



Composite Performance (%) For Periods Ending December 31, 2008

	Last Quarter	Last 12 Months	Three Years <sup>1</sup>	Five Years <sup>1</sup>	Ten Years <sup>1</sup>	Since Inception <sup>1,2</sup>	Volatility <sup>3</sup>
HL Global Equity (gross of fees)	(21.03)	(38.00)	(4.55)	2.13	3.58	8.08	13.34
HL Global Equity (net of fees)	(21.13)	(38.29)	(5.06)	1.61	2.96	7.33	13.24
MSCI All Country World Index <sup>4</sup>	(22.25)	(41.84)	(7.44)	0.44	0.23	4.97	13.82
MSCI World Index	(21.65)	(40.33)	(7.61)	0.00	(0.19)	4.92	13.69

<sup>1</sup>Annualized Returns <sup>2</sup>Inception Date: November 30, 1989; <sup>3</sup>Annual Standard Deviation; <sup>4</sup>The Benchmark Index.

Please read the above performance in conjunction with the footnotes on the back page of this report. Past performance is not indicative of future results.

Sector Exposure (%)

Sector	HL Gbl	MSCI ACW	Over/Under The Benchmark
Health Care	23.4	11.0	12.4
Info Technology	19.6	10.3	9.3
Cons Staples	14.7	10.6	4.1
Cash	3.7	--	3.7
Industrials	9.2	10.6	(1.4)
Materials	4.8	6.5	(1.7)
Energy	9.3	11.9	(2.6)
Cons Discretionary	5.3	8.5	(3.2)
Telecom Services	2.6	6.0	(3.4)
Utilities	0.0	5.6	(5.6)
Financials	7.4	19.0	(11.6)

Market Review & Outlook

- One of the worst years of the last century for stock markets.
- Collapse of the Financials industry has highlighted the importance of transparency and marketability.
- The vigorous policy response to the economic downturn, historically low stock prices, and high dividend yields should support attractive equity returns in the long term.

Portfolio Highlights

- Continued underweight in Financials, favoring Japanese & emerging markets oriented firms.
- Overweight in Health Care and Consumer Staples, emphasizing companies with high margins and low cyclicality.
- Increasing exposure to companies focused on consumer, rather than corporate, spending.

Regional Exposure (%)

Region	HL Gbl	MSCI ACW	Over/Under The Benchmark
Cash	3.7	--	3.7
Other <sup>1</sup>	3.0	--	3.0
Pacific ex-Japan	5.8	3.8	2.0
Europe ex-EMU	14.4	13.3	1.1
Emerging Markets	9.6	9.5	0.1
Canada	2.2	3.5	(1.3)
Japan	8.9	10.6	(1.7)
United States	41.9	45.1	(3.2)
Europe EMU	10.5	14.2	(3.7)

<sup>1</sup>Includes countries outside the benchmark where some holdings are incorporated.

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Sector and region allocations are supplemental information only and complement the fully compliant Global Equity Composite GIPS presentation.

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## Performance Summary

The Global Equity Strategy Composite declined 21.0% in the fourth quarter, just ahead of the benchmark, the MSCI All Country World Index, which fell 22.3%. The Strategy also outperformed for the year, falling 38.0% versus the 41.8% decline of its benchmark.

## Market Review

The year just ended was one of the worst for stock market returns in the last century, and the final quarter equaled the worst in our memory, with declines just shy of those in the fourth quarter of 1987 (the last “crash”). Every industry group fell in both the quarter and the year. Stocks of financial companies fell by more than half in the year, and by more than a third in the fourth quarter alone, driven by global fallout from the bankruptcy of Lehman Brothers in late September. Materials fell almost as much, led by mining stocks,

Market Performance (%)			
Market	Trailing 12 months		4Q 2008
	USD		USD
Canada	(45.2)		(33.0)
Germany	(45.5)		(20.9)
Japan	(29.1)		(9.0)
United Kingdom	(48.3)		(26.4)
United States	(37.1)		(22.2)
Europe EMU	(47.1)		(21.9)
Europe ex-EMU	(45.0)		(23.6)
Pacific ex-Japan	(50.0)		(24.9)
Emerging Markets	(53.2)		(27.6)
MSCI ACW Index	(41.8)		(22.2)

Source: Wilshire Atlas; MSCI Barra (as of December 31, 2008)

Sector Performance (%) of the MSCI ACW Index			
Sector	Trailing 12 months		4Q 2008
	USD		USD
Consumer Discretionary	(42.1)		(23.0)
Consumer Staples	(23.5)		(13.3)
Energy	(41.9)		(23.8)
Financials	(53.6)		(33.2)
Health Care	(21.0)		(10.8)
Industrials	(44.6)		(22.0)
Information Technology	(44.4)		(24.8)
Materials	(51.7)		(28.5)
Telecom Services	(35.0)		(7.2)
Utilities	(29.9)		(10.1)

Source: Wilshire Atlas; MSCI Barra (as of December 31, 2008)

although the decline was condensed into the latter seven months. Non-cyclical sectors, such as Health Care, Consumer Staples, and Utilities, fell far less than the broad index.

Geographically, Japan and Switzerland produced the smallest declines in both the quarter and the year, aided by a reversal of currency flows that had financed the global leveraging gambits of hedge funds, investment banks and even Central European homebuyers. Meanwhile Ireland and Russia both fell by more than 70% in dollar terms in the year. US stocks fell less than non-US stocks, while Emerging Markets fell more than developed ones, saving the worst declines for the second half, mirroring the Materials sector.

Mortgage-related securities and other credit derivatives that originated in the US remained at the epicenter of the global financial crisis. The key event in the year turned out not to be the Federal Reserve’s and JPMorgan’s rescue of Bear Stearns in March, but instead the Fed’s failure to find a willing rescue partner for Lehman Brothers in September. Both failed due to the loss of confidence by lenders, investors and, finally, customers that the two investment banks would, or even could, accurately value the opaque derivative assets and liabilities that their trading and underwriting activities had led them to build up. In rescuing Bear Stearns, JPMorgan was well-placed to make informed estimates of such values, but crucially was also backstopped by the Fed. The case of Lehman was both larger and unfortunately timed, coming just after the nationalization of Fannie Mae and Freddie Mac and coinciding with the implosion of AIG, which had insured a large swath of mortgage-related securities against default. Importantly, the Treasury and Fed were unwilling to face further criticism that they had protected Wall Street cronies who deserved to fail after engaging in excessive risk-taking.

The critics, however, had little understanding of just how broadly the effects of Lehman’s failure would radiate, due to derivatives and other guarantees. In the event, savers in Singapore and Hong Kong lost their entire principal on structured product investments sold to them by local banks who had relied on Lehman to create them, Japanese banks wrote off large Lehman bond investments, and private banks in Germany were obliged to make whole all Lehman AG depositors. These broadly-dispersed secondary effects of the Lehman bankruptcy led to a collapse of confidence in, and among, banks.

Meanwhile, European governments scrambled to shore up their leading financial institutions with capital infusions that mushroomed into near-total nationalizations in some cases (e.g., Fortis, all three Icelandic banks), with just two of the five largest UK banks escaping government control. Deposit insurance schemes

were increased in size and scope, in a successful effort to prevent a total loss of confidence in banking systems. Hasty mergers were arranged for the institutions whose attractive underlying business franchises were temporarily obscured by gargantuan investment portfolio losses. In a few cases, healthy firms found partners that actually seemed to strengthen their long-term businesses, such as in the merger of Brazil's Banco Itau with Unibanco, or Santander's purchases of two UK savings banks over the summer, which gave it a defensible 10% market share of British bank deposits, or the opportunistic taking of a 25% stake in Hartford Insurance by Germany's Allianz, thereby potentially transforming its US distribution.

Increasingly desperate financial conditions, with very little new credit being extended to businesses or consumers, led to grim business headlines. Company managers, facing a dearth of customer orders, cancelled capital expansion projects and equipment orders, and began idling or eliminating workers. Automobile sales fell nearly in half in both the US and Europe as consumer confidence vaporized along with offers of financing. Exports fell in nearly all trade accounts, but especially in Asian ones. And commodity prices plummeted, from oil to iron ore to soybeans.

*"Increasingly desperate financial conditions, with very little new credit being extended to businesses or consumers, led to grim business headlines."*

Much print has already been devoted to the question of how the financial collapse came to pass. In our view, it is the decline of transparency that has greased the skids of the financial world's descent into its current circle of hell. It was the unseen international reach of Lehman's depositor and derivative counterparties to German and Singaporean savings products and to Austrian, Japanese, and Indian bank bond portfolios that caused a primarily US problem in mortgages to trigger an international financial crisis. It was the inability to know which "stodgy" banks had securities portfolios stuffed with the toxic waste of extremely risky securities that sent the interbank lending market into such a tailspin that governments became the only borrowers deemed creditworthy and, by logical extension, the lenders not of last, but now of only, resort. It was widespread pooling and securitization of mortgages, whether subprime or high quality, which shrouded and fractured the relationship between borrowers and lenders and led to the utter devastation in the mortgage markets. It was the tolerance of lack of transparency in pursuit of return without apparent risk that led so many wealthy investors to turn over billions of dollars to Bernie Madoff, whose scheme was the ultimate in opacity. Where there is no transparency, there should be—and now is—little trust. The

lesson of 2008 is that the vast majority of investors had forgotten or discounted the importance of both.

A related concept is that of marketability, that is, the discipline of subjecting an asset, via its tradeable security, to the wisdom of crowds who are constantly seeking the correct value. If Madoff's investment funds had been publicly traded, then the doubts of the few would have been magnified through short selling to bring about an earlier discovery of the fraud. If CMBs and CDOs had been actively traded in transparent markets, banks, insurers, and pension funds would have been unable to hide behind the rating agencies' doubtful categorizations of subprime structures in their accounting treatments. Indeed, the investment theory that has led so many sophisticated investment institutions to seek to enhance returns through earning an illiquidity premium for non-marketable "alternative assets" ignores the risk of giving up the transparency gained through the continual price discovery associated with marketability.

## Performance Attribution

The portfolio fell heavily in the quarter and in the year, but outperformed the benchmark in both periods. In the quarter and in the full year, the outperformance derived mostly from sector weightings, specifically from having a large number of holdings in the relatively strong Health Care sector, and a small number in Financials, the worst performing sector over both measurement periods.

Of course, sector allocation is driven primarily by our bottom-up stock picking process, but apart from that influence, "stock selection" added no further relative performance over the full year. Good stock performance in the year from **Genentech**, **Abbott Labs** and **Wells Fargo** was offset by bad results from **AIG**, **China Merchants**, **Rio Tinto**, and **Electronic Arts**. In the fourth quarter, stock selection was mixed across sectors except for very poor results within the Energy sector, where **Schlumberger**, although reduced over the summer, delivered poor performance, and where our decision to increase holdings in Russian gas giant **Gazprom** proved premature and costly.

## Outlook

The world economy is gripped by a rare event, known to economists as a "synchronous global recession," in which every national

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Bold indicates companies held in the portfolio during the year. The portfolio is actively managed therefore holdings shown may not be current. They should not be considered recommendations to buy or sell any security. A complete list of holdings is available on page nine of this report.

economy is slowing, with no country marching to the beat of its own drummer. The latest data from China, the central exhibit for the now de-bunked Decoupling Theory, shows shocking declines in exports and in electricity consumption, clear evidence that even the “miracle” economy is probably joining the rest of the world in recession.

*In our view, it is the decline of transparency that caused the financial world's descent into its current circle of hell.*

What we face is different from other recessions and bear markets of the past twenty years, when an antidote to economic distress was readily at hand in each period. The financial crisis of the early 1990s could be ameliorated by large reductions in nominal interest rates (except in Japan). The Asia crisis and Russian default of 1997-98 saw terrible output declines in developing economies, but the developed economies of Europe and the US powered on, reviving the sufferers through increased imports of manufactured goods. The 2002-03 recession that followed the technology/telecom bubble was revived by low interest rates and the onset of the loose lending that, unchecked, led to today's crisis. A header in the *The Economist* at the time succinctly described what happened: “The Houses that Saved the World.”<sup>1</sup>

What will be the counterweight this time? With US consumption of nearly \$10 trillion—70% of US GDP—there simply isn't enough consumer spending elsewhere in the world to take up the slack if US individuals decide to save rather than borrow 3-5% of their annual incomes. Consumers elsewhere would have to increase their spending substantially to make up that amount—but of course individuals elsewhere are facing job losses and wealth impairments too, so they are likely to pull in their horns as well rather than splash out on new purchases. This is even more likely in Asia, Latin America, and Central Europe, where social safety nets are much less developed than in rich Western Europe or the US. Companies, facing cancelled orders and few new ones, are scaling back investment plans and reducing expenses, including laying off personnel. Their focus is on survival until brighter days appear, rather than on expansion—with certain exceptions.

This leaves governments the only likely big new spenders in the GNP equation. Thus we are now talking about trillion dollar budget deficits in the US, €100 billion stimulus packages in Germany, and \$500 billion infrastructure programs in China. There will be some countries better off than others, as usual. But ability may not matter

much: in a recently published study of financial crises over the past 100 years, Ken Rogoff and Carmen Reinhart have shown that when countries experience severe banking crises, their government debt on average increases by more than 80% in real terms within three years of the onset of the crisis, which, coincidentally, is the average length of the equity bear markets associated with such crises.<sup>2</sup> Trillion dollar deficits, in other words, may be just the beginning.

Even with such determined and large fiscal stimulus emerging quickly as the consensus government response in most countries, business output and consumer spending are seemingly in a downward spiral around the world. Given the magnitude and complexity of the economic challenges we face, commentators can be forgiven for comparing the current environment to the 1930s. To be sure, there are echoes today of the frightening conditions of that era, which included:

1. A collapse in demand as countries failed to resolve a debt overhang from the previous decade (the war and reparations debt resulting from the First World War) that affected financial systems far afield from the origin of the debts;
2. A decline in international trade volumes, after a period of strong growth;
3. Systemic bank failures in multiple countries;
4. A large decline of industrial orders and output, and a concomitant surge in unemployment;
5. A rash of currency devaluations, as countries strove to improve their industrial competitiveness;
6. A ferment of political change, as incumbent governments were swept from office by populations discontented by their inability to make imaginative and effective, rather than partisan or calculating, policy decisions;
7. A rise of new extremist political groups that aimed to alter the existing geo-political order;
8. A loutish, arrogant Russia, throwing its weight around, using commodities to bully others for political ends and to maximize its store of hard currency;

<sup>1</sup> *The Economist*, “House Prices and the World Economy,” May 28, 2002.

<sup>2</sup> Carmen M. Reinhart and Kenneth S. Rogoff, “The Aftermath of Financial Crises” (Paper presented at the American Economic Association, San Francisco, CA, January 3, 2009).

9. The emergence of a new global economic power undergoing a dramatic transformation from primarily agrarian to primarily industrial that acted as creditor as well as supplier to the established but exhausted economies of the old order through rapidly-expanding trade, but which had only a partial understanding of the nuances of free market political economy and suffered terribly when its role as creditor undercut its role as supplier; and
10. A severe global decline of stock, bond, and commodity markets.

Nevertheless, a closer look at each of these points gives little support for the pessimistic view that we are reliving the 1930s. So what is different in today's environment? Nearly everything:

1. The debt overhang from the US housing market, combined with derivatives and securitized debt, has clearly affected institutions and economies around the world. But US mortgage debt, at roughly \$10 trillion, is smaller relative to US GDP than the reparations and war debts were to the European economies then. Moreover, only a small percentage of those housing loans, even adding in rising delinquencies from the UK, Spain, Ireland, and Australia, are actually at risk right now.

*"Governments are the only likely big new spenders in the GNP equation."*

2. The decline in trade volumes in the 1930s were tied directly to a tariff war that started when the US (Republican-controlled) Congress passed the Smoot-Hawley Tariff, not to a spontaneous contraction of consumption demand. There is acute awareness now of the damage caused then, and there is only a limited degree of trade friction in the international system at the moment, notwithstanding the failure of the Doha round to liberalize international trade still further.
3. There have been dramatic financial failures in the past year, but the more remarkable feature has been the degree to which monetary and government authorities have moved quickly to create new rescue structures so that the kind of broad bank failures that destroyed both wealth and confidence in the 1930s have been, with certain important exceptions, avoided.
4. Orders, output and employment are all declining, some precipitously, but the declines so far reported don't even

reach the levels of some of the worse post-war recessions, and remain far from the catastrophic declines reached quickly in the 1930s.

5. So far, the surprises of the currency markets have taken the form of upward re-valuations, such as that in the Japanese yen, rather than a rash of devaluations. The US dollar, widely considered to be structurally weak, has strengthened throughout this crisis. Some countries, chastened by the Asian crisis and the Latin American ones earlier, in the main appear eager to keep their currencies strong as a magnet for capital inflows, rather than weak as an aid to exports of manufactured goods. Even in the Baltic States, where external accounts appear among the weakest, governments are resisting devaluation.
6. The crisis has claimed few political scalps around the globe. In the UK, the prime minister has improved his odds of surviving by taking on the government management of the crisis as his finest hour. In Russia, China, or Japan, there has been no movement towards political change so far. In Brazil, President Luiz Inácio "Lula" da Silva has an 80% approval rating near the end of his second term. In the US, the remarkable election of Barack Obama may turn out to be a triumph of the political center against both partisan extremes. The common thread so far is that political creatures and bureaucratic authorities have absorbed as a key lesson from the 1930s that "letting market forces run their course" is not a recipe for economic or political survival.
7. Islamic extremists do indeed seek to alter the existing world order, but their views do not seem to be gathering adherents in the economically-dynamic countries. Oil supplies remain a key vulnerability of the global economy from this extremist threat, but that threat has not increased in this decade, and the current low oil price reflects OPEC's lack of influence over market forces more than its ascendancy. Compare that with the 1930s, when Marxist politics gained strong intellectual footholds in mainstream political thought in Western economies, and Fascism won control of governments of several Western European countries.
8. As for Russia...well, some things never change. In the 1930s, the commodity it used to abuse both citizenry and neighbors was wheat, whereas today it is natural gas.
9. If indeed China is playing the same role of potent newcomer on the world economic stage that the US played

in the first half of the 20th century, then it is clear that we must all become China watchers now. If the debt burden of Western economies, led by US consumer, housing, and government debt built up over two decades of excess consumption, is the cause of the current economic malaise, then the Chinese economy is certainly vulnerable to a contraction of this excess consumption at the very least, and to a repudiation or currency debasement by the US at worst. We are left to worry, along with Jeremy Grantham, about the ability of the last remaining planned economy to extend what has been an unprecedented string of prescient and lucky economic and political decisions.<sup>3</sup>

10. The market declines of 2008 are among the most severe of the past century, and probably second only to those of more than two generations ago. But we have little regard for the market doomsayers. We contrast the aggressive policy responses now to government responses in the early 1930s, when essentially the main policy action on the US economy was to exhort investors, businesses and consumers that nothing was wrong but a lack of confidence, culminating in President Franklin Roosevelt's assertion in 1933 in his first inaugural address, "We have nothing to fear but fear itself." When we compare the economic and political backdrop of today's environment with the situation then, we see good reason to be optimistic, even enthusiastic, about the opportunities for equity investors with a medium- or long-term view.

It is extremely unlikely that per capita incomes in developed countries will sustain the kind of damage they took in the 1930s, given today's social safety nets and the policy responses that have already been, and will, if necessary, continue to be more prompt and more forceful than government action was then. Certainly, there is a sense, both in the Treasury and Fed actions to date, and in the statements from the incoming administration, that the US Government will try bold and imaginative policy responses to the financial and economic crisis, whatever is necessary to keep household income levels supported. In that, they are reflecting a key consensus conclusion from that most-studied of economic periods, the Great Depression. Actions by governments in the UK, in Germany and the rest of Europe, along with China and other Asian countries are likewise aimed squarely at keeping the financial system afloat and incomes from collapsing.

Stock prices, having sustained such a large decline from the 2007 peaks (which were in any event nowhere as overpriced as at the

1999 tech bubble, the 1989 Japanese property bubble, or the 1929 highs) now appear very attractive. A telling indicator is the level of dividend yields. Eight percent of the companies in the S&P 500 Index have cut or omitted their dividends already this past year, and yet this Index yields significantly more than US Treasury bonds. Even if stock prices *never* rise again, owning this dividend stream is more attractive than owning cash or government bonds, because dividends are likely to grow over time, even if their immediate trajectory is uncertain. This is true even if the overall dividend payout declines by 25%, as is conceivable given the hefty prior contribution from now-profitless financial companies. The dividend yield levels in non-US markets is even more starkly in favor of stocks, as we demonstrated at the end of last quarter.<sup>4</sup>

*"When we compare the economic and political backdrop of today's environment with the situation in the 1930s, we see good reason to be optimistic, even enthusiastic, about the opportunities for equity investors with a medium- or long-term view."*

## Portfolio Structure

An attractive long-term outlook, but an entirely uncertain short-term outlook, makes formulating a portfolio strategy especially treacherous. Clearly, we are not willing to compromise on the quality of the companies we hold. Now more than ever, we are paying close attention to the financial strength and the competitive position of the companies we choose to own, recognizing that growth in the near term is difficult for even the most robust businesses. Given our views about transparency, and the recent news of management fraud at Indian software/outsourcing provider Satyam, we also remain vigilant regarding corporate governance and management quality.

We have been reluctant to add much to our Financials holdings, despite the very large decline in share prices. Our confidence in relating their price to their "value" is quite low, and we are fearful that greater regulation combined with less demand for their services will lead to a sustained reduction in profitability. And, of course, transparency is by nature a weakness for this industry. We have favored, and continue to favor, banks with a focus on developing economies, on the grounds that it is here that the indebtedness of governments, companies, and consumers is lowest, leaving the greatest long-term opportunities for future growth, rather than retrenchment and de-leveraging. **Standard Chartered Bank** remains a favorite.

<sup>3</sup> Jeremy Grantham, Quarterly Letter, GMO LLC, July 2008.

<sup>4</sup> Harding Loevner, Global Equity Strategy, 2008 Third Quarter Report. Available at [www.hardingloevner.com](http://www.hardingloevner.com).

We have maintained a large weighting in Health Care companies, multiples of the benchmark weight, in fact. This was helpful to performance in 2008, but we imagine it could hurt relative performance as and when the market normalizes, because their noncyclical earnings have become very highly prized by all investors, not just us (contrary to how it felt when we began increasing our holdings two years ago). We expect to part with some of the more highly priced of these holdings as we incrementally shift towards companies whose share prices discount the broad and deep slowdown now upon us. In the quarter, we reduced holdings in two Health Care companies, **Qiagen** and **So-Net M3**, which had delivered strong relative performance and become two of the more highly-priced stocks in the portfolio. We reinvested in two companies from the same sector, **Fresenius** and **Novo Nordisk**, both of which command important positions in the treatment of diabetes, a disease that continues its epidemic-like growth.

*“Now more than ever, we are paying close attention to the financial strength and the competitive position of the companies we choose to own, recognizing that growth in the near term is difficult for even the most robust businesses.”*

We also have maintained a significant weighting in Consumer Staples companies, again, prizing them for the stable demand for their products, and their ability to maintain attractive margins through scale and branding. This quarter we reduced our longstanding holding in **Nestlé** to increase our holding in **Bunge**, the soybean processor whose share price had plummeted over the past year along with the price of the underlying commodity, to which the company bears limited exposure. The valuation discrepancy between final producer and input supplier seemed too great to ignore. We also reduced holdings of **Sime Darby** to increase holdings in **Olam International**, the processor of nuts and other food ingredients. We expect to make further incremental shifts in this sector into companies whose shares more deeply discount the consumer retrenchment and financial strains now apparent to all.

Overall, the portfolio has held a bias against consumers and in favor of companies selling to other companies. With political involvement in economies now deepening, by consensus opinion, we are growing wary of that slant, and warming to companies dependent on the consumer. During the Japanese multi-year deflation, government policy and a cultural reluctance to admit or allow failure created a group of companies whose economic viability was untenable, but that existed at the sufferance of banks

dissuaded by regulators to pull the plug on them and make a clean write-off of their bad debts. The companies came to be known as “zombies” for their lack of purpose other than to keep their employees off the breadlines. What we sense, particularly in the US and in Europe, may be a similar deep-seated political support for maintaining employment and incomes, rather than support for rational economic restructuring to maintain or reinvigorate competitive corporate franchises.

Within our large weighting in Information Technology, we have for some time favored companies focused on corporate customers’ capital expansion. With capex spending suffering substantial cutbacks, we are questioning that skew. We bought a new holding in **Yahoo**, whose position in online advertising is second to **Google**’s, although concentrated in display rather than search, and whose share price had dropped precipitously in the bungled negotiations with Microsoft. We expect that Yahoo’s ongoing growth will be rewarded.

Finally, valuation differences seem to us to have widened significantly, within sectors and within regional geographies, and even within our own narrow pool of high-quality companies. In our efforts to exploit these diverging prices, we would expect portfolio turnover to rise from the rather low levels of the past couple of years, especially while markets remain volatile.



## Global Equity Holdings (as of December 31, 2008)

Sector/Company/Description	Country	End Wt. (%)
<b>Consumer Discretionary</b>		
<b>Carnival</b> - Cruise ship operator	UK	1.0
<b>Coach</b> - Luxury accessories & apparel	US	2.0
<b>Li &amp; Fung</b> - Trading & logistics	Hong Kong	1.6
<b>LVMH Moët Hennessy</b> - Luxury goods	France	1.0
<b>Consumer Staples</b>		
<b>Bunge</b> - Agricultural commodity processor	US	3.1
<b>Colgate Palmolive</b> - Household products	US	2.1
<b>L'Oréal</b> - Personal care products	France	2.7
<b>Nestlé</b> - Food & beverage	Switzerland	2.5
<b>Olam International</b> - Agricultural products	Singapore	2.2
<b>Walgreen</b> - Retail drugstore	US	2.7
<b>Energy</b>		
<b>EnCana</b> - Natural gas producer	Canada	2.3
<b>Exxon Mobil</b> - Integrated oil	US	2.3
<b>Gazprom</b> - Natural gas producer	Russia	2.0
<b>Sasol</b> - Alternative fuels	South Africa	1.7
<b>Schlumberger</b> - Petroleum industry services	US	1.4
<b>Financials</b>		
<b>Erste Group Bank</b> - Money center retail banking	Austria	0.7
<b>Nomura Holdings</b> - Brokerage/investment bank	Japan	1.2
<b>Standard Chartered</b> - Commercial bank	UK	1.6
<b>Sumitomo Rlty. &amp; Dev.</b> - Real estate developer	Japan	1.3
<b>Swiss Reinsurance</b> - Life & health reinsurer	Switzerland	1.0
<b>Wells Fargo</b> - Commercial bank	US	1.9
<b>Health Care</b>		
<b>Abbott Labs</b> - Health care & pharma products	US	3.2
<b>Cochlear</b> - Hearing implants	Australia	2.3
<b>Fresenius</b> - Provider of renal equipment & care	Germany	1.0
<b>Genentech</b> - Therapeutic biotech research	US	2.4
<b>Genzyme</b> - Biotech	US	2.0
<b>Medco Health Solutions</b> - Pharmacy benefits	US	1.9
<b>Medtronic</b> - Medical devices	US	1.2
<b>Novartis</b> - Life sciences	Switzerland	1.5
<b>Novo Nordisk</b> - Biotechnology	Denmark	1.1
<b>Qiagen</b> - Biotech & instrumentation	Germany	1.5
<b>Roche Holding</b> - Pharma & diagnostics	Switzerland	1.5
<b>So-Net M3</b> - Medical information services	Japan	1.2
<b>Sonova Holding</b> - Hearing-aid manufacturer	Switzerland	1.1
<b>Synthes</b> - Orthopedic products	Switzerland	2.4

## Global Equity Holdings (as of December 31, 2008)

Sector/Company/Description	Country	End Wt. (%)
<b>Industrials</b>		
<b>3M Company</b> - Industrial technology	US	2.4
<b>China Merchants</b> - Container terminal operator	China	1.6
<b>Emerson Electric</b> - Electronics controls	US	3.0
<b>Fanuc</b> - Indust. robots & machine tools	Japan	1.0
<b>RPS Group</b> - Consulting	UK	0.6
<b>Sime Darby</b> - Conglomerate	Malaysia	1.0
<b>Information Technology</b>		
<b>Cisco Systems</b> - Internet networking	US	3.2
<b>Dassault Systemes</b> - CAD/CAM software	France	1.3
<b>eBay</b> - Internet shopping/trading marketplace	US	1.0
<b>Electronic Arts</b> - Entertainment software	US	0.9
<b>Google</b> - Internet search and multimedia	US	2.1
<b>Keyence</b> - Detection devices	Japan	3.7
<b>MediaTek</b> - Integrated circuits supplier	Taiwan	1.1
<b>Oracle</b> - Enterprise software developer	US	2.0
<b>Qualcomm</b> - CDMA wireless communications	US	1.9
<b>SAP</b> - Enterprise software	Germany	1.0
<b>Yahoo</b> - Internet search and multimedia	US	2.1
<b>Materials</b>		
<b>Air Liquide</b> - Industrial gas	France	1.8
<b>JSR</b> - Specialty chemicals	Japan	0.9
<b>Praxair</b> - Industrial gas producer & distributor	US	1.7
<b>Rio Tinto</b> - Diversified mining	UK	0.6
<b>Telecom Services</b>		
<b>América Móvil</b> - Cellular phone operator	Mexico	1.4
<b>Telekom Indonesia</b> - Fixed-line & mobile	Indonesia	1.3
<b>Utilities</b>		
No holdings		

The portfolio is actively managed therefore holdings shown may not be current. They should not be considered recommendations to buy or sell any security.

## Last Quarter

## Largest Contributors (%)

	Sector	Weight	Contribution
So-Net M3	HLTH	1.4	0.08
Keyence	INFT	3.2	0.08
Exxon Mobil	ENER	2.1	0.04
Novo Nordisk	HLTH	0.8	0.02
SAP	INFT	0.7	(0.01)

## Last 12 Months

## Largest Contributors (%)

	Sector	Weight	Contribution
Alcon	HLTH	1.3	0.27
Genentech	HLTH	1.3	0.21
Synthes	HLTH	0.3	0.11
Wells Fargo	FINA	1.4	0.02
Novo Nordisk	HLTH	0.2	0.01

## Largest Detractors (%)

	Sector	Weight	Contribution
Gazprom	ENER	2.3	(1.78)
Standard Chartered	FINA	1.8	(0.95)
Schlumberger	ENER	1.6	(0.91)
Electronic Arts	INFT	1.2	(0.90)
Cisco Systems	INFT	3.2	(0.87)

## Largest Detractors (%)

	Sector	Weight	Contribution
Gazprom	ENER	2.1	(2.41)
China Merchants	INDU	2.1	(1.96)
American Intl Group	FINA	1.0	(1.87)
Standard Chartered	FINA	2.4	(1.65)
Electronic Arts	INFT	1.6	(1.42)

The portfolio holdings identified above do not represent all of the securities held in the portfolio. The following information is available upon request: (1) information describing the methodology of the contribution data in the charts above; and (2) a list showing the weight and contribution of all holdings during the quarter and the last 12 months. Past performance does not guarantee future results. In the charts above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance over the period. Quarterly data is not annualized.

Portfolio Characteristics<sup>1</sup>

	HL Global	MSCI ACW
Return on Assets	10.6	7.1
Return on Equity <sup>2</sup>	20.1	18.2
Std Dev of 5 Year ROE	3.4	3.8
Debt/Equity	20.4	34.1
Profit Margin	15.6	11.2
Sales Growth <sup>3</sup>	14.8	11.4
Earnings Growth <sup>3</sup>	15.0	14.3
CF Growth <sup>3</sup>	16.2	12.7
Dividend Growth <sup>3</sup>	6.6	8.1

## Portfolio Statistics

	HL Global	MSCI ACW
Avg Wtd Mkt Cap (\$Mil)	\$47,253	\$54,805
Price/Earnings <sup>4</sup>	12.7	9.9
Price/Cash Flow <sup>4</sup>	11.7	7.3
Price/Book <sup>4</sup>	2.2	1.5
Alpha <sup>5</sup>	2.18	--
Beta <sup>5</sup>	0.96	1.00
R-Squared <sup>5</sup>	0.97	1.00
Sharpe Ratio <sup>5</sup>	(0.13)	(0.17)
Standard Deviation <sup>5</sup>	17.54	17.96

<sup>1</sup>Weighted median; <sup>2</sup>Trailing one year; <sup>3</sup>Trailing five years, annualized; <sup>4</sup>Harmonic mean; <sup>5</sup>Trailing three years, annualized.

## Purchases

Company	Country	Sector
Fresenius	Germany	HLTH
Novo Nordisk	Denmark	HLTH
SAP	Germany	INFT
Yahoo	US	INFT

## Sales

Company	Country	Sector
ADP	US	INFT
Caterpillar	US	INDU
Ericsson	Sweden	TCOM
Fortress Investment Group	US	FINA
Monex Group	Japan	FINA
Yokogawa Electric	Japan	INFT

Portfolio attribution and statistics are supplemental information only and complement the fully compliant Global Equity Composite GIPS presentation. The portfolio is actively managed therefore holdings shown may not be current. They should not be considered recommendations to buy or sell any security. The complete list of holdings is available on the previous page.

Source: Wilshire Atlas (Run Date: January 8, 2009); Harding Loevner Global Equity Composite; MSCI Barra



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## Harding Loevner Global Equity Composite Performance (as of December 31, 2008)

	HL Gbl Equity (Gross)	HLGbl Equity (Net)	MSCI ACW <sup>1</sup>	MSCI World	Internal Dispersion <sup>2</sup>	Number of Accounts	Composite Assets (\$M)	Firm Assets (\$M)
2008 <sup>3</sup>	(38.00%)	(38.29%)	(41.84%)	(40.33%)	0.1%	3	118	3,267
2007	17.62%	16.92%	12.18%	9.57%	N.M. <sup>4</sup>	3	124	6,356
2006	19.24%	18.59%	21.53%	20.65%	N.M.	2	102	4,720
2005	17.22%	16.79%	11.37%	10.02%	N.M.	2	85	2,562
2004	9.02%	8.36%	15.75%	15.25%	N.M.	2	82	1,524
2003	32.45%	31.97%	34.63%	33.76%	N.M.	3	127	1,357
2002	(19.37%)	(19.83%)	(18.98%)	(19.54%)	0.6%	6	118	1,082
2001	(14.87%)	(15.54%)	(15.91%)	(16.52%)	0.4%	7	152	1,154
2000	1.28%	0.13%	(13.94%)	(12.92%)	N.M.	5	108	1,392
1999	38.90%	38.16%	26.81%	25.34%	N.M.	4	96	1,423
1998	2.33%	1.64%	21.97%	24.80%	0.5%	11	179	1,372

<sup>1</sup>Benchmark Index; <sup>2</sup>Asset-weighted standard deviation (gross of fees); <sup>3</sup>The 2008 Composite performance shown is preliminary; <sup>4</sup>N.M.—Information is not statistically meaningful due to an insignificant number of portfolios in the Composite for the entire year.

Global Equity Composite contains fully discretionary U.S. dollar-based global equity accounts and for comparison purposes is measured against the MSCI All Country World Index (gross of foreign withholding taxes). 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. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 47 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 developed market countries. You cannot invest directly in these Indices.

Harding Loevner LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Harding Loevner is GIPS compliant and is verified by Ashland Partners & Company, L.L.P. Harding Loevner has received firm-wide GIPS verification beginning November 1, 1989. The most recent verification was for the Quarter ending September 30, 2008.

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

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented gross of foreign withholding taxes on dividends, interest income and capital gains. Past performance is not indicative of future results. Additional information regarding the policies for calculating and reporting returns is available upon request.

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

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

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