can better maintain margins by forcing price cuts on suppliers; and they have had, more recently, easier access to capital.

Fashions come and go, however. A century ago, it was also fashionable to be big — so companies could monopolize their markets and stop wasting resources on competition! Thirty years ago, it was good to be big so scarce managerial talent could be applied to the various divisions in a large conglomerate. Twenty years ago, you had to be small so you could better and more nimbly respond to your customer demands. Now, accepted wisdom says you have to be big to deliver products and services globally, while keeping prices down through economies of scale. Who knows what the fashion will be in the next millenium? We don't, so we are concerned more with companies' business strengths and valuation than their size. In the meantime, we doubt that the largest companies' inherent competitive advantages are so large as to justify the present steep valuation gradient.

Another reason for the outperformance of large companies recently is to do with the behavior of the investment management industry. Increasingly, managers are judged not by their ability to make money in good times, and preserve it in bad, but on their ability to outperform market indices. This has resulted, paradoxically, in their taking *fewer* risks (relative to the indices), not more. Thus, they have bid up the prices of the large companies that, together, form the main indices, which are weighted by capitalization. This creates an opportunity for those, like us, who seek absolute returns. It is inevitable that the worm will turn — inevitable, not because investment fashion will change (though that will too!),

but because if prices between small companies and large companies differ too widely, large companies will close the gap by buying up the small companies. This behavior

will also be forced upon them, when they realize that growth through merger and cost cutting cannot last forever — in the end, they must grow their top lines, not just expand their margins. We do not know when the gap will be closed, but are confident that it will.

Our investment style also makes no distinction between countries, or, on an even broader level, between those that are 'emerging' or 'developed'. Just as when prices of small companies fall, we seek opportunities, so do we when markets, or asset classes are out of favor. This quarter was an extreme example — price volatility provided several opportunities. We added to several holdings of European small companies — Irish software training company, **CBT** (whose market capitalization is $0.6 billion), Dutch engineering company, **IHC Caland** ($1.1 billion), and to **Luxottica** ($1.3 billion), the Italian eyeglass manufacturer and retailer. IHC is an example of a smaller company with improving fortunes damned by its association with a cyclically declining commodity, oil. These are all small companies in both the relative and the absolute senses. In Southeast Asia, we added to holdings, and to those in Singapore in particular, buying **Singapore Press**, and regional retailer **Dairy Farm**. Amongst mid-cap stocks, we bought a new holding in **Hays**, a UK distribution and business service company, and added to our position in **Bic**, the French consumer goods manufacturer. Funds for these purchases were raised predominantly from the large companies whose stocks have been the beneficiaries of the phenomenon we have been talking about. We reduced holdings in Swiss food manufacturer, **Nestlé**; in **Glaxo**, the UK pharmaceutical giant; in **Siam Cement**, Thailand's largest company, though, in absolute terms, still a small company; in Dutch media giant **Wolters Kluwer**; in **Railtrack**, the owner and operator of the UK's railway infrastructure; and in **Rentokil**, the world's largest business service company.

ACTIVITY

We bought new holdings in five stocks, and added to four. Cash reserves were reduced from 11% at the end of September to under 4% at year end, but funds were also provided from reductions in seven stocks. No holdings were sold. In addition to the six reductions mentioned above, we sold part of the position in **SGS**, the Swiss inspection and certification company. We will seek opportunities to sell the rest of the position in the New Year. The company has embarked on a restructuring exercise that we think will be difficult to implement, but whose success is now presumed in the share price.

We added to holdings in **IHC Caland**, **Bic**, and **Luxottica**, as mentioned above, on price grounds. We also added to holdings in **CBT**. The share price had fallen sharply since our original purchase, as existing management was unable to cope with the pressures created by the company's rapid growth. The company's founders re-exerted control. The price has subsequently recovered strongly since we added to the position. Finally, we bought holdings in:

Hays is a diversified provider of business services. Its main activities are in distribution and logistics; personnel services, encompassing both recruitment and temporary staffing; and 'commercial services', a catch-all phrase to describe a variety of subsidiaries that are involved in document and information delivery and management, the largest of which competes with the Royal Mail, the British equivalent of the US Postal Service. Led by Chairman Ronnie Frost, Hays has earned a reputation for outstanding management, both in terms of quality and in depth. It has grown organically as the demand for its services has been helped by the long-term trend towards outsourcing, and through acquisition, where its strong cash flows, brand name, and management have enabled successful takeover activity in both the UK and Continental Europe. This is a very high-quality company in the services sector, whose shares trade at only a modest premium to the broad market.

Air Liquide is the world's largest industrial gas company and is one of the top five companies by capitalization on the French stock exchange. The group dominates the French and southern European markets for industrial gases, and has major positions in North America and Japan. Air Liquide is expected to generate a stable earnings stream growing at 10% per annum. Such growth, and the return on assets that produce it, are extremely valuable given Air Liquide's cost of capital and result from the company's 20% global market share, aggressive capital expansion program, leading use of new gas generation technology and continued cost reduction programs. Management is also taking steps to become more shareholder friendly, evidenced by significant improvements in financial disclosure and consideration of share repurchases.

Hoechst is a German chemical company that is in the process of transforming itself into a life sciences company. This has been the stated goal of the company for three years but has been accelerated with December's announcement that it would merge with

Rhone-Poulenc to create Aventis, combining the fast growth life sciences businesses of each company. All non-life sciences assets will be liquidated. Aventis will be the combination of the businesses of Hoechst and Rhone-Poulenc. Significant cost savings - $1.4 billion - will be realized through the elimination of redundancies. Hoechst has a very promising new product pipeline that will drive earnings from 2001. Rhone-Poulenc has strong current sales, but a long-term pipeline that does not hold Hoechst's promise. Therapeutically they complement each other well, with Hoechst's strength lying in respiratory, cardiovascular and central nervous system therapies, while Rhone's lie in oncology and respiratory.

Dairy Farm is a leading food retailer and convenience store operator in Hong Kong, Taiwan, Singapore, Australia and New Zealand. It is well-positioned to protect and grow earnings despite adverse economic conditions in Asia. New management has terminated unprofitable diversification attempts, divested non-core activities and reinvested strong operating cash flows in upgrading its core business in its established markets. Dairy Farm should be a beneficiary of falling property rental and labor costs in Hong Kong, as well as of a consumer shift towards more value-for-money expenditures.

Singapore Press is the dominant publisher of English, Chinese and Malay language newspapers in Singapore. Newspaper advertising accounts for 75% of total revenues with the balance from circulation, magazines and other businesses. Net cash and strong cash flows have funded investments in some of Singapore's growth businesses: cellular telephones, cable TV and internet services. Despite a slowing economy, SPH's core newspaper business provides a resilient source of earnings. Positive demographics are supporting circulation growth while economic liberalization is creating new advertising demand. The company has become more sensitive to shareholder returns, while returning some of the excess capital via a special distribution of capital. Despite ongoing capex in the new businesses, the company still generates sufficient free cash flow to support increased cash dividends in future years.

The similar profile of these new holdings — growth companies are relatively insensitive to the business cycle — is indicative of our caution regarding the near-term outlook for global growth.

MULTI-ASSET GLOBAL PORTFOLIO

PERFORMANCE

The Portfolio *rose* 7.9% in the fourth quarter, trailing the constructed benchmark (60% FT World Index and 40% Salomon World Government Bond Index) which rose 14.0%, and the Lipper Global Flexible Fund Index, which rose 12.6%. For the year as a whole, the Portfolio rose 6.6%, again, trailing the constructed passive index, up 20.6%, and the Lipper index, which rose 8.9%. The Portfolio benefited from active asset allocation for the year overall, with equity exposures being trimmed in the months through August, and then increasing once again in the fourth quarter.

However, solid fixed income performance could not overcome poor, value-oriented stock selection in the US and Europe. Bonds in the Portfolio were flat in the quarter, but rose 9.9% for the year as a whole, good returns compared with the 8.3% annual return of the Lehman Aggregate (US) Bond Index, but behind the 15.3% return of the Salomon World Government Bond Index. Equities in the Portfolio rose 18.2% in the quarter, but returned only 6.8% for the year as a whole, behind the FT World Equity Index, which returned 23.0%, and the Lipper Global Flexible Fund Index, which rose 8.9%.

REVIEW AND OUTLOOK

In our letter last quarter, we opined that the appropriate policy response to the financial market turmoil then prevailing due to the disintegration of both Russian securities and Long Term Capital Management should be further interest rate cuts by the Fed and by European central banks. We were heartened when in fact the authorities began to cut official rates, but have been surprised somewhat by the speed and breadth of their moves. Be that as it may, the party has resumed, as some would say, with the punchbowl of central bank liquidity refilled and flowing. Interest rates were cut in all OECD countries save Japan—where they couldn't go any lower. The US Congress agreed to lead a refunding of the IMF, which allowed several developing country rescues to proceed, topped by a substantial financing package for Brazil. That was significant because Brazil was the most worrying—because of the size of its financial import to investors.

Financial markets have responded with alacrity. In the US, the S&P index rose 21% in the quarter, Britain's market rose 14%, and France rose 21%. Asia, long in the doghouse, was the greatest beneficiary of the renewed liquidity, augmented with domestic rate cuts of their own as currency pressures reversed: Hong Kong rose 30%, Singapore rose 69%, and Thailand's index doubled in dollar terms. Even the depressed Tokyo Stock Exchange shot up 27% in dollars, mostly due to the rapid appreciation of the Yen. The stronger Yen translated into extraordinary gains in the dollar returns of Japanese government bonds, and as a result non-US bond indices returned almost 4% in the quarter, following a large rise in the fraught third quarter. The US dollar continued the weak tone established in September, reflecting not only the fact that the US had taken the lead in lowering interest rates, but also that it was, obligingly, becoming the consumer of last resort, with a ballooning trade deficit plus a negative savings rate as proof. The advent of the Euro and its offer of a large and liquid alternative reserve currency also loomed large in investors' minds.

We wrote you last quarter that you should expect us to increase the risk in the Portfolio incrementally, having gradually but consistently reduced it over the past eighteen months. We have done so across nearly every axis of the Portfolio, and yet the results of our changes appear modest in the face of the roaring recovery in many financial instruments. In the broadest definition of risk, we altered the asset allocation in favor of the riskier asset class, equities, taking advantage of the low prices available and the ready supply of cash and liquid bonds in the Portfolio. Whereas at the end of the third quarter the equity allocation stood below 50%, it now stands at 56%, with bonds falling to 42% and cash reserves to 2%.

Within the greater allocation to equities, we sought out new companies whose businesses or locations generally entail more risk, in order to take advantage of the higher risk premiums that the market was demanding of these companies' stock valuations. We added bargains from the emerging markets (**Jardine Strategic Holdings** and **Kimberly Clark de Mexico)**; we added companies from our 'crash list' in developed markets whose share prices had been hit far more than their barely diminished long-term prospects would warrant (**Bic** and **Air Products**), and we added companies in the volatile technology sector (**CBT** and **Monsanto**). Simultaneously, we reduced exposure (again) to several of the household-name, mega-cap companies whose outstanding performance underlies the excellent performance of the major stock indices. There is little question that the *operating* risk of the companies we have added is greater than the companies we have reduced, but we believe that has been more than adequately reflected in the prospective returns offered—that is, in their price. In one sense this shift is a *retreat* from risk—the risk that the valuations of the mega-cap stocks are now so stretched that future returns from them will be limited. We fear the *absolute* loss of principal more than we fear the *relative* loss of performance vis-a-vis either the indices or our peers.

The fixed income holdings, as you are aware, have been highly concentrated in issues with very high credit quality, primarily of the US Government and its Agencies. While this is still the case, we have taken a few steps to seize the higher returns available in return for accepting risk. We bought US dollar notes guaranteed by

Temasek, the investment arm of the Singapore Government (which is rated AA) that are convertible into shares of **Singapore Telecom**. Notwithstanding the impeccable parentage and the value of the conversion option, the notes yield almost 2% more than the same maturity of US Treasury. We bought the Euro currency denominated notes of cellular operator **Orange**, which yield more than 4% over German Government bonds, despite its booming UK franchise and its close links to its former parent and now largest shareholder, A-rated **Hutchison Whampoa**. We then added to our holdings of Euro currency denominated securities, buying notes issued by the **International Bank for Reconstruction and Development**, an arm of the AAA-rated World Bank, bringing Euro-paper up to about a tenth of the fixed income holdings. Additionally, with the **GPA** note maturing, and another short-term Treasury Note sold, the average maturity of the fixed income holdings has continued to lengthen—another axis along which we have incrementally increased risk.

Why didn't we do more? You will notice that there is still no emerging market debt back in the Portfolio, and the Japanese holdings remain limited to just two, keeping overall Asian exposure to less than 10% of the total Portfolio. Emerging market equities remain limited as well. And our allocation to equities as a whole can at best be described as neutral. The reason lies in what we understand as our mandate in this Portfolio: our job is to grind out consistent real returns, not to swing for the fences, and we have done this by focusing on companies (and fixed income securities) with high financial quality and strong market positions, and through conservative and sensible market diversification. We believe US investors' expectations for returns are now unrealistically high, despite the market panic of the summer, particularly in view of the gathering deflationary forces. The most recent stage of the bull market has been powered by declining interest rates, i.e., lower returns to capital. Equity investors, their long-term expectations biased by recent experience, have yet to take on board that this means lower long-term returns for them as well. The process of reconciling perception and reality could be painful. Thus, we have not been willing to make more dramatic increases in the risk of the Portfolio.

In the US, where the S&P index gained more than 25% for the fourth straight year, stock market returns were excellent—*except for the average company*: the average return of all stocks listed on the New York Stock Exchange was -8% in 1998! In this case, the good index return depended on the good offices of the Federal Reserve to fend off the growling bears in September. The US stocks in the Portfolio responded well in an absolute sense to the Fed's liquidity injection, returning over 15% in the quarter. Of course, it is often the most speculative assets that benefit most from excess liquidity, and this surge is not without its bubble: the Internet stocks, which have gone from the merely crazy to unbelievable market capitalizations relative to their actual business revenues. Lower interest rates have supported valuations for all US companies, but as many are discovering, the earnings growth implied in these prices is proving to be more and more difficult to achieve. Lofty valuations combined with speculative activity, lack of market breadth, and high volatility are the frequent precursors to market declines. We view the US equity market with a degree of dismay, having repeatedly trimmed our holdings of the largest cap companies, only to see the stocks continue to appreciate, driving further performance divergence between the indexes and the vast majority of stocks. The US equity holdings still account for about a quarter of the Portfolio.

European stocks are expensive by historic standards, but the degree of speculative activity is lower than in the US. Europeans' rising affection for equities has not yet become an infatuation, but is nonetheless a force for positive change — encouraging companies to turn away from safeguarding their traditional constituents (e.g., banks, customers, and employees) and increasingly to focus on shareholders. Another related force for the rise of an equity culture in Europe is the accentuation of competitive pressures since the early 1990s by customs union, and from January 1, 1999, from currency union. Companies increasingly need to be big to compete effectively in Europe, and to be big they need to make acquisitions, and to afford acquisitions they need highly-priced equity. One tactical element in pursuit of this goal is demonstrating to financial markets that the interests of shareholders come first. We think the outlook for European stock prices is well underpinned by the increasing returns for shareholders that can be squeezed from still-flabby operations even in an environment where economic growth is slow. The Portfolio holds nearly a quarter of its assets in European equities.

Companies in Japan have yet to learn the same lesson as those in Europe. Capital has been freely available, at least until recently. Now that the credit crunch has begun to hurt, however, there are glimmerings of changing corporate culture in Japan. Companies are increasingly willing to lay off surplus staff, to reward managers for performance, not for seniority, and to seek profits rather than market share. The deflationary crisis we have described before is mounting, and with it the pressure to find a solution.

Much has been said of how the rest of Asia cannot recover until Japan does. This is simply not the case. The Japanese economy has been moribund for a decade, but the 'Asian crisis' has been with us for eighteen months. There are already signs that it may have reached its worst. Above all, recoveries in the trade positions have been remarkable, fueling current account surpluses across the region and enabling interest rates to fall precipitously. One good thing to emerge from the crisis are the signs of a radical shift in corporate discipline. Companies in the Portfolio such as **Siam Cement** and **DBS** are re-engineering both their business and financial structure in response to a new attention to shareholders. Indeed, in Singapore, one of the few countries in the world where we believe government intervention works, higher shareholder returns have become official policy. Risks remain in Southeast Asia, of course, not just that the US consumer may tire, or protectionism may rise, but also that the commitment to restructuring may waver in the face of recovery. We believe the need for, and demands of, foreign equity capital will provide the necessary discipline.

ACTIVITY

We bought *eight* new companies in the quarter—a prodigious record, and sold *none*, but reduced *six* existing holdings along with the cash reserves to fund the purchases.

We bought:

Kimberly-Clark de Mexico, the largest supplier of consumer paper products in Mexico, whose attractive demographics and per capita spending trajectory are well matched with the company's management quality and financial strength, dictated by its US parent.

Jardine Strategic Holdings, a key holding company within the Jardine group, with stakes in Asian regional food retailer Dairy Farm, in corporate services conglomerate Jardine Matheson, in Hong Kong Land, and in Mandarin Oriental Hotels. The stock was valued at a 60% discount to its net assets and trading on a yield of 10% on a dividend much prized by its largest shareholders. The equity stakes control prime assets in Hong Kong and across Southeast Asia, whose value will be realized by the market or by a predator;

Bic, the world's largest maker of disposable razors, pens, and lighters. The company has a significant share of its business in the developing world, including 20% of its sales in Brazil, and thus has seen its share price squeezed by the turmoil and higher discount rates attendant on businesses in such areas. We believe that the company will maintain its 45- year record of steady growth, and that its shares will once again reflect the anticipation of more in the future.

Air Products, a leading supplier of industrial gases for a variety of manufacturing processes, from silicon chip fabrication to steel blast furnaces to food preparation. Because of the long-term contracts associated with capital expansions in this business, long term growth tends to be much more stable than the market's apparent expectation of cyclical decline.

CBT Group, the world's largest provider of software training materials. With the largest library of software titles that it can simulate on new users' desks, this Irish-based company, after stumbling badly for two quarters, is poised to resume its rapid growth under the resumed leadership of its founder and largest shareholder.

Monsanto, having transformed itself into the world's largest agricultural biotechnology company, surprised the medical world with news of its new pain-killing drug, Celebrex, which many believe will revolutionize the treatment of chronic pain, such as that from severe arthritis. Its demanding valuation is justified by the promise of its twin track of discovery-driven new products.

Pearson, UK-based media company, publisher of the Economist and the Financial Times. Chairwoman Marjorie Scardino has put the business into sharper focus with the sale of some tourism assets in the UK and the acquisition of further book publishing assets, including Simon and Schuster, making it the largest educational publisher in the US. The reliability of growth in its revenues and earnings is garnering this company a premium valuation in a market chasing secure growth.

Quintiles, the world's largest pharmaceutical outsourcing company, and the market leader in providing contract research and sales, policy consulting, and health information management to the pharmaceutical, biotechnology, medical device and healthcare industries. The company is positioned to grow rapidly as its multinational customers increasingly rely on external specialists to procure simultaneous drug approvals with different national agencies, and market to an ever-more-specialized and cost-aware medical community.

We reduced **Fannie Mae**, **Johnson & Johnson**, **Nestlé**, **Exxon**, **Wolters Kluwer**, and **IBM** for price reasons, and in order to fund the purchases we made of companies much more modestly priced relative to their prospects.

We reduced **Surveillance** due to its management's failure either to cope with or to communicate effectively regarding the problems with the business' franchise. We anticipate completing sale of the holding in the new year.

Within the fixed income holdings, we sold two holdings of Government securities, the **UK Treasury 7% Gilts due 2002**, and the **US Treasury 6.375% Notes due 1999**, along with cash from a maturing note, to buy two holdings to be denominated in the new Euro currency and an Asian corporate bond. The **IBRD 4.25% Notes due 2005**, is guaranteed by the World Bank and therefore rated AAA. The **Orange 7.625% Notes due 2008**, however, along with the **Fullerton Global/Singapore Telecom zero coupon convertible notes due 2003**, were priced at the widened credit spreads available in the aftermath of the Russian debt and LTCM hedge fund crises.

GLOBAL EQUITY PORTFOLIO

as of December 31, 1998

Company	Country	Weight	Description
Pfizer	US	3.7%	US pharmaceutical, veterinary, specialty chemical & toiletries company
Allied Capital	US	3.6%	Financial institution making equity linked loans to small businesses
Gaz et Eaux	FRA	3.4%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Baxter International	US	3.3%	Leading medical products supplier focused on blood transfusions & kidney dialysis
Royal Dutch	NETH	3.3%	Premier oil company operating worldwide
Colgate	US	3.2%	Leading global consumer products company
Siam Cement	THAI	3.1%	Thailand’s largest industrial group
Zurich Allied	SWITZ	3.0%	Global provider of insurance & asset management services
Fannie Mae	US	3.0%	Government-sponsored agency that buys & repackages mortgages
Hutchison Whampoa	HK	2.9%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Investor	SWE	2.8%	Holding company for Wallenberg family interests in Swedish industrial concerns
Pearson	UK	2.7%	UK print & broadcast media company
Rentokil Initial	UK	2.6%	Provider of wide range of services to commercial sector
Wolters Kluwer	NETH	2.6%	Dutch publisher of legal, tax, medical & business information
Intel	US	2.5%	Global leader in semiconductor manufacturing
Dover	US	2.5%	Diversified capital goods manufacturer
Rio Tinto (Aus)	AUS	2.4%	One of world’s largest & most diversified mining companies
Nestlé	SWITZ	2.4%	World’s largest food company
Johnson Electric	HK	2.4%	Manufacturer of small precision motors used in cars & consumer products
Thermo Electron	US	2.3%	World leader in environmental monitoring, analysis instruments & biomedical products
Jardine Strategic	SING	2.3%	Investment holding company of Jardine Group Asian investments
Allied Signal	US	2.3%	Aerospace, auto, chemical & fibre manufacturing company
Schlumberger	US	2.2%	Premier supplier of technical services & equipment to the petroleum industry
Kimberly-Clark Mex.	MEX	2.2%	Mexican subsidiary of US-based Kimberly-Clark Corporation
WPP Group	UK	2.1%	World’s largest advertising & marketing services company
Wisconsin Central	US	2.1%	Railroad operator in US & overseas
Exxon	US	2.0%	Premier global oil company
American Int’l Group	US	2.0%	Insurance holding company offering insurance, risk management & agency services
Mitsubishi Corp	JAP	2.0%	One of Japan’s leading trading companies
Quintiles	US	1.8%	Outsourcing partner for healthcare companies
ABB	SWITZ	1.6%	Leading worldwide capital goods company
Deere & Co	US	1.6%	World’s leading producer of farm equipment
Wrigley, Wm. Jr.	US	1.5%	World’s largest producer of chewing gum
Partner Re	BERM	1.4%	Bermuda’s most strongly capitalized property reinsurer
Air Products	US	1.4%	Air Products has four major businesses: industrial gases, chemicals, environmental, &
Bic	FRA	1.3%	Producer of disposable razors, disposable lighters & ballpoint pens
Allianz	GER	1.3%	One of world’s leading general insurance companies
Quilmes	ARG	1.2%	Leading producer of beer & soft drinks in Latin America
Aspen Technology	US	1.0%	Leading provider of process optimization software
Luxottica	ITAL	1.0%	World’s largest & lowest cost producer of high-quality eyeglass & sunglass frames
Hirose Electric	JAP	1.0%	Japanese manufacturer of electrical connectors & components
Liblife Strategic Inv.	S AFR	0.9%	Holding company with investments in South African Breweries & Standard Bank
Singapore Press	SING	0.8%	Dominant newspaper publisher in Singapore
CBT Group	IRE	0.6%	World leader in computer-based software training
Scania	SWE	0.0%	Premium heavy-duty truck & bus manufacturer

GLOBAL EQUITY COMPOSITE
PERFORMANCE SUMMARY

as of December 31, 1998

	Annualized Returns for Trailing Periods (%)					Volatility Annual Standard Deviation (%)
	1 Year	3 Years	5 Years	8 Years	Since Inception*	Since Inception*
HLM Global Equity Composite	**2.3**	**10.0**	**9.7**	**13.2**	**13.3**	**12.0**
Financial Times World Index	*23.0*	*17.1*	*15.3*	*13.9*	*10.3*	*14.7*
Morgan Stanley Capital Int'l All Country World Index	*21.7*	*16.4*	*14.5*	*13.8*	*10.2*	*14.2*
Lipper Global Fund Index	*14.6*	*14.9*	*11.2*	*13.3*	*10.9*	*12.6*

*Inception Date: 11/30/89

	Calendar Year Returns (%)								
	1998	1997	1996	1995	1994	1993	1992	1991	1990
HLM Global Equity Composite	**2.3**	**11.0**	**17.3**	**19.0**	**0.0**	**24.3**	**8.9**	**29.4**	**7.9**
Financial Times World Index	*23.0*	*15.4*	*13.2*	*19.6*	*5.9*	*22.6*	*-5.1*	*19.6*	*-17.0*
Morgan Stanley Capital Intl All Country World Index	*21.7*	*14.7*	*13.1*	*18.2*	*5.4*	*25.5*	*-4.3*	*19.5*	*-17.2*
Lipper Global Fund Index	*14.6*	*14.0*	*16.3*	*14.0*	*-2.2*	*32.8*	*0.1*	*20.3*	*- 9.1*

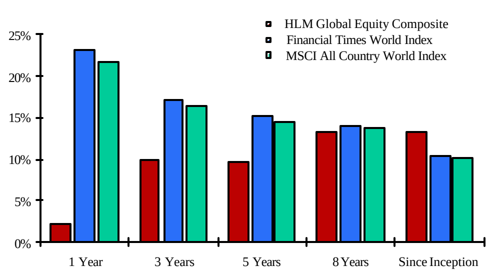
	Composite Information									
	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	11	15	13	13	17	16	14	12	†	†
Total market value of accounts included in composite ($M)	$176.9	$251.1	$188.0	$146.7	$112.4	$80.2	$63.3	$41.8	$15.3	$1.6
% of total firm assets represented by composite	12.9%	16.5%	15.1%	23.4%	30.5%	31.8%	39.3%	30.0%	26.6%	4.9%
Internal dispersion: standard deviation of calendar year returns	1.7%	1.5%	0.8%	2.0%	1.4%	6.5%	2.1%	2.5%	†	†

† Five or fewer accounts

Harding, Loevner Management, L.P. ("HLM") has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management Research ("AIMR-PPS™"). AIMR has not been involved with the preparation or review of this report. HLM is compliant with AIMR-PPS since 10/31/89. This composite has been verified compliant at Level II by Ashland Accounting LLC.

NOTES :

Annualized Returns for Trailing Periods (%)



1. Harding, Loevner Management, L.P. is an independent registered investment adviser.
2. Composite includes all US$ based, fee-paying global equity accounts under discretionary management, including accounts no longer in existence. Accounts are included from the first full month following the date on which the account is deemed to be fully invested. No subsector or segment of a larger portfolio is included.
3. Returns shown are time-weighted total returns in US$, and reflect reinvestment of dividends and interest. Returns include the effect of foreign currency exchange rates. Returns are weighted by account size in the composite.
4. All cash equivalents, bonds and/or convertible securities used in place of equities are included in return calculations.
5. Composite returns are presented after brokerage commissions but before management and custodial fees and foreign withholding taxes. Management fees are described in our Form ADV Part II. Inclusion of management fees result in composite returns for trailing periods, as follows: 1 yr 1.6%, 3 yrs 9.2%, 5 yrs 8.8%, 8 yrs 12.7%, since inception 12.4%.
6. Returns of all indices (except Lipper) are presented before foreign withholding taxes, and do not reflect commissions or fees that would be incurred by an investor in the index portfolios. Lipper Index returns are reported after all fees and expenses. Additional information regarding benchmarks, including the percentage of the composite invested in countries not included in the benchmarks, is available upon request.
7. Annual standard deviations of returns (volatility) is estimated from monthly returns using a continuous return model to derive annual periodic standard deviation.
8. A complete list and description of the firm's composites is available upon request.
9. Past performance is not indicative of future results.

INTERNATIONAL EQUITY PORTFOLIO

as of December 31, 1998

Company	Country	Weight	Description
Nestlé	SWITZ	4.0%	World's largest food company
Investor	SWE	3.6%	Holding company for Wallenberg family interests in Swedish industrial concerns
Royal Dutch	NETH	3.5%	Premier oil company operating worldwide
Rentokil Initial	UK	3.4%	Provider of wide range of services to commercial sector
Novartis	SWITZ	3.2%	Swiss multinational pharmaceutical company
ABB	SWITZ	3.2%	Leading worldwide capital goods company
DBS Bank	SING	3.2%	Singapore's largest & most diversified bank
ING	NETH	2.9%	Global financial service group with strong emerging market exposure
Gaz et Eaux	FRA	2.7%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Railtrack	UK	2.7%	Owner of UK's railway infrastructure
Glaxo Wellcome	UK	2.6%	Global manufacturer & purveyor of pharmaceuticals
Wolters Kluwer	NETH	2.6%	Dutch publisher of legal, tax, medical, & business information
Pearson	UK	2.6%	UK print & broadcast media company
Canon	JAP	2.5%	World's leading producer of wide range of visual image & information equipment
Hirose Electric	JAP	2.4%	Japanese manufacturer of electrical connectors & components
Johnson Electric	HK	2.3%	Manufacturer of small precision motors used in cars & consumer products
Bankinter	SPA	2.3%	High quality Spanish bank concentrating on services to individuals & small businesses
Rio Tinto (Aus)	AUS	2.2%	One of world's largest & most diversified mining companies
Michelin	FRA	2.2%	World's largest & most innovative tire manufacturer
Hutchison Whampoa	HK	2.1%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
Air Liquide	FRA	2.1%	World's largest industrial gas company
Bic	FRA	2.1%	World's leading producer of disposable razors, writing implements & lighters
Denso	JAP	2.1%	Global manufacturer of auto parts for Toyota & other leading car makers
Hays	UK	2.1%	Business service & distribution company
Singapore Press	SING	2.1%	Dominant newspaper publisher in Singapore
Allianz	GER	2.1%	One of world's largest general insurance companies
IHC Caland	NETH	2.0%	World's premier manufacturer of dredging vessels & marine mooring equipment
Imperial Oil	CAN	2.0%	Canada's largest integrated petroleum company
UBS Reg.	SWITZ	1.9%	Europe's largest bank, & world's largest asset management firm
Dairy Farm	SING	1.8%	Asian food retailer with main operations in Hong Kong, Australia, Taiwan, & Singapore
WPP Group	UK	1.8%	World's largest advertising & marketing services company
Luxottica	ITA	1.6%	World's largest & lowest cost producer of high-quality eyeglass & sunglass frames
Kurita Water	JAP	1.5%	Large manufacturer of water treatment equipment & specialty chemicals in Japan
Partner Re	BERM	1.5%	Bermuda's most strongly capitalized property reinsurer
Li & Fung	HK	1.4%	Hong Kong-based trading & logistics company
Siam Cement	THAI	1.3%	Thailand's largest industrial group
Kimberly-Clark Mex.	MEX	1.3%	Mexican subsidiary of US-based Kimberly-Clark Corporation
Liblife Strategic Inv.	S AFR	1.2%	Holding company with investments in South African Breweries & Standard Bank
CBT Group	IRE	1.2%	Leader in computer-based software training
SGL Carbon	GER	1.0%	Leading global producer of value added carbon & graphite products
Tokio Marine & Fire	JAP	1.0%	Largest & best capitalized non-life insurer in Japan
Hoechst	GER	0.9%	Manufactures & sells chemical & health products globally
Mitsubishi Corp	JAP	0.9%	One of Japan's leading trading companies
Quilmes	ARG	0.9%	Leading producer of beer & soft drinks in Latin America
Surveillance	SWITZ	0.9%	Worldwide provider of trade certification, testing & loss adjustment services
DESC	MEX	0.9%	Leading Mexican auto parts exporter
Atlantis Japan	JAP	0.6%	Closed-end fund invested in smaller Japanese companies

INTERNATIONAL EQUITY COMPOSITE
PERFORMANCE SUMMARY

as of December 31, 1998

	Annualized Returns for Trailing Periods (%)					Volatility
	1 Year	3 Years	5 Years	8 Years	Since Inception*	Since Inception*
HLM International Equity Composite	**12.0**	**8.1**	**7.9**	**14.1**	**10.8**	**13.8**
FT World ex-US Index	*16.2*	*7.6*	*8.3*	*8.7*	*4.6*	*18.3*
MSCI All Country World ex-US Index	*14.1*	*7.4*	*7.5*	*8.9*	*4.7*	*17.1*
Lipper International Fund Index	*12.6*	*11.4*	*8.6*	*10.8*	*8.0*	*13.5*

*Inception Date: 12/31/89

	Calendar Year Returns (%)								
	1998	1997	1996	1995	1994	1993	1992	1991	1990
HLM International Equity Composite	**12.0**	**-3.8**	**17.2**	**13.2**	**2.0**	**46.3**	**10.4**	**22.0**	**-12.4**
FT World ex-US Index	*16.2*	*0.8*	*6.5*	*10.4*	*8.4*	*32.1*	*-13.1*	*13.3*	*-23.1*
MSCI All Country World ex-US Index	*14.1*	*1.7*	*6.6*	*8.5*	*7.1*	*35.6*	*-10.9*	*13.6*	*-23.4*
Lipper International Fund Index	*12.6*	*7.3*	*14.4*	*9.3*	*-0.9*	*39.2*	*-4.3*	*13.2*	*-12.4*

	Composite Information								
	1998	1997	1996	1995	1994	1993	1992	1991	1990
Number of accounts included in the composite	65	71	54	27	15	†	†	†	†
Total market value of accounts included in composite ($M)	$1,008.6	$1,071.1	$884.1	$347.1	$110.6	$22.9	$10.9	$6.7	$10.5
% of total firm assets represented by composite	73.7%	70.5%	70.9%	55.3%	30.0%	9.1%	6.8%	4.8%	18.3%
Internal dispersion: standard deviation of calendar year returns	1.2%	0.6%	1.1%	1.8%	2.2%	†	†	†	†

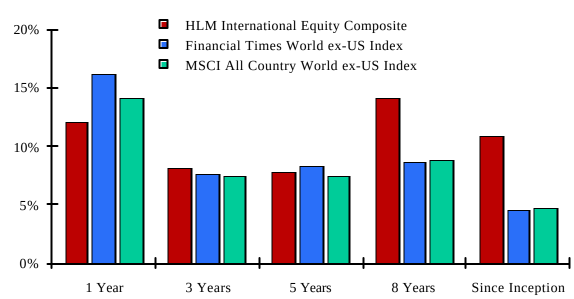
† Five or fewer accounts

Harding, Loevner Management, L.P. ("HLM") has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management Research ("AIMR-PPS™"). AIMR has not been involved with the preparation or review of this report. HLM is compliant with AIMR-PPS since 10/31/89. This composite has been verified compliant at Level II by Ashland Accounting LLC.

NOTES:

1. Harding, Loevner Management, L.P. is an independent registered investment adviser.
2. Composite includes all US$ based, fee-paying international (non-US) equity accounts under discretionary management, including accounts no longer in existence. Accounts are included from the first full month following the date on which the account is deemed to be fully invested. No subsector or segment of a larger portfolio is included.
3. Returns shown are time-weighted total returns in US$, and reflect reinvestment of dividends and interest. Returns include the effect of foreign currency exchange rates. Returns are weighted by account size in the composite.
4. All cash equivalents, bonds and/or convertible securities used in place of equities are included in return calculations.
5. Composite returns are presented after brokerage commissions but before management and custodial fees and foreign withholding taxes. Management fees are described in our Form ADV Part II. Inclusion of management fees result in composite returns for trailing periods, as follows: 1 yr 11.2%, 3 yrs 7.3%, 5 yrs 7.0%, 8 yrs 13.1%, since inception 9.8% .
6. Returns of all indices (except Lipper) are presented before foreign withholding taxes, and do not reflect commissions or fees that would be incurred by an investor in the index portfolios. Lipper Index returns are reported after all fees and expenses. Additional information regarding benchmarks, including the percentage of the composite invested in countries not included in the benchmarks, is available upon request.

Annualized Returns for Trailing Periods (%)



7. Annual standard deviations of returns (volatility) is estimated from monthly returns using a continuous return model to derive annual periodic standard deviation.
8. A complete list and description of the firm's composites is available upon request.
9. Past performance is not indicative of future results.

MULTI-ASSET GLOBAL PORTFOLIO - EQUITY HOLDINGS

as of December 31, 1998

Company	Country	Weight	Description
Royal Dutch	NETH	2.7%	Premier oil company operating worldwide
Investor	SWE	2.7%	Holding company for Wallenberg family interests in Swedish industrial concerns
Gaz et Eaux	FRA	2.6%	Investment company in Lazard Group, holding strategic stakes in major listed companies
Colgate	US	2.5%	Leading global consumer products company
Nestlé	SWITZ	2.4%	World's largest food company
IBM	US	2.2%	World's largest integrated information technology company
American Int'l Group	US	2.2%	Insurance holding company offering insurance, risk management & agency services
Fannie Mae	US	2.0%	Government-sponsored agency that buys & repackages mortgages
Dover	US	2.0%	Diversified capital goods manufacturer
Exxon	US	2.0%	Premier global oil company
Hutchison Whampoa	HK	1.8%	Conglomerate involved in container terminals, housing, energy, telecoms, & retailing
DBS Bank	SING	1.7%	Singapore's largest & most diversified bank
ABB	SWITZ	1.7%	Leading worldwide capital goods company
Allied Capital	US	1.7%	Financial institution making equity linked loans to small businesses
Rentokil Initial	UK	1.6%	Provider of wide range of services to commercial sector
Royce Micro-Cap Fund	US	1.5%	Specialist fund investing in small US companies
Rio Tinto	UK	1.5%	One of world's largest & most diversified mining companies
Kimberly-Clark Mex.	MEX	1.4%	Mexican subsidiary of US-based Kimberly-Clark Corporation
Mitsubishi Corp	JAP	1.3%	One of Japan's leading trading companies
Johnson & Johnson	US	1.2%	Leading consumer healthcare & pharmaceuticals company
AlliedSignal	US	1.2%	Aerospace, auto, chemical & fibre manufacturing company
Pearson	UK	1.1%	UK print & broadcast media company
Wolters Kluwer	NETH	1.1%	Dutch publisher of legal, tax, medical & business information
Allianz	GER	1.1%	One of world's leading general insurance companies
Jardine Strategic	SING	1.1%	Investment holding company of Jardine Group Asian investments
Quintiles	US	1.0%	Outsourcing partner for healthcare companies
UBS Reg.	SWITZ	1.0%	Europe's largest bank, & world's largest asset management firm
Air Products	US	1.0%	Air Products has four major businesses: industrial gases, chemicals, environmental, &
Bayer	GER	0.9%	German chemical company with important life sciences & consumer businesses
Thermo Electron	US	0.9%	World leader in environmental monitoring, analysis instruments & biomedical products
Bic	FRA	0.9%	Producer of disposable razors, disposable lighters & ballpoint pens
Monsanto	US	0.8%	Life sciences company with leadership position in genetic engineering
Deere & Co	US	0.8%	World's leading producer of farm equipment
Schlumberger	US	0.8%	Premier supplier of technical services & equipment to the petroleum industry
Siam Cement	THAI	0.8%	Thailand's largest industrial group
Michelin	FRA	0.7%	World's largest & most innovative tire manufacturer
Surveillance	SWITZ	0.5%	Worldwide provider of trade certification, testing & loss adjustment services
Wisconsin Central	US	0.5%	Railroad operator in US & overseas
Atlantis Japan	JAP	0.4%	Closed-end fund invested in smaller Japanese companies
CBT Group	IRE	0.4%	Leader in computer-based software training
Scania	SWE	0.0%	Premium heavy-duty truck & bus manufacturer

MULTI-ASSET GLOBAL COMPOSITE

(Tax-Exempt Clients)

PERFORMANCE SUMMARY

as of December 31, 1998

	Annualized Returns for Trailing Periods (%)					Volatility Annual Standard Deviation (%)
	1 Year	3 Years	5 Years	8 Years	Since Inception*	Since Inception*
HLM Multi-Asset Global Composite	**7.7**	**12.6**	**12.0**	**14.6**	**13.6**	**9.2**
*60/40 Global Balanced Index***	*20.6*	*13.1*	*12.6*	*12.2*	*10.5*	*10.4*
*Lipper Global Flexible Fund Index****	*8.9*	*11.9*	*9.4*	*10.9*	*9.3*	*8.2*

	Calendar Year Returns (%)								
	1998	1997	1996	1995	1994	1993	1992	1991	1990
HLM Multi-Asset Global Composite	**7.7**	**13.2**	**17.3**	**20.8**	**1.8**	**23.8**	**8.2**	**26.6**	**4.1**
Equity Component	**5.4**	**15.1**	**20.9**	**21.1**	**2.7**	**28.4**	**8.1**	**35.5**	**-6.0**
Bond Component	**10.1**	**9.0**	**6.8**	**24.6**	**-0.2**	**16.1**	**6.4**	**19.0**	**13.7**
*60/40 Global Balanced Index***	*20.6*	*9.4*	*9.7*	*19.5*	*4.6*	*18.8*	*-0.9*	*18.3*	*-6.0*
Financial Times World Index	*23.0*	*15.4*	*13.2*	*19.6*	*5.8*	*22.6*	*-5.1*	*19.7*	*-17.1*
Salomon World Government Bond Index	*15.3*	*0.2*	*3.6*	*19.0*	*2.4*	*13.3*	*5.5*	*15.8*	*12.0*
*Lipper Global Flexible Fund Index****	*8.9*	*12.2*	*14.7*	*16.9*	*-4.5*	*23.0*	*2.2*	*16.1*	*-2.8*

* Inception Date: 10/31/89
** 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 8/31/89 to 12/31/89; Index commences 1/1/90

	Composite Information									
	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Number of accounts included in the composite	†	8	8	9	9	6	†	†	†	†
Total market value of accounts included in composite ($M)	$70.4	$81.5	$75.9	$48.0	$27.8	$13.4	$4.5	$4.3	$1.1	$1.1
% of total firm assets represented by composite	5.1%	5.4%	6.1%	7.6%	7.5%	5.3%	2.8%	3.1%	1.9%	3.4%
Internal dispersion: standard deviation of calendar year	†	0.5%	0.9%	2.2%	1.3%	†	†	†	†	†

† Five or fewer accounts

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1. Harding, Loevner Management, L.P. is an independent registered investment adviser.
2. Composite includes all US$ based, fee-paying mutli-asset global accounts for tax-exempt clients under discretionary management, including accounts no longer in existence but excluding accounts of less than $0.5 million. Accounts are included from the first full month following the date on which the account is deemed to be fully invested. No subsector or segment of a larger portfolio is included.
3. Returns shown are time-weighted total returns in US$, and reflect reinvestment of dividends and interest. Returns include the effect of foreign currency exchange rates. Returns are weighted by account size in the composite.
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Annualized Returns for Trailing Periods (%)