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International Equity
2005 Third Quarter Report

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Review

- The Composite outperformed its benchmark, driven by good stock selection
- Energy and Materials sectors soared
- Fundamental quality and growth effects mixed

Composite Performance (as of September 30, 2005)

	Last Quarter	Last 12 Months	3 Years[1]	5 Years[1]	10 Years[1]	Since Inception[2]	Volatility[3]
Intl Equity (gross)	12.1%	31.8%	21.7%	2.7%	7.4%	9.0%	15.0%
Intl Equity (net)	12.0%	30.9%	20.8%	1.9%	6.6%	8.1%	14.9%
MSCI ACW ex-US[4]	11.8%	29.5%	27.2%	4.8%	6.6%	5.3%	16.3%
MSCI EAFE	10.4%	26.3%	25.1%	3.5%	6.2%	4.9%	16.8%

[1]Annualized Returns; [2]Inception Date: December 31, 1989; [3]Annual Standard Deviation; [4]The Benchmark Index
Please read the above performance in conjunction with the footnotes on the back page of this report.

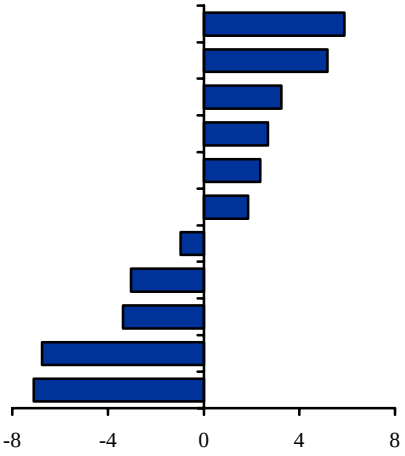
Outlook

- High risk to tolerance should not be confused with low risk.
- Corporate profitability under threat.
- Many equities seem mispriced: We look for secular tailwinds.

Current Portfolio Sector Exposure[1]

Sector	HL Intl	ACW ex-US
Consumer Staples	13.2%	7.3%
Info Technology	12.2%	7.1%
Industrials	12.9%	9.6%
Energy	13.8%	11.1%
Health Care	9.3%	6.9%
Cash	1.9%	--
Cons Discretionary	10.0%	11.0%
Materials	5.8%	8.8%
Utilities	1.3%	4.7%
Telecom Services	--	6.8%
Financials	19.6%	26.7%

Over/Under the Benchmark (%)



Composite Activity

Purchases		Sales	
Bunge, Ltd.	ICICI Bank	Bangkok Bank	Novartis
Erste Bank	JSR	Matsushita Electric	Reliance Industries
Gazprom	Sanofi-Aventis	Nidec	Signet Group
Hirose Electric	Sumitomo Realty & Dev	Nissan Motor	Sumitomo Mitsui Financial

All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. A complete list of holdings appears on page 8 of this report.

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

Market Review

The Composite just outperformed in a robust quarter.

The International Equity Composite rose 12.1% in the third quarter of 2005, just ahead of the robust 11.8% rise of the MSCI All Country World ex-US Index. Equity markets were paced by a 19% rise of the Japanese market, celebrating Prime Minister Koizumi's successful showdown with his own party's reactionary members over his plans to privatize the Post Office savings bank. The accompanying prospect of 'normal' profits in the Japanese financial system spurred the Topix bank sub-index to rise 34% in the quarter (in USD terms). Emerging Markets generally were strong, with the sub-index rising 18%, reflecting strong portfolio flows chasing recent returns as much as the healthy long-term economic growth and financial outlook enjoyed by these markets. Non-US equity markets far outpaced the (still respectable) sub 4% return of US equities.

Market Performance (% Total Return)

	Trailing 12 Months		3Q 2005	
Market	**USD**	**Local**	**USD**	**Local**
Canada	42.3	30.5	18.5	12.3
Germany	26.0	29.8	9.7	10.2
Japan	26.3	29.8	19.2	21.3
United Kingdom	20.9	23.7	6.2	7.8
United States	12.9	12.9	3.7	3.7
Europe EMU	27.0	30.8	8.0	8.3
Europe ex-EMU	22.8	26.0	7.5	8.6
Pacific ex-Japan	34.9	30.0	9.6	9.4
Emerging Markets	47.4	38.7	18.1	17.7

Source: Wilshire Atlas, MSCI

Markets with large energy and raw materials exports soared.

In part, the less ebullient US market was reacting to the two hurricanes in the Gulf of Mexico that caused extensive damage to US oil and gas production and refining facilities. Energy prices spiked higher from already elevated levels. So did prices of other commodities that will be needed for rebuilding New Orleans and the rest of the Gulf Coast, particularly copper and steel, and the latter's raw materials, iron ore and coking coal. Energy and Materials were once again the best performing industrial sectors, internationally both rising 20% in the quarter. Markets with important energy and raw material export sectors were particularly strong, notably Canada (+18%), Norway (+16%) along with energy-rich Russia (+48%) and iron and steel behemoth Brazil (+38%). It was sector allocation that mattered this quarter, but the strong sectors tended to be in the riskier geographic locations. Meanwhile, the US Federal Reserve showed no inclination to halt its 'measured' monetary tightening path, twice adding 25 basis points to interest rates during the quarter, raising the cost of funding for both government borrowers and home buyers in a continued effort to minimize the seepage of inflation from energy and asset prices into the core economy.

Sector Performance of the MSCI All Country World ex-US Index (%Total Return in USD)		
	Trailing 12 Months	3Q 2005
Consumer Discretionary	20.6	10.0
Consumer Staples	26.6	8.1
Energy	52.4	19.6
Financials	30.6	11.4
Health Care	19.8	8.5
Industrials	33.4	9.5
Information Technology	16.6	6.4
Materials	35.1	20.0
Telecom Services	21.4	7.4
Utilities	30.7	7.3

Source: Wilshire Atlas, MSCI

Portfolio Attribution

An overweight to Emerging Markets stocks and near-benchmark weight to Japan helped returns.

Performance this quarter was in line with the benchmark despite what could subjectively be called a 'low quality' rally: Japanese financials and the raw materials groups rank among the lowest ROE and margin, but highest earnings variability and leverage groups in the stock universe. Offsetting this is the strong objective quality of many emerging market and energy companies, particularly ones found in our portfolio. We have been significantly overweight Emerging Markets, and near a full benchmark weighting in Japan for some time; both of those stances helped overall returns in the quarter, even though our Japanese stocks trailed the index slightly, while our emerging market companies modestly outpaced the benchmark. Our outperformance in Canada, South Africa, Russia, and even Austria can be tied to energy-related companies we owned in those countries.

Stock selection—especially in Energy, Financials, Industrials and Utilities—was positive.

Having reduced our energy weighting somewhat last quarter, it was not our modest remaining overweight in the sector that helped performance in the quarter, but rather the very strong showing of our individual holdings within the sector: **Sasol**, the South African synthetic fuels company, Canadian producers **EnCana** and **Imperial Oil**, along with recent purchase **Gazprom**, the Russian gas giant, all rose strongly, doubling the sector returns. Good stock selection in Financials, Industrials, and Utilities offset poor selection in the Consumer sectors and in Health Care. Good stock selection in Technology, namely Japanese tech hardware companies **Hirose**, **Keyence**, and **Yokogawa**, offset the otherwise negative effects of a heavy weighting in a lagging sector.

Style effects were mixed in the quarter, with the high-priced ('Growth') half of the benchmark performing roughly in line with the low-priced ('Value') half. Actually, Value stocks outperformed Growth stocks in Continental Europe, but Growth was the winner in the UK, Japan, and in the rest of Asia (as well as in the US). Small

Bold indicates companies held in the portfolio during the quarter. The percentage of currently held positions appears on page 8 of this report. Although these holdings, as well as others mentioned in this report, were viewed favorably at the end of the reporting period, all holdings are subject to review and adjustment in accordance with our investment strategy and may vary in the future; and are not recommendations to buy or sell any security.

cap stocks outperformed the major indices in both US and non-US markets. Quality factors, previously highlighted in these pages, were mixed in the quarter, but year-to-date performance remains biased in favor of high-quality companies.

Quality factors showed mixed results.

Top vs Bottom Quintile of Stocks in MSCI AC World ex-US Index (% Total Return in USD)			
	6/30/05 – 9/30/05		
	Top	**Bottom**	**Difference**
Return on Assets	12.3	11.2	1.1
Return on Equity	11.7	10.7	1.0
Std Dev of ROE (5 Yr)[1]	9.0	11.5	-2.5
Debt/Equity Ratio[1]	10.2	10.8	-0.6
Profit Margin	12.9	12.2	0.7

[1] "Top" Quintile = lowest
Source: Wilshire Atlas, MSCI

Outlook

Markets are priced for low risk…

Investors living in the "Euphoria Zone."

Financial markets exhibit few signs that economic growth might slow, with negative effects on solvency or corporate profits. Nor many signs that companies will not pass on rising raw materials costs to customers, squeezing profit margins irrespective of growth, or that inflation in resource prices might spread more generally into the economy. Bonds are priced for a benign environment of modest inflation, while stocks discount continued solid corporate earnings growth. Credit spreads remain slender, discounting small chances of corporate credit deterioration despite the reappearance of negative headlines surrounding GM and Delphi, or the airline industry. Sovereign spreads for developing country debt remain near record lows, as the asset class continues to benefit from a global thirst for investment yield. And flows into emerging market equity funds have also been very strong over the past twelve months. Further, markets are, on the one hand, giving a standing ovation to the Japanese politicians, anticipating substantive economic reforms cascading from the surprising political victory of last month, but at the same time appearing to say that politics don't matter in Germany, where the stock market has shrugged off the election result of political stalemate and instead focused on the progress that company managements have made in restructuring their businesses, extracting concessions from labor for job losses, increased productivity, and transplanting production to lower cost locations in Eastern Europe. This willingness to put a positive spin on any political outcome is just another example of heightened risk tolerance, rather than evidence that risk is actually lower. All of these factors combine to suggest that investor sentiment is in what Jonathan Wilmot of Credit Suisse has labeled the 'Euphoria Zone.'

What economic and business climate can make these financial market conditions appropriate? Clearly the market has adopted whole-hog our general assessment

that the globalization of industry—particularly the integration of China into the world economy—is equal to the task of containing overall inflation, in spite of the pressures brought about from the sharply higher energy and raw material costs. Moreover, the market seemingly gives central banks, led by the US Federal Reserve and Mr. Greenspan, the benefit of the doubt that current 'normalizing' of short-term interest rates will neither undershoot and let inflation re-enter the developed economies, nor overshoot and send major economies into a tailspin.

Risks are up…

Threats to growth…

Nevertheless, threats to continued rapid growth are mounting. While the delivery of Federal and state government funding (along with insurance payments) for the rebuilding efforts along the US Gulf coast will sustain spending in the world's biggest economy for several quarters, high energy prices act as a toll on global non-energy consumption, collected by (and a transfer of wealth to) energy producing nations that are themselves not well-developed economies capable of recycling the proceeds with their own domestic demand. The economies most able to expand domestic consumer demand—the savings-rich developing economies in Asia—are historically inefficient energy users, and thus vulnerable to such a tax. All this on top of the growing US dependence on foreign capital to finance its net imports of consumer goods, and Asian economies' dependence on US demand for those goods to sustain their employment growth.

High corporate profitability seems unsustainable.

UBS estimates that global return on equity is currently higher than the cyclical peaks of 1999, 1996, 1988, or 1985—and nearing the 15% nominal returns achieved in 1979, a year in which US inflation reached the teens. Such high corporate profitability hardly seems sustainable. Studies abound showing the high correlation over the last forty years of an inverted US yield curve with global recessions (six out of the last seven occurrences, according to Fox Pitt Kelton). The steady withdrawal of monetary stimulus by the Federal Reserve is designed to reign in speculative investment in both real estate and financial assets, but chances breaking the optimism of the highly leveraged US consumer that sustains underlying housing demand and more general consumption, or exposing an imbalance in the levered world of financial derivatives—outcomes that are consistent with the current flattening (i.e., not *yet* inverted!) yield curve.

Prices are wrong…

Equity prices do not reflect much uncertainty.

These macroeconomic forces we describe will have micro-economic effects, on profits as well as on consumers. Energy and raw materials price rises flowing through company income statements are revealing which, if any, industries or companies have strong enough competitive positions to pass on those price increases to their customers, and which have products desirable enough (or cheap enough) to hold onto their share of their customers' wallets, while others are displaced by rising energy spending. If nominal government bond prices are not reflecting risks of higher inflation, or if corporate bond prices are not adequately

pricing the possibility of growing credit defaults, then discount rates for equities, including as they do both nominal rates and a risk premium, almost certainly do not sufficiently price the degree of uncertainty regarding the future profitability of most companies. In particular, we believe that the risk premium demanded for more volatile, lower quality earnings streams is insufficient reward for the uncertainty.

Current Portfolio Structure

Reliance on policy maker needle-threading: imprudent.

Perhaps policy makers, economies and markets can thread these various needles without mishap, but it seems imprudent to us to rely on it. That is why we maintain our focus on the competitive structure of the industries in which our companies operate, and on the ability of their managements to exploit the advantages we have identified in order to keep their businesses on a growth path regardless.

A good example of this is a new holding this quarter, the Austrian **Erste Bank**. This bank was an early mover in the renaissance of the central European banking via government privatizations over the past ten years. By acquiring, restructuring, and bringing modern technology and management to the remains of Communist-era savings banks in the Czech Republic, Slovak Republic, Hungary, Croatia, and most recently Serbia, Erste has built strong positions in markets that loosely re-assemble bits of the old Austro-Hungarian Empire into an adjoining regional base that will one day share the Euro currency. Using its strong deposit base, it is set to foster and accommodate a more normal credit and banking culture in these countries as their citizens rebuild the deteriorated housing stock and invest for retirement from a very under-leveraged and under-invested starting point. Rapid secular growth in banking services in this region should keep competitive pressures at bay for many years to come, pressures that, in any event, the bank's strong position should be well able to withstand. We have similar hopes for Poland's **Bank Pekao**, whose market is set to consolidate after it merges with a key rival—a side benefit to a complex multi-country transaction engineered by its Italian parent. Altogether, roughly 40% of our Financials holdings are emerging market banks, expressing our skepticism that banks in developed countries will continue to grow lending to (and repayment from) consumers at anything like the pace of the last decade.

Focuses on industry competitive structures: secular tailwinds.

A theme that runs through our thinking is the integration of China into the global economy. The rapidity of that integration has been breathtaking and, short of protectionism breaking out in the developed economies, shows no sign of slowing. This secular tailwind affords growth to companies with strong positions to exploit this process that extends beyond cyclical swings. Roughly a tenth of the portfolio holdings can be loosely grouped under this rubric. Thus, Hong Kong's **Li & Fung** provides a key link for Western retailers to find reliable producers of consumer goods in China and other low-cost areas, defending its enviable position by adding value through design and logistics as good as the retailers could source in-house. **China Merchants** exploits a strong existing position in port ownership and close

links to government agencies that approve new port developments to grow its capacity for raw materials and capital goods coming into China, as well as for containers of manufactured goods leaving China. New holding **Bunge**, founded 185 years ago in Amsterdam and now incorporated in Bermuda, manages its widespread soybean processing facilities to provide growing volumes (and a large share) of feed supplies from Brazil, the US, and Eastern Europe to food and livestock producers, both in the West and in Asia, including China. **Mitsubishi Corp** operates a large dealer network in China for Japanese pick-up truck and capital goods makers, and is a large supplier of coking coal to the Asian steel industry under long-term contracts that it can manage due to its joint venture holdings with the manufacturers and mining producers.

Japanese property development, a new growth sector.

We have, as mentioned earlier, nearly a full benchmark weighting in Japan. But the specific holdings have changed significantly this year. We bought a new holding in **Sumitomo Realty & Development** this quarter, an *apparent* departure for us given the inherent difficulty of discerning a profitable and stable competitive structure in the property development industry. But given our recurring dismay at trying to forecast any improvement in the competitive landscape in the Japanese banking industry, it seemed reasonable to investigate companies operating in a sector to which banks have announced their high hopes of increasing their lending (via the mortgage market); at least funding should be plentiful, which should be a precursor to rising investment in the sector, and possibly even rising prices (after fifteen years of declines!). Sumitomo Realty management stands out as having moved early to resolve its inventory build-up, and found a growth niche in building condominiums in major city centers that could sustain them through the more general Japanese property malaise. But the advent in Japan several years ago of Real Estate Investment Trusts (REITs), along with other securitization techniques, has created investment demand for property that has allowed the company to upgrade its office building portfolio over the past few years, just in time for what may be a period of steadily rising rents for prime space. Meanwhile, it has invested heavily in the housing refurbishment business, which is capitalizing on the aging housing stock in Japan as well as on its strong brand image for reliability, quality, and financial soundness in an industry plagued by bankruptcy and fraud. Over the past three quarters, we have upgraded the quality of our Japanese holdings, opting for higher margin, higher ROA, lower leverage and lower volatility holdings. That has proven harmful this quarter, on balance, with the sale of the rump of **SMFG** just preceding a sharp rise in its stock price. That said, our Japanese holdings performed just slightly behind the market average in the quarter.

Gazprom: More likely to benefit than be hurt by government meddling.

Within sectors, we remain modestly overweight the Energy sector, having pruned our holdings earlier in the summer, with just over an eighth of the portfolio in the group. But our holdings are highly geared to rising prices of energy, as they tend to be growing oil, gas, or synfuel volumes significantly faster than the industry, and are all outside the integrated oil ‘major’subset. We ventured once again this quarter into the Russian oil industry, buying a new holding in **Gazprom**, the largest gas

producer in the world and the supplier of roughly one third of Western Europe's natural gas, via pipeline. Suspicious of Russian government interference or outright confiscation, we have opted for this company in part because it already is majority controlled by the Government, and hence more likely to benefit than to be hurt from Government meddling in the industry or geopolitics. But the main investment case is that its share price discounts neither its vast reserves nor the growing likelihood that it will realize gas prices closer to world prices than current regulation-suppressed Russian domestic ones.

Why we maintain the Consumer Staples overweight.

Clearly, the rapid rise of energy prices increases the risk that monetary authorities will feel compelled to lean harder against inflationary pressures. Higher energy prices combined with higher interest rates pose a threat both to consumer spending on other items, and to consumer borrowing. We have been, and remain, overweight the less cyclical parts of the consumer economy—notably food & beverages, food retailing, household products—while being significantly underweight developed economy banks. It is an axiom of equity investing (as well as of Michael Porter's analysis of the competitive structure of industries) that small daily purchases of items such as **Unilever's** Dove soap, **Nestlé's** Poland Spring bottled water, or **Heineken's** Amstel Light beer will be impacted less by pinching of consumers than will be large, discretionary purchases of autos or houses. But it is less recognized that such products have a smaller component of hard commodity raw materials or energy embedded in their costs of manufacturing and distribution, relative to their selling prices than do autos, appliances or houses—an additional factor that protects their margins in environments such as the current one. We have nearly a quarter of the portfolio invested in Consumer Staples or Health Care companies (where we are also overweight), compared to less than 15% of the benchmark.

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Denway Motors	China	1.5	Automobile & bus manufacturer
	Li & Fung	Hong Kong	1.3	Trading company
	LVMH	France	2.0	Luxury goods group
	VNU	Netherlands	1.7	Market research company
	WPP Group	United Kingdom	2.7	Advertising & marketing services company
	Yue Yuen Industrial	Hong Kong	1.1	Sport shoe manufacturer
Consumer Staples	Bunge, Ltd.	Bermuda	1.7	Soybean manufacturer, processor, retailer
	Carrefour	France	1.0	Food retailer & hypermart operator
	Heineken	Netherlands	1.1	Brewing company
	Kao	Japan	1.6	Household & personal care products manufacturer
	Metro	Germany	2.4	Retailer
	Nestlé	Switzerland	2.4	Food company
	Unilever	United Kingdom	1.5	Consumer products manufacturer
	Wal-Mart de Mexico	Mexico	1.8	Consumer goods & food retailer
Energy	BG Group	United Kingdom	2.4	Integrated gas company
	EnCana	Canada	3.2	Producer of natural gas
	Gazprom	Russia	2.5	Natural gas company
	Imperial Oil	Canada	3.0	Integrated petroleum company
	Sasol	South Africa	3.0	Refined petroleum products producer
Financials	Banco Santander	Spain	2.6	Commercial bank
	Bankinter	Spain	1.2	Bank servicing individuals & small businesses
	Bank Pekao	Poland	1.1	Universal bank
	DBS Group	Singapore	1.1	Commercial bank
	Erste Bank	Austria	2.0	Savings bank
	HDFC Bank	India	1.2	Multi-service bank
	ICICI Bank	India	1.4	Retail banking
	SE Banken	Sweden	1.6	Universal bank
	Standard Chartered	United Kingdom	1.8	Multinational commercial bank
	Sumitomo Realty & Dev	Japan	2.2	Real estate developer
	Swiss Re	Switzerland	1.7	Life & health reinsurance company
	UBS	Switzerland	2.2	Universal bank & asset management firm
Health Care	Actelion	Switzerland	1.4	Pharmaceutical manufacturer
	Qiagen	Netherlands	1.3	Laboratory equipment supplier
	Roche	Switzerland	3.0	Pharmaceutical company
	Sanofi-Aventis	France	1.8	Pharmaceutical company
	Smith & Nephew	United Kingdom	1.9	Medical devices company
Industrials	Atlas Copco ‘A’	Sweden	1.9	Industrial equipment producer
	China Merchants	China	1.2	Global port operator
	Daikin Industries	Japan	2.2	Air conditioner manufacturer
	Hutchison Whampoa	Hong Kong	2.0	Container terminal operator
	Mitsubishi Corp.	Japan	3.8	Trading company
	Schneider Electric	France	2.0	Producer of electrical equipment
Information Technology	Dassault Systemes	France	2.0	CAD/CAM software designer
	Hirose Electric	Japan	1.6	Electronics & optical fiber connectors firm
	Keyence	Japan	2.8	Detection & measuring control equipment maker
	Samsung Electronics	South Korea	2.2	Electronic equipment maker
	Taiwan Semiconductor	Taiwan	1.8	Dedicated IC foundry
	Yokogawa Electric	Japan	2.1	Industrial process control equipment company
Materials	Air Liquide	France	2.8	Industrial gas company
	CRH	Ireland	1.7	Multi-national building materials company
	JSR	Japan	1.5	Specialty chemicals firm
Utilities	Verbund	Austria	1.3	Hydro electric producer

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

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Contributors to Returns

Largest Holdings	GICS Sector	Region	Return	Average Wt.	Contribution
Mitsubishi Corp.	Industrials	Japan	46.1%	3.2%	1.33%
Roche Holdings	Health Care	Europe ex-EMU	10.2%	2.9%	0.29%
WPP Group	Cons Discretionary	Europe ex-EMU	(0.9%)	2.8%	(0.03%)
Air Liquide	Materials	Europe EMU	8.1%	2.8%	0.23%
Keyence Corp.	Info Technology	Japan	12.3%	2.8%	0.34%

Largest Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
Mitsubishi Corp.	Industrials	Japan	46.1%	3.2%	1.33%
EnCana	Energy	Canada	47.5%	2.4%	1.06%
Sasol	Energy	Emerging Markets	43.0%	2.5%	0.96%
Imperial Oil	Energy	Canada	38.4%	2.4%	0.85%
Gazprom*	Energy	Emerging Markets	27.2%	0.5%	0.54%

Largest Detractors	GICS Sector	Region	Return	Average Wt.	Contribution
Smith & Nephew	Health Care	Europe ex-EMU	(14.7%)	2.2%	(0.35%)
Bunge Ltd.*	Cons Staples	Bermuda	(11.0%)	0.8%	(0.24%)
Yue Yuen	Cons Discretionary	Pacific ex-Japan	(10.3%)	1.2%	(0.14%)
Taiwan Semiconductor	Info Technology	Emerging Markets	(9.9%)	1.0%	(0.12%)
Sanofi-Aventis*	Health Care	Europe EMU	(3.4%)	1.6%	(0.06%)

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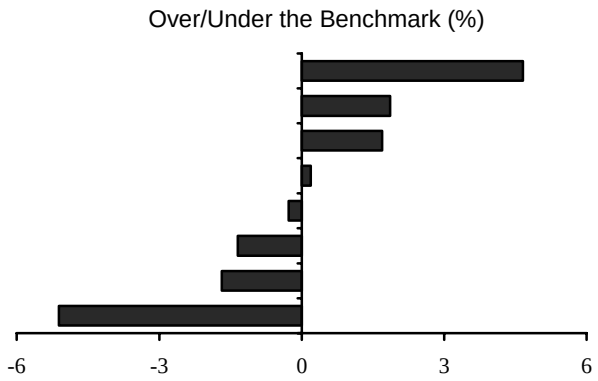
*Security owned for partial period; return shown is for the actual period owned in the portfolio.

Current Portfolio Regional Exposure

Region	HL International Equity	MSCI ACW ex-US
Emerging Markets	17.2%	12.6%
Cash	1.9%	--
Bermuda	1.7%	--
Europe EMU	26.4%	26.2%
Canada	6.1%	6.3%
Pacific ex-Japan	5.3%	6.7%
Japan	17.4%	19.1%
Europe ex-EMU	24.0%	29.1%



Portfolio Characteristics

Characteristics	HL Intl	ACW ex-US	Characteristics (3 Years)	HL Intl	ACW ex-US
Avg Wtd Market Cap ($B)	$31.9	$45.9	Alpha	(2.26)	0.00
Price/Earnings (Trailing)	21.3x	18.1x	Beta	0.97	1.00
Price/Cash Flow	12.0x	9.0x	R-Squared	0.93	1.00
Price/Book	2.5x	2.4x	Sharpe Ratio	0.50	0.58
Dividend Yield	1.5%	2.4%	Standard Deviation	11.83	11.69
Return on Equity	16.6%	18.2%	Correlation	0.96	1.00
Number Holdings	52	2066	Turnover (Average)	38.4%	---

Source: Wilshire Atlas

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

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

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

International Equity Composite Performance Summary
2005 Third Quarter Report

	HL INTL EQ (Gross)	HL INTL EQ (Net)	MSCI ACW ex-US[1]	MSCI EAFE	Internal Dispersion[2]	Number of Accounts	Composite Assets ($M)	Firm Assets ($M)	% Firm Assets
2005[3]	16.0%	15.4%	12.2%	9.5%	NA[4]	34	922	2077	44
2004	13.0%	12.2%	21.4%	20.7%	0.4	48	1019	1524	67
2003	28.1%	27.2%	41.4%	39.2%	0.8	67	974	1357	72
2002	(14.1%)	(14.8%)	(14.7%)	(15.7%)	0.4	64	783	1082	72
2001	(17.4%)	(18.0%)	(19.5%)	(21.2%)	0.3	62	867	1154	75
2000	(14.9%)	(15.6%)	(15.1%)	(14.0%)	0.1	60	1092	1392	78
1999	51.5%	50.4%	30.9%	27.3%	0.5	56	1230	1423	86
1998	12.1%	11.3%	14.5%	20.3%	0.2	64	977	1372	71
1997	(3.8%)	(4.6%)	2.0%	2.1%	0.1	71	1072	1521	70
1996	17.2%	16.3%	6.7%	6.4%	0.3	54	885	1247	71
1995	13.2%	12.5%	9.9%	11.6%	0.4	27	347	635	55

[1]Benchmark Index; [2]Asset-weighted standard deviation (gross of fees); [3]The 2005 returns reflect the partial period January 1, 2005 through September 30, 2005; [4]NA used for internal dispersion less than a 12 month period.

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

The MSCI All Country World ex-US Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the US. The Index consists of 48 developed and emerging market countries. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The Index consists of 21 developed market countries. You cannot invest directly in this Index.

Harding, Loevner Management, L.P. has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the US and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report. Ashland Partners & Company, LLP has verified firmwide compliance since October 31, 1989, one quarter in arrears.

Harding, Loevner Management, L.P. is an independent registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this composite. Composite performance is presented gross of foreign withholding taxes. Past performance is not indicative of future results.

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate international equity accounts is 1.00% annually of the market value of assets up to $20 million; 0.50% of amounts from $20 million to $100 million; negotiable for amounts over $100 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

Balanced portfolio segments are not included, nor is this composite a sub sector of a larger portfolio. Leverage is not used in this composite.

The International Equity Composite was created on December 31, 1989.

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

Contact: Clarke Moody, CFA

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