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ACKNOWLEDGMENTS

Founders:
Henry Royer, Firstar Bank Cedar Rapids, N.A.
Henry B. Tippie, Rollins Truck Leasing Corp.

Henry Royer attended Colorado College, where he received a B.A. in 1953. Following college graduation, he became a grain merchandiser with Pillsbury Mills. From there he joined the Peavey Company in 1957, became Treasurer and a board member of Lehigh Sewer Pipe and Tile in 1961, where he remained until 1965. From 1965 to 1983 Royer held various positions with First National Bank (Norwest), Duluth MN. In 1983 he joined The Merchants National Bank of Cedar Rapids (Firstar), where he served as chairman and president until August 1994. He is currently president and CEO of River City Bank in Sacramento CA.

Wherever he has been, Henry Royer has been active in both business and civic organizations. While in Iowa he served on the Board of Visitors of the College of Business Administration. Currently he is on the boards of IES Industries, CRST International, Inc., Berthel Investment Trust, River City Bank, Families First, Inc., United Way, the Sacramento Symphony, the Sacramento Tree Foundation, and the Sacramento Commerce and Trade Organization.

Henry Tippie grew up in Belle Plaine, Iowa, and, after a stint in the Army Air Corps, earned a BSC in accounting from the University of Iowa in 1949. He began his forty-four year career with Rollins in 1952, starting by balancing the small firm’s checkbook. Today, five Rollins companies are traded on the NYSE and Tippie is still involved with both Rollins Truck Leasing Corp. and Rollins Environmental Services, Inc. He also runs several of his own ventures from his offices in Austin, Texas. Tippie has been a tremendous asset to The University of Iowa, endowing a chair in business administration and helping to fund another. He also endows two, two-year accounting scholarships, and, for graduates of Belle Plaine Community Schools, two, four-year scholarships. To help fund the completion of the Pappajohn Business Administration Building, he donated funds to build a 175-seat auditorium, a student lounge and Pat’s Diner, named for his wife. For his numerous contributions, Tippie received The University of Iowa’s Distinguished Service Alumni Award and Outstanding Accounting Alumni Award. In 1996 he was a recipient of the prestigious Horatio Alger Award.

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FUND OVERVIEW

The Henry Fund, so named for two of its benefactors, was established in the fall of 1993 to provide University of Iowa MBA students with a forum to blend academic rigor with real-world portfolio management experience. The University of Iowa Foundation, Henry Royer, CEO of River City Bank in Sacramento, California, and Henry Tippie, Chairman of the Executive Committee of Rollins Truck Leasing made the initial investment of $50,000 to establish the fund.

The Henry Fund is an equity portfolio and is listed as an outside investment by The University of Iowa Foundation. The fund is required to meet the same basic performance guidelines as equity accounts in the Long Term Investment Pool of The University of Iowa Foundation. In keeping with the requirements of the Foundation, managers of the Henry Fund seek to find the highest level of return while assuming risks similar to those of the S&P 500 index. Henry Fund management, therefore, recommends a targeted portfolio of stocks from a broad set of industries, investing in well-managed, profitable businesses without unnecessarily exposing investors to economic or industry risks.

Managers of the Henry Fund are students in the Applied Securities Management course at the University of Iowa School of Management. The two-semester course is limited to ten students who are selected based on their academic background, past experience, demonstrated ability to think creatively, and strong desire to pursue a career in investment management. Managers are selected for each of ten economic sectors: basic materials; consumer cyclicals; consumer non-cyclicals; energy; financial services; healthcare; industrials; technology; transportation; and utilities. Each manager develops a fully integrated investment review, then prepares extensive industry analysis which identifies the important value drivers of the industry and the industry's future prospects. After the managers have a solid understanding of their industry, they research individual companies for potential investment. All recommendations are valued using three common methods: the P/E Multiple; Dividend Discount Model; and Discounted Cash Flow. The managers are expected to act as both sector analysts and portfolio managers, providing basic industry research, proposing investment ideas, and evaluating the ideas of the other managers. When specific investment ideas have been agreed to by the Henry Fund managers, the recommendations are passed on to the Investment Advisory Committee for final approval. In addition, these managers perform the administrative tasks of portfolio management, including marketing the fund to outside donors.

While specific investment strategies are at the discretion of each year's Henry Fund managers, the fund has always been managed as a value fund, with value defined on a discounted cash flow basis and not by a price/earnings multiple. True to the Graham-Dodd school of investment, the fund seeks to identify companies which sell at a significant discount to their intrinsic value. The managers of the Henry Fund follow a long-term investment strategy where potential firms are carefully researched and evaluated for their potential to deliver above average returns over a three- to five-year time horizon. While this strategy allows the management to minimize the number of transactions made (and their associated costs), it requires an especially thorough analysis. Through the combination of this detailed company analysis and state-of-the-art portfolio modeling, the fund's management seeks to outperform passive management strategies.

THE YEAR IN REVIEW - A FOCUS ON VALUE

As this year's management team assumed control of the Henry Fund in August 1995, we were immediately faced with the task of developing an investment strategy that could build on the successes of the past year. The previous Henry Fund managers had presided over the first full year of the fund and had achieved enviable results that closely matched the S&P 500, a benchmark that often eludes the professionals. The fund's 16.9% total return in the 1994 reporting year was just 50 basis points below the S&P 500's return. After the end of the reporting year on April 30, 1995, the fund had added seven new companies and deleted two others as well as adding to several current positions **(Table 1)**. The market value of the active portion of the portfolio increased from $51,826 to $88,643 with the changes. With the execution of these trades, the previous fund managers had constructed a portfolio they believed could be held for several years.

Table 1. Initial Portfolio Changes

Portfolio April 30, 1995			**Portfolio May 11, 1995**		
Company	**Shares**	**Weight**	**Company**	**Shares**	**Weight**
Ameritech Corp.	84	7.98	Ameritech Corp. [1]	140	7.09
Amoco Corp.	48	6.68	Amoco Corp.	48	3.57
Coca Cola Co.	71	8.76	Coca Cola Co.	71	4.88
Cummins Engine Inc.	26	2.47	Cummins Engine Inc.	26	1.38
Intel Corp.	39	8.47	Intel Corp.	39	4.81
LTV Corp.	156	4.76	LTV Corp.	156	2.46
Mobil Corp.	33	6.64	Mobil Corp.	33	3.63
Oracle Systems Corp.	100	6.47	Oracle Systems Corp. [1]	160	5.80
PepsiCo Inc.	77	6.80	PepsiCo Inc. [1]	150	7.72
Sherwin Williams Co.	42	3.18	Sherwin Williams Co.	42	1.75
Sonoco Products Co.	85	4.49	Sonoco Products Co. [1]	150	4.17
Travelers Group Inc.	76	6.67	Travelers Group Inc. [1]	140	6.79
United Healthcare Corp.	69	5.31	United Healthcare Corp.	69	3.04
USF&G Corp.	222	6.95	USF&G Corp.	222	4.13
Wal-Mart Stores Inc.	125	6.30	Wal-Mart Stores Inc.	125	3.44
Deletions			**Additions**		
Time Warner Inc.	58	4.49	AT&T	125	7.28
Xtra Corp.	35	3.58	Caterpillar Inc.	60	3.99
			Dollar General Corp.	110	3.29
			Enron Corp.	165	6.38
			Fifth Third Bancorp	55	3.16
			J.B. Hunt Transport	100	2.03
			Philip Morris	75	6.05
			St. Jude Medical Inc.	65	3.17

[1] Holdings increased.

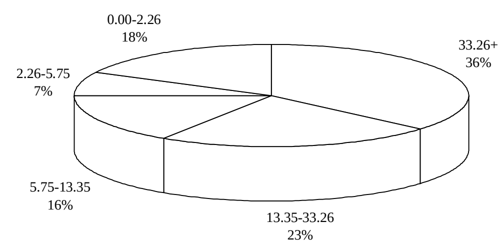
Despite our faith in the stock-picking ability of the previous management, we felt compelled to somehow make an impact on the fund during our tenure. We were initially tempted to place our stamp on the fund by making substantial changes to the portfolio. The previous fund managers had the luxury of receiving $50,000 in additional funds from The University of Iowa Foundation, as well as $3000 in gifts. Without additional cash inflows, our impulse was to make our presence known by selling several of the companies picked by previous managers and buying "our" companies. This, however, would not have been in keeping with our belief in a long-term perspective and our distaste for transaction costs. We decided that we could make our imprint by increasing the portion of the portfolio under active management while reducing the fund's cash position and passively managed holdings in the Vanguard Index Trust.

We are fortunate to have shared a common vision for investment success. We continued the fund's reliance on the Graham-Dodd school of value investing and depended heavily on discounted free cash flow analysis to provide an intrinsic value that could be compared to the firm's market value. We also maintained a long-term outlook, adopting a buy and hold strategy. We followed a bottom-up investment philosophy, seeking to find great companies without making any sector or economic bets. We looked for companies with a consistent record of earnings and cash flow increases and good returns on equity. We sought companies with management that focused on increasing shareholder value. We wanted to own companies that were leaders in their industries. In short, we focused on value.

Our value focus did not prevent us from adopting a clear bias toward growth. We felt more comfortable owning companies with ample opportunity for growth than those without. It seems intuitive to us that great companies with great management should have avenues to grow, if not through revenue increases, than by means of cost-cutting. We have made a fairly large bet on high growth consumer non-cyclicals, where Coca-Cola, PepsiCo, and Philip Morris have all impressed us with their international expansion and amazing brand equity.

The fund has an obvious large market capitalization tilt to it **(Figure 1)**. The average capitalization of the Henry Fund is $27.09 billion versus the $9.87 billion average in the S&P 500. The companies in the fund comprise over 12% of the S&P 500's market capitalization. This is not necessarily indicative of an investment strategy but only reflects where we have found values. We hope that future managers do not feel limited to blue chip companies. Small-cap stocks have done well in the first part of 1996 and we believe that good values still exist in this group.

Figure 1 Henry Fund Market Cap Breakdown (Bil)



Source: Vestek Systems

We have attempted to avoid businesses in industries with a reputation for bad economics. This has led us to the sale of J.B. Hunt and Wal-Mart during the year, as well as the planned sale of LTV and USF&G. This reflects our pessimistic outlook for the trucking, retailing, steel and property casualty industries as much as our lack of faith in the management of the companies. Here, we are bearing in mind a lesson related by Warren Buffet in his 1989 Letter to Shareholders: Good jockeys will do well on good horses, but not on broken-down nags.

INTERNATIONAL DIVERSIFICATION

This year we began to open our eyes to the tremendous values available in international markets. Our instincts tell us that if values are hard to find in the U.S., we must scan the globe to find the unturned rock that may reveal the dramatically undervalued assets. Modern Portfolio Theory states that investors should participate in all available risky assets in the market. While we are not thrilled with the concept of investing in *all* risky assets, by investing in a greater portion of the available assets, we more fully realize the benefits of portfolio diversification.

Statistical evidence shows that equity markets around the world do not move entirely in line with each other. When investing in markets with correlations of less than one, one market's downturn can be offset by strength in another market. After adjusting for foreign exchange risk, a 15% exposure to foreign equities almost never increases volatility.[1] By limiting volatility, the investor can expect a greater rate of return without assuming additional risk. It is clear that the diversification process can go much further in international portfolios than it does in even the largest domestic portfolios.

The U.S. accounts for less than half of the world's market capitalization. While international equities do not constitute the entire spectrum of assets, international investing allows the investor to capture a greater proportion of

[1] Mark Tapley, "The Case for Diversifying Internationally."

the global "market portfolio". It is also more likely to find undervalued companies in international markets which may be more inefficient than the U.S. market.

The Henry Fund managers have not been blind to the tremendous growth of international markets, however, as the portfolio contains several multi-national companies which offer many of the benefits of international diversification through their operations based outside of the U.S. Companies like Caterpillar, Coca-Cola, and Mobil offer some protection against economic fluctuations in domestic markets as large portions of revenues are generated internationally. After careful country and firm specific analysis, it was decided, however, that we could reap additional rewards from direct international investment.

In March of 1996, the Henry Fund became a true, international portfolio when we purchased 450 American Depository Receipts (ADRs) of Perez Companc, a leading Argentine energy conglomerate. Investing in Perez Companc effectively enhanced portfolio expected return without significantly altering the risk characteristics of the Fund. We also plan to add Fila Holding SPA, another sponsored ADR, to the portfolio in early May. We hope that future Henry Fund managers will continue to actively search for international investment opportunities in order to improve returns and diversify risk.

FUND PERFORMANCE

It is prudent to point out that we would rather not be judged on the short-term performance of the fund as we make investment decisions with a long-term perspective. Short-term performance is generally not statistically significant and can often be misleading. However, since it is to our benefit to look at the one-year return, we will make an exception. The return of the active portion of the portfolio outperformed the S&P 500 by 420 basis points with a return of 34.54% **(Figure 2)**. The return has been largely a function of good bottom-up stock picking rather than any sector, industry or economic bets. This year's success coupled with last year's S&P equivalent return contribute to solid performance since the fund's inception **(Figure 3)**.

Figure 2 The Henry Fund Total Return - 1995 Reporting

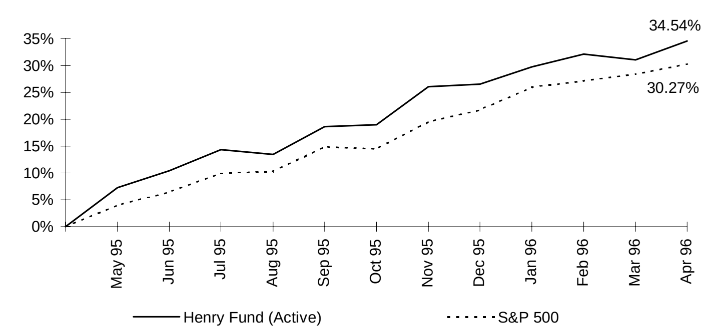
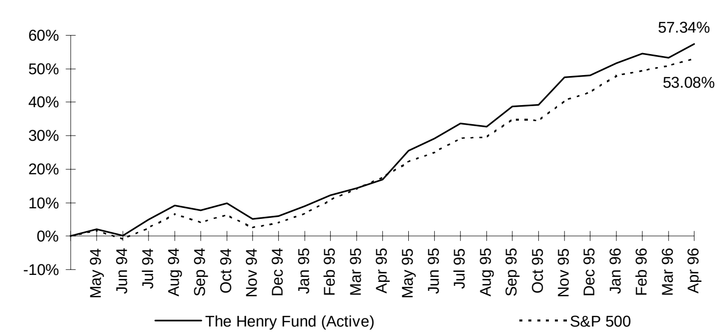


Figure 3 The Henry Fund Total Return Since Inception



We have been fortunate to have good exposure in both consumer non-cyclicals, (Coca-Cola, PepsiCo, and Philip Morris), and technology (Oracle and Intel), two of the hottest areas in 1995.

Our position in Travelers Group has also been fortuitous, with lower interest rates driving impressive returns in the entire financial services sector. Unfortunately, we were not so lucky with our other financial services holding, USF&G, which operates in the property and casualty business, an industry with which we are not enamored. We intend to sell our holdings in USF&G and keep Travelers, which has recently ventured into the property and casualty business with its purchase of Aetna.

The cyclicals were weak in 1995 and our cyclical holdings were even weaker. Although Caterpillar and Cummins had a rocky 1995 in the equity markets, 1996 has been kinder and the future looks bright. We do not have the same optimism for LTV and plan to sell our shares in the company. We were the beneficiary of peculiar market timing with our sale of J.B. Hunt in early March. The stock price ran up to $22 per share on an unusual volume of short coverage and we were able to get $21 3/4 per share for a stock we felt had an intrinsic value of $16 to $20 per share.

We had a disappointing year in retailing, another industry we view with caution. We sold Wal-Mart in January for $19 7/8 after the company announced disappointing fourth quarter earnings that seemed to indicate slowing growth. The company has since bounced back a little and it appears our trade was a bit ill-timed. We are, none the less, skeptical of the company's ability to operate internationally, a key to its long-term growth plan.

The fund's performance has been achieved while still maintaining risk that is close to that of the S&P 500. The portfolio's beta is 0.99 and the coefficient of determination (R^2) is 0.90, meaning that 90% of the variation in the portfolio can be explained by movements of the S&P 500. The portfolio's diversifiable risk is 4.63%, as measured by the standard deviation of annual returns. This is risk that can be reduced by owning more companies in the benchmark portfolio, a practice that ensures benchmark returns. We are comfortable with this level of risk and comfortable also with the total risk of 14.84% vs. the S&P 500's 13.98%, again measured by the standard deviation of annual returns.

OUTLOOK

Looking forward, we hope to leave the portfolio with twenty-three high-quality companies poised for growth. We have several changes planned for the portfolio which we expect will be executed in early May **(Table 2)**. We will still be heavily weighted in consumer non-cyclicals, but we like our companies in this sector and cannot justify trimming our holdings. We believe that Philip Morris, in particular, can have a tremendous year if the concerns about tobacco litigation are eased. We are also over-weighted in utilities, but this will change as AT&T spins off Lucent and NCR later in the year. We are planning to increase our holdings in United Healthcare to almost 5% of the portfolio, but we will still be slightly under-weighted in the healthcare sector. We are shifting funds out of LTV and into Sherwin Williams in the basic materials sector.

In general, we found it difficult to find good values this year, as we feel the enormous cash inflows to mutual funds may have boosted the U.S. market to unjustifiably high levels. We were comfortable with the market's rise in 1995, as we felt this was a reflection of falling interest rates in the bond market. We were less comfortable when the bond and stock markets diverged, as has been the case in early 1996. This has led us to look at a lot of pitches without taking a swing.

We found only two U.S. companies that we felt compelled to buy. We plan to purchase Conrail Inc. to take advantage of a recent pullback in stock price caused by weak first quarter earnings. We think this represents a buying opportunity for this quality cyclical with its unique geographic franchise and strong free cash flows. We are also planning to purchase State Street Boston Corp., which is one of the few financial companies with a growth story that does not have a direct exposure to consumer risk. The company generates most of its revenue from fee-based businesses, which tend to be less sensitive to interest rate changes.

We were more bullish in international markets, where we have added Perez Companc and plan to add Fila Holding. We see this as a continuing effort to diversify internationally. We perceive Fila as a promising athletic shoe and apparel manufacturer, well-positioned for long-term growth. We like the opportunities we are finding abroad and hope that the next Henry Fund managers will continue to search for ideas in international markets.

The planned changes will slightly alter the risk characteristics of the portfolio, with the diversifiable risk rising from 4.63% to 5.65%, measured by the standard deviation of annual returns. The beta will rise to 1.02, still very close to the S&P 500, and the R^2 will falls from 0.90 to 0.86. We do not feel that we will significantly stray from our goal of matching the risk of the S&P 500.

Table 2. Planned Portfolio Changes

Portfolio April 30, 1996			Planned Portfolio		
Company	**Shares**	**Weight**	**Company**	**Shares**	**Weight**

Ameritech Corp.	140	7.28	Ameritech Corp.	140	6.83
Amoco Corp.	48	3.12	Amoco Corp.	48	2.93
AT&T Corp.	125	6.82	AT&T Corp.	125	6.40
Caterpillar Inc.	60	3.43	Caterpillar Inc.	60	3.22
Coca Cola Co.	71	5.15	Coca Cola Co.	71	4.81
Cummins Engine Inc.	26	1.08	Cummins Engine Inc.	26	1.00
Dollar General Corp.	138	3.22	Dollar General Corp.	138	3.05
Enron Corp.	165	5.91	Enron Corp.	165	5.64
Fifth Third Bancorp	82	4.03	Fifth Third Bancorp	82	3.80
Intel Corp.	78	4.70	Intel Corp.	78	4.43
Mobil Corp.	33	3.38	Mobil Corp.	33	3.23
Oracle Systems Corp.	240	7.21	Oracle Systems Corp.	240	6.86
PepsiCo Inc.	150	8.48	PepsiCo Inc.	150	7.68
Perez Companc SA	450	5.00	Perez Companc SA	450	4.71
Philip Morris Co.	75	6.02	Philip Morris	75	5.73
Sherwin Williams Co.	42	1.75	Sherwin Williams Co.[1]	92	3.60
Sonoco Products Co.	157	3.97	Sonoco Products Co.	157	3.72
St. Jude Medical Inc.	97	3.15	St. Jude Medical Inc.	97	2.99
Travelers Group Inc.	140	7.67	Travelers Group Inc.	140	7.20
United Healthcare Corp.	69	3.59	United Healthcare Corp.[1]	100	4.85
Projected Deletions			**Projected Additions**		
LTV Corp.	156	1.91	Conrail Inc.	30	1.75
USF&G Corp.	222	3.14	Fila Holding SPA	50	2.85
			State Street Boston Corp.	70	2.85

[1] Holdings increased.

Our focus on value manifested itself not only in the execution of portfolio strategy but also in the administration of the fund. We have tried to move toward full AIMR compliance with all of our reports and a new record keeping system. We have moved to a common format for industry and company reports, which we hope will make internal and external communication much smoother. We have developed a World Wide Web home page which can be found at http://www.biz.uiowa.edu/henry. Our proudest achievement, though, is having established the Henry Scholar award program which we believe will help attract top-notch students to the University of Iowa School of Management.

THE HENRY SCHOLAR

This year we decided to offer a scholarship to The University of Iowa School of Management with the returns from the Henry Fund. Attracting high-quality fund managers for the future is one more way to enhance both the quality of the experience and the success of the portfolio. We believe this will enhance the probability of attracting at least one top-notch student each year who would otherwise select another MBA program. In addition, the scholarship program may help attract additional donations to the Henry Fund which will help us reach our goal of $1,000,000 in assets under management.

After an extensive feasibility study, we decided to offer one Henry Scholar award per year to an incoming MBA candidate expressing a strong interest in finance and investments. The candidates will be chosen on the basis of both achievement and potential by the MBA admissions department.

Each Henry Scholar will receive an award of $2000 per academic year, renewable for the second year given satisfactory academic progress. The full amount of $4000 will be transferred to a cash account managed by the university when the student registers for classes. We hope to award one scholarship per year, but this is contingent on both the level of funds invested and the fund performance.

We appreciate the support of the Henry Fund donors, especially Henry Royer and Henry Tippie, whose investments allow the development of this and similar programs. We wish future Henry Scholars the best of luck in their academic career and beyond.

BASIC MATERIALS *7.63% of Active Portfolio*

The basic materials sector consists of a wide variety of business lines ranging from commodity to end-market products. Several of the sub-sectors have experienced strong performance over the past few quarters, while most have matched market performance during this period. Recently, firms have concentrated on increasing capacity through efficiency and cost reductions, rather than adding new equipment or expanding operations. The industries in this sector include: Aluminum, Chemicals, Packaging & Containers, Gold, Metals & Mining, Paper & Forest Products, Cement & Aggregates, and Steel.

As the economy continues its sluggish growth, expectations of the future profitability of the companies in the basic materials sector continue to decline. For this reason, it has become increasingly difficult to discover investments in this sector that will outperform the market in the short-term. Therefore, it is important to identify companies with a focus on efficiency and cost cutting, international growth and expansion, and strong financial fundamentals.

PORTFOLIO HOLDINGS

Sonoco Products Company *3.97% of Active Portfolio*

Sonoco's strong management and core competencies in the packaging industry make this company an attractive value play for the Henry Fund. Sonoco has made several acquisitions during the past two years that will position the company for future international growth. In addition, Sonoco's strong ties with its suppliers and buyers establishes a strong base for future growth opportunities. We recommend the Henry Fund hold its current position in Sonoco Products Co. with a 12-month price target of $35.

Sonoco began operations in 1899 as the Southern Novelty Company. The company now has operations at more than 270 locations around the world and employs over 18,000 people. Sonoco serves many of the world's leading companies with its variety of industrial and consumer packaging products. Foreign business accounted for 21% of 1995 sales and 7% of operating profits. The international segment includes all of Sonoco's non-U.S. operations, the largest of which are located in the United Kingdom, Canada, France, Mexico, Australia and Germany. Sonoco has shown compound annual growth rates of 13.4% in sales and 12.4% in profits since it was founded in 1899.

Sonoco Products Company (SON-NYSE) 157 Shares			
Price (4/30/96):	$28 3/8	**1995 EPS:**	$1.74
52 Week High:	$28 7/8	**1996 Est. EPS:**	$1.81
52 Week Low:	$23	**Price/1995E:**	16.38
52 Week Return:	20.99%	**Price/1996E (Est.):**	15.75
Market Value (Mil):	$2,596.8M	**Beta:**	0.68
Yield:	2.32%	**Payout Ratio:**	33.90%

Source: Bloomberg and Henry Fund estimates

The Sherwin-Williams Company *1.75% of Active Portfolio*

Sherwin-Williams' strong position in the paint and coatings industry make this company an attractive value play for the Henry Fund. In addition, Sherwin-Williams' recent acquisitions in both domestic and foreign markets establishes a strong base for future growth opportunities. As the U.S. economy slowly expands, Sherwin-Williams will continue to grow earnings. The company made several large acquisitions in 1995 which will be realized in Sherwin-Williams sales and earnings in 1996. Merrill Lynch estimates the Pratt & Lambert acquisition will add nearly $500 million in sales to Sherwin-Williams.[2] However, 1Q and 2Q EPS may be "modestly diluted," while 3Q and 4Q EPS are

[2] Merrill Lynch Daily Research Analysis (1/26/96): Robert Curran.

expected to be moderately higher. The net effect for 1996 EPS is expected to be neutral. According to analysts at Smith Barney, U.S. housing starts and existing home sales are expected to rise in 1996 and 1997.[3] This translates into additional sales for homebuilders and building products companies. Sherwin-Williams should recognize the benefits of additional housing starts and stronger GDP growth predicted in the near term. We recommend a buy on the stock with a target price of $55.00 per share.

Sherwin-Williams Co. manufactures, distributes, and sells coatings and related products. The company's products are marketed under names such as "Sherwin-Williams," "Dutch Boy," and "Kemtone." Sherwin-Williams ranks as one of the top two manufacturers of coatings and resins in the U.S. It emphasizes architectural coatings but also produces industrial finishes and painting accessories. The company consists of three major operating segments: Paint Stores Segment, Coatings Segment, and Others Segment.

The Sherwin-Williams Company (SHW-NYSE) 42 Shares			
Price (4/30/96):	$46 3/4	**1995 EPS:**	$2.34
52 Week High:	$46 7/8	**1996 Est. EPS:**	$2.61
52 Week Low:	$34 1/8	**Price/1995E:**	19.98
52 Week Return:	28.52%	**Price/1996E (Est.):**	17.91
Market Value (Mil):	$3,995.0M	**Beta:**	0.91
Yield:	1.50%	**Payout Ratio:**	27.19%

Source: Bloomberg and Henry Fund estimates

CHANGES TO THE PORTFOLIO

LTV Corp. *(Planned Deletion)* *1.91% of Active Portfolio*

We plan to sell our shares in LTV Corp. in early May. Previous Henry Fund earnings estimates and price targets had proved to be overly optimistic in light of the company's long-term obligation related to under-funded pension and post-employment benefits. Currently, these obligations are equal to nearly 50% of the company's total assets. The company will have very little financial flexibility until these obligations are reduced to a level consistent with other companies in the steel industry. Thus, we see very little upside potential in the near-term and plan to sell our stake in the company and use the proceeds to fund the purchase of an additional 50 shares of Sherwin-Williams.

LTV is a fully integrated steel producer that ranks as the third largest in the United States, and is the nation's second largest producer of flat rolled steel. The company currently supplies about 20% of the flat rolled steel purchased by the U.S. automotive, appliance, and electrical equipment industries, making it the leading supplier of quality-critical steel to these demanding markets.

LTV Corp. (LTV-NYSE) 156 Shares			
Price (4/30/96):	$13 3/4	**1995 EPS:**	$9.53
52 Week High:	$17 1/4	**1996 Est. EPS:**	$14.97
52 Week Low:	$12 1/4	**Price/1995E:**	1.43
52 Week Return:	2.80%	**Price/1996E (Est.):**	0.91
Market Value (Mil):	$1,432.6M	**Beta:**	0.70
Yield:	0.0%	**Payout Ratio:**	0.0%

Source: Bloomberg and Henry Fund estimates

[3]Smith Barney: The House Call. March 27, 1996.

CONSUMER CYCLICALS *3.22% of Active Portfolio*

The consumer cyclical sector consists of Autos & Trucks, Auto Parts, Retail-Department Stores, Retail-Specialty Supermarkets, Retail-Drug Stores, Retail-Food Chains, Retail-General Merchandise, Retail-Specialty Apparel, Shoe Industry, Textile Industry, Photography Imaging, Furniture, Appliances, Homebuilding, Manufactured Housing, Hardware & Tools, Recreation & Leisure Time, Entertainment, Specialty Printing, Hotels & Gaming, Restaurants, Broadcast Media, Publishing, and Toy Industry.

Although the subsectors exhibit different cyclicality variations, they are all dependent on the fundamental economic variables. That is why, a thorough economic analysis is necessary when analyzing the investment prospects of the companies in the consumer cyclical sector.

For the economy as a whole, the second half of 1995 was a gradual rebound from the first half's soft landing. 1996 should see sustained growth of 2% to 3% in real terms. How strong 1996 turns out to be depends on the fortunes of U.S. trading partners and consumer confidence in the coming months. The challenges facing the consumer cyclical industry will continue in the near future.

PORTFOLIO HOLDINGS

Dollar General Corp. *3.22% of Active Portfolio*

Dollar General's niche strategy -- serving the lower income segment of the population -- has solid prospects for the future, because of the demographic changes in the American society. Dollar General's recent focus on inner city and suburban markets has very important strategic implications as those offer continued opportunities for growth in the future. It finances its rapid expansion with cash flows from operations, which continue to be very strong. Management is optimistic about a strong 1996, forecasting an increase in revenues of 20%. The Henry Fund recommends holding Dollar General Corp. with a price target of $35.00.

Founded in 1939, Dollar General Corporation operates more than 2,390 neighborhood stores in 24 states with distribution centers in Kentucky, Georgia and Oklahoma. Approximately 78% of the Dollar General stores are located in small towns in the midwestern and southeastern US. The company seeks profitable growth by providing value in hardlines and softlines merchandise to low-, middle- and fixed-income families. It also satisfies the compulsive shopper segment and the segment continuously looking for bargains.

Dollar General is committed to offering a focused assortment of quality, basic merchandise. The company strives at all times to be "in stock" in basic merchandise in its core categories. Dollar General buys quality goods and supplements its inventory with manufacturers' overruns, close-outs and irregulars (during 1995, 5% of softlines and 8% of hardlines), which have higher margins. Approximately 20% of softline merchandise and 40% of hardlines merchandise consisted of brand-name merchandise in 1995. The company believes that its risk of inventory obsolescence is low.

Dollar General maintains strict overhead controls and seeks to locate stores in neighborhoods where store rental and operating costs are low. Dollar General's business is seasonal in nature. Due to the holiday season, the fourth quarter usually reflects higher net sales and net income than other quarters, while the first quarter is usually the least profitable.

Dollar General Corp. (DG-NYSE) 138 Shares

Price (4/30/96):	$26 1/4	**1995 EPS:**	$1.25
52 Week High:	$27 5/8	**1996 Est. EPS:**	$1.42
52 Week Low:	$15 3/8	**Price/1995E:**	23.78
52 Week Return:	34.57%	**Price/1996E (Est.):**	22.12
Market Value (Mil):	$1,880.5M	**Beta:**	1.42
Yield:	0.61%	**Payout Ratio:**	14.45%

Source: Bloomberg and Henry Fund estimates

CHANGES TO THE PORTFOLIO

Wal-Mart *(Deletion)*

Wal-Mart had been on watch since early November. When the company reported disappointing first quarter earnings, we decided to sell the stock. In our opinion, Wal-Mart's long-term operating margins should decline, which is attributable to the accelerated growth of higher pre-opening costs Supercenters and lower-margin international operations. A slower expansion in a saturated domestic market is increasingly supplemented by riskier international markets. The stock has underperformed the market for the past four years.

Wal-Mart (WMT-NYSE)			
Selling Price (1/29/96):	$19 7/8	**1995 EPS:**	$1.18
52 Week High:	$27 5/8	**1996 Est. EPS:**	$1.21
52 Week Low:	$19 3/32	**Price/1995E:**	19.79
Fiscal Return to Sale Date:	-3.24%	**Price/1996E (Est.):**	17.09
Market Value (Mil):	$55,642.7M	**Beta:**	0.90
Yield:	0.88%	**Payout Ratio:**	14.58%

Source: Bloomberg and Henry Fund estimates.

Fila Holding *(Planned Addition)*

We plan to add 50 ADRs of Fila Holding, a multinational athletic shoe and sportswear manufacturer, to the portfolio in May. Fila operates in the branded footwear and apparel segment -- the fastest growing product categories within the US sporting goods market. It has emerged as the number three athletic footwear manufacturer in the US. In the long-term the stakes are big since whichever brand establishes itself behind Nike and a beleaguered Reebok, might someday climb to number two of the $8 billion US athletic market.

Fila has doubled its US athletic footwear sales over the last three years, which now account for 44% of the company's worldwide sales. As the third largest athletic brand in the US, the company has substantial room to grow its relatively small 5.8% market share. Representing 38% of 1995's sales, Fila's apparel sales base is also expected to rapidly increase. The company is in the relatively early stages of leveraging its growing brand equity and expanding its product lines in both the active/casual wear and sportswear segments. The company has a highly experienced management team that continues to add to its product development/design capabilities while also moving to enhance customer service levels. The price target for Fila is $80.

Fila Holding SPA (FLH-NYSE-ADR)			
Price (4/30/96):	$64 1/4	**1995 EPS:**	$2.42
52 Week High:	$70	**1996 Est. EPS:**	$3.00
52 Week Low:	$22 3/4	**Price/1995E:**	27.38
Return:	0.0%	**Price/1996E (Est.):**	21.42
Market Value (Mil):	$1,656.3M	**Beta:**	0.72
Yield:	0.33%	**Payout Ratio:**	11.02%

Source: Bloomberg and Henry Fund estimates.

CONSUMER NON-CYCLICALS *19.65% of Active Portfolio*

Consumer non-cyclical stocks challenged their traditional defensive characterization in the strong stock market of 1995, gaining impressive returns. The most attractive companies in the sector are those which focus on developing a strong presence in international markets. The domestic consumer goods market is mature and relies mainly on population growth for increases in sales volume. Companies which diversify by developing strong global distribution and marketing programs will have greater opportunity to grow sales. Companies must also focus on differentiating their line of products and increasing brand name recognition.

The Consumer Non-Cyclical sector consists of Beverages-Alcoholic, Beverages-Soft Drinks, Cosmetics, Food Processors, Food Wholesalers, Household Products, Housewares, and Tobacco. Growth and positive stock performance is expected for Beverages-Soft Drinks and Cosmetics as many businesses in these sectors are focusing efforts on international expansion and efficiency. Successful companies are attacking new markets with rapidly growing populations and great profit potential.

PORTFOLIO HOLDINGS

The Coca-Cola Company *5.15% of Active Portfolio*

The Coca-Cola Company stock has experienced very strong gains through March 1996, with a recent pull-back due to a weaker equity market and concern over multi-national firms in light of a strengthening dollar. The Coca-Cola Company is fundamentally very sound, with domestic sales volume growth expected to be 6% and international volume growth expected to be 8-10% for the next five years. We believe Coca-Cola has the necessary characteristics to be considered a core holding: above-average growth prospects, dominant leadership position in a growing industry, strong balance sheet and cash flow, significant international diversification, and strong management. We recommend holding Coca-Cola shares and have a 12-month price target of $87.

The Coca-Cola Company is the world's largest soft-drink company, marketing the world's most recognizable brand in over 195 countries. The company manufactures, markets, and distributes soft drinks, soft-drink syrups, and concentrates. Coca-Cola is building its future by focusing on the following four initiatives: geographic expansion, infrastructure fortification, financial reformation, and consumer marketing. Marketing to both distributors and consumers is the latest initiative which will improve Coca-Cola's position as it competes on the basis of product quality and brand loyalty.

The Coca-Cola Company (KO-NYSE) 71 Shares			
Price (4/30/96):	$81 1/2	**1995 EPS:**	$2.37
52 Week High:	$85 3/8	**1996 Est. EPS:**	$2.78
52 Week Low:	$56 7/8	**Price/1995E:**	33.50
52 Week Return:	41.13%	**Price/1996E (Est.):**	29.51
Market Value (Mil):	$102,375.4M	**Beta:**	0.91
Yield:	0.61%	**Payout Ratio:**	37.17%

Source: Bloomberg and Henry Fund estimates

PepsiCo, Inc. *8.48% of Active Portfolio*

PepsiCo stock traded at record highs in March 1996, and like The Coca-Cola Company, has also experienced a recent set-back due to concern over the effect of the strengthening dollar on multi-national companies. PepsiCo, Inc. is experiencing profitable growth and is generating free cash flow in each of its three operating segments. PepsiCo projects 1996 domestic and international beverage operating profits to grow from margin improvements and from new global marketing campaigns. PepsiCo does not pose a threat to Coca-Cola globally, but they are achieving market share parity in the domestic and international markets. PepsiCo also indicated they expect to see healthy gains in domestic and international snack foods. The company plans to achieve this growth through continued success of Frito-Lay and by developing existing global brands, developing new brands, and leveraging economies of scale. PepsiCo believes world-wide restaurants will also show growth as it is expected that lower performing stores will continue to be sold to franchisees, while better performing stores are expected to have improved store-level margins. Strong fundamentals and management result in a company that is in line for future success. We recommend holding PepsiCo stock with a twelve-month price target of $72.

PepsiCo Inc. is world's second-largest producer of soft drinks, the world's largest snack foods company, and has the world's largest restaurant system. Pepsi-Cola beverage brands are available in more than 195 countries and account for about one-fifth of the international soft-drink industry. The snack food business manufactures and sells the Frito-Lay brand of snack foods throughout North America and six major international markets. The restaurant system is composed of Pizza Hut, Inc., Taco Bell, Inc., and KFC Corp. operating in North America and several international markets.

PepsiCo, Inc. (PEP-NYSE) 150 Shares			
Price (4/30/96):	$63 1/2	**1995 EPS:**	$2.00
52 Week High:	$66 7/8	**1996 Est. EPS:**	$2.85
52 Week Low:	$40 5/8	**Price/1995E:**	30.62
52 Week Return:	51.19%	**Price/1996E (Est.):**	22.46
Market Value (Mil):	$50,432M	**Beta:**	0.98
Yield:	1.26%	**Payout Ratio:**	37.30%

Source: Bloomberg and Henry Fund estimates

Philip Morris Companies, Inc. — 6.02*% of Active Portfolio*

Philip Morris stock trades in the market at a discount to its intrinsic value as investors require a margin of safety to account for tobacco litigation risk. The margin required increased recently, as tobacco litigation news reached its historical high. Philip Morris is a very strong company experiencing positive momentum in sales and improving profit margins. Free cash flow allows the company tremendous financial flexibility in building its global infrastructure. The company has tapped many markets in which there is tremendous room for growth. Litigation threats are significant and must be monitored; however, if negative news does occur, the lengthy appeals process will make it unlikely that the company will receive a negative ruling in the next two years. We recommend holding Philip Morris stock based on its strong operating performance with a twelve-month price target of $110. We caution that this company must be monitored on an ongoing basis for fundamental changes based on negative litigation news.

Philip Morris Companies, Inc. is a holding company consisting of Philip Morris, Inc. and Philip Morris International, Inc., the largest U.S. and international tobacco companies; Kraft Foods, Inc., the largest retail packaged food company in North America and the second-largest food company in the world; and the Miller Brewing Company, the second-largest brewer in the U.S. and third-largest brewer worldwide. The company also owns Philip Morris Capital Corporation, a financial services and real estate division.

Philip Morris Companies, Inc. (MO-NYSE) 75 Shares			
Price (4/30/96):	$90 1/8	**1995 EPS:**	$6.48
52 Week High:	$104 5/8	**1996 Est. EPS:**	$7.61
52 Week Low:	$67 1/2	**Price/1995E:**	13.33
52 Week Return:	25.39%	**Price/1996E (Est.):**	11.91
Market Value (Mil):	$75,324.8M	**Beta:**	0.96
Yield:	4.44%	**Payout Ratio:**	53.65%

Source: Bloomberg and Henry Fund estimates

ENERGY — *12.41% of Active Portfolio*

The energy sector is divided into companies operating with four main products or resources: oil, natural gas, coal and alternate energy. The behemoths of the group, known as the "integrateds" or "majors," operate in most aspects of the production of energy from extracting to producing to marketing. They do this either in the U.S., as a "domestic," or in the U.S. and worldwide, as an "international."

While Iraq's food-for-oil exports and Russian politics have kept oil prices robust at over $20 per barrel, in general there appears to be adequate supply to meet the increasing demand. Market conditions such as the threat of excess supply and the strong winter demand have largely been offsetting despite resource inventories that are at historically low levels in the U.S. We believe the recent prices are anomalies and that prices will return to below $20 in the near future. According to the U.S. Energy Information Administration, the prices of oil and gas (energy), are expected to grow world-wide at a rate of 1.6% annually to the year 2010. From 1970 to 1990, energy prices grew at 2.6%.

The natural gas industry is similar to the oil industry in its drilling and exploration activities. However, while oil is refined into different products including residual fuels and chemicals, natural gas is processed and transported to local distribution companies (LDCs) who sell to the end-use consumers. The U.S. gas market has also experienced strong increases in spot prices due to a harder than normal winter. However, the plentiful resources within North America should keep gas prices around $2 per thousand cubic feet over the next year.

PORTFOLIO HOLDINGS

Mobil Corporation *3.38% of Active Portfolio*

The goal Mobil states in its annual report is to be "a lower cost competitor". Mobil's strategy for reducing costs $1 billion (pretax) includes downsizing and strategic partnerships. Mobil has "fat" to cut and Mr. Lucio Noto, CEO and President, is leading the company in this direction. For example, Mobil's net margin before extraordinary items was 3.7% in 1995, up from 2.98% in 1994. These amounts are significantly lower than those of Mobil's peer group (Amoco: 6.9%; Exxon 6.0%). Management is attacking this problem by reducing head count and by forming joint ventures to market products in Europe (retail automobile gas) and in the U.S. (natural gas). These cost reduction activities should lead to our predicted share price target of $145 per share, which is a 31% premium to the current price.

As a diversified energy company, Mobil holds approximately 50% of reserves in the form of natural gas and 50% in oil. With 23% of revenues and 50% of earnings generated in the Pacific Rim, Mobil provides solid exposure for the Henry Fund to these high-growth regions, including India and China. Demand for energy in these regions is expected to grow at 10-15% to the year 2010, well above the 2-3% growth predicted for the rest of the industrialized world. Only 15% of earnings are generated in the U.S.

Mobil Corporation (MOB-NYSE) 33 Shares			
Price (4/30/96):	$115	**1995 EPS:**	$6.13
52 Week High:	$120 1/8	**1996 Est. EPS:**	$7.41
52 Week Low:	$93 1/2	**Price/1995E:**	18.37
52 Week Return:	16.46%	**Price/1996E (Est.):**	15.20
Market Value (Mil):	$44,438M	**Beta:**	0.83
Yield:	3.55%	**Payout Ratio:**	61.81%

Source: Bloomberg and Henry Fund estimates

Amoco Corporation *3.12% of Active Portfolio*

For the better part of 1995 Amoco shares appreciated, primarily due to higher than expected earnings from the cyclical chemical sector. While Exxon and Mobil have had the highest returns to date in the international integrated group, Amoco is well positioned for future growth: Amoco has a strong balance sheet with 25% debt to equity in 1995, down from 30% in 1991. Return on equity has been consistently around 12% for the last five years and, in broad terms, share price appreciation has been similar. Also, they have recently joined with McDonald's to sell both food and gas at convenience-type stores. The price target for Amoco is $82 per share.

Amoco's management continues to do things smarter, faster, and cheaper. A joint venture in Trinidad and Tobago will enable Amoco to increase liquified natural gas (LNG) production 20% over 1994 output. In a joint venture with Lone Star Energy, they will soon begin to market LNG in the state of Texas, as a replacement for diesel fuel in medium to heavy duty transportation equipment. LNG has excellent engine fuel qualities, such as a high octane rating of 130, which allows for more power in smaller, lighter engines. According to Lone Star Energy, demand in 5 years is expected to be 1 billion gallons per year or about 3% of the projected diesel fuel demand. While additional investment will be needed to produce transportation quality fuel and to convert vehicles for LNG use, Amoco is positioning itself well in this new market while diversifying risk through the use of a joint venture.

Amoco Corporation (AN-NYSE) 48 Shares			
Price (4/30/96):	$73	**1995 EPS:**	$4.18
52 Week High:	$74 5/8	**1996 Est. EPS:**	$4.79
52 Week Low:	$62 1/2	**Price/1995E:**	17.34
52 Week Return:	7.55%	**Price/1996E (Est.):**	15.14
Market Value (Mil):	$35,989M	**Beta:**	0.65
Yield:	1.26%	**Payout Ratio:**	64.29%

Source: Bloomberg and Henry Fund estimates

Enron Corporation *5.91% of Active Portfolio*

Enron manages the world's largest portfolio of natural gas related risk management tools and is currently the largest supplier of natural gas to the U.S. electric utility industry. Enron operates in two key high-growth areas: unregulated gas and electricity markets and the international development of large scale power plants. The new, unregulated electricity markets are estimated to be worth $150 billion annually or two and a half times the size of the current natural gas market. In international power production, Asia alone is projected to need 600 gigawatts of new power, more than the current capacity in the U.S.

Earnings growth has averaged 17.9% for the last three years, with EPS of $2.07 in 1995. Enron has traded with a P/E multiple between 15.5 and 19 over the last year and a half. This P/E range has decreased from the early 1990s when Enron would trade at a multiple as high as 27 and as low as 14 in the same year (1992-1993). If Enron keeps this multiple, its share price should appreciate directly with earnings, increasing its share price from the current $37 to $43 for 1996. We believe, however, that the growth in the new electricity markets is not factored into its market price. Thus, share price appreciation should be greater than the discounted cash flow value.

The ROE for Enron has also averaged 15% over the last five years. The fact that ROE has grown over the last five years at a rate of 9% and leverage has fallen (1991 debt to equity was 60%; 1995 ratio was 42%) shows that the company is becoming more profitable as it continues to focus on its customers.

Enron Corporation (ENE-NYSE) 165 Shares			
Price (4/30/96):	$40 1/4	**1995 EPS:**	$2.15
52 Week High:	$41 1/4	**1996 Est. EPS:**	$2.30
52 Week Low:	$31 5/8	**Price/1995E:**	18.72
52 Week Return:	16.25%	**Price/1996E (Est.):**	17.50
Market Value (Mil):	$10,121M	**Beta:**	0.90
Yield:	2.11%	**Payout Ratio:**	40.58%

Source: Bloomberg and Henry Fund estimates

FINANCIAL SERVICES *14.84% of Active Portfolio*

The financial services sector is composed of several subsectors, covering banking, insurance, financial asset management, and diversified financial service lines. Included in the subgroups are money center banks, regional banks, savings and loans, property/casualty insurers, life insurers, reinsurers, multi-line insurers, real estate investment trusts, securities brokers, government sponsored enterprises, and miscellaneous diversified financial services. With the low interest rate environment of 1995, the financial services sector experienced returns that exceeded the broader S&P 500, continuing a trend that has seen the S&P Financial Index outperform the broader index by 66% over the last five years. But with the rise in interest rates in the first quarter, the financial sector has struggled to keep pace with the broader index thus far in 1996. This, combined with some signs of stronger growth in the economy and renewed inflation fears, has caused some investors to flee the financial services stocks, putting downward pressure on the group. The movement and direction of interest rates will be the largest determinant as to how the group will perform for the remainder of 1996.

Some subgroups have been affected more by the rise in interest rates than others. The savings and loan and insurance groups are down the most, while money center banks and securities brokers have posted 13.07% and 10.45% returns through April of 1996. The direction of interest rates over the next several quarters will determine whether financial stocks will rebound and move ahead or continue their retreat caused by the rise in interest rates late in the first quarter of the year. Selectivity is the key to the group as certain stocks are better positioned to weather fluctuations in interest rates and provide superior returns to the group over the next twelve months.

PORTFOLIO HOLDINGS

Fifth Third Bancorp *5.15% of Active Portfolio*

Fifth Third experienced another strong year of earnings growth in 1995, which produced excellent returns for the stock. Fifth Third was an active acquirer in 1995, with the company agreeing to purchase over two billion dollars in assets. It also continues to be the most efficient bank holding company, with an efficiency ratio of 42.8% versus the industry average of 59.4%. They continue to expand their loan portfolio by fifteen percent plus annually, while maintaining an excellent asset quality rating. Fifth Third is poised to continue their double digit growth in EPS through aggressively expanding their business lines, while maintaining the lowest efficiency ratio for a bank holding company in the country. The Fund recommends holding the stock with a twelve-month price target of $70.75.

Fifth Third is an $18 billion dollar bank holding company with banks in Ohio, Indiana, and Kentucky. With its lead bank in Cincinnati, Ohio, Fifth Third has 411 offices, including 80 seven-day-a-week locations in Kroger and FINAST stores. Fifth Third operates four main business lines; retail banking, commercial banking, trust and investment services, and Midwest Payment Systems, a data processing subsidiary.

Fifth Third Bancorp (FITB-NASDAQ) 82 Shares			
Price (4/30/96):	$55 1/4	**1995 EPS:**	$2.91
52 Week High:	$59 1/2	**1996 Est. EPS:**	$3.31
52 Week Low:	$31 7/8	**Price/1995E:**	18.03
52 Week Return:	62.7%	**Price/1996E (Est.):**	16.47
Market Value (Mil):	$5,473.1M	**Beta:**	0.64
Yield:	1.91%	**Payout Ratio:**	33.09%

Source: Bloomberg and Henry Fund estimates

The Travelers Group *7.67% of Active Portfolio*

Travelers offers the Fund excellent exposure to a diversified financial services stock with great upside potential. A steeper yield curve and surging market activity point toward another good year for Smith Barney while other business lines are all performing well with growth of 14% or more expected for all business lines except Commercial Credit. The Commercial Credit division has suffered a minor setback recently due to the cyclical downturn in the credit business. But with the addition of the Aetna property/casualty unit Travelers should see the potential to cross-sell other company products to a large captive audience. The Fund recommends holding the stock with a twelve-month price target of $77.25.

Travelers Group Inc. is a diversified financial services holding company with interests in four business segments including consumer finance/credit, life insurance and annuity services, property/casualty insurance services, and investment services such as securities brokerage and asset management. Operating units include Smith Barney, Commercial Credit, Primerica Financial Services and Travelers Insurance Companies. Travelers announced in April of 1996 that they had completed the purchase of the domestic property/casualty division of Aetna Life and Casualty for $4.1 billion in total consideration.

The Travelers Group (TRV-NYSE) 140 Shares			
Price (4/30/96):	$61 1/2	**1995 EPS:**	$5.51
52 Week High:	$70 1/2	**1996 Est. EPS:**	$5.52
52 Week Low:	$40 1/2	**Price/1995E:**	11.09
52 Week Return:	49.09%	**Price/1996E (Est.):**	11.07
Market Value (Mil):	$19.330.6M	**Beta:**	1.57
Yield:	0.98%	**Payout Ratio:**	16.54%

Source: Bloomberg and Henry Fund estimates

CHANGES TO THE PORTFOLIO

USF&G Corporation *(Planned Deletion)* *3.14% of Active Portfolio*

Due to the uncertainty facing the financial sector, we have chosen to take a more defensive stance to reduce our exposure to interest rate changes. Property/casualty (P/C) insurance stocks are vulnerable to rises in interest rates since a large portion of a P/C insurers portfolio holdings consists of bond instruments. With the purchase of the Aetna property/casualty unit by Travelers in April of 1996, we felt that our exposure to the property/casualty sector far outweighed the limited upside potential that the group shows over the next twelve months. Therefore, we plan to trim our exposure to this group by selling our position in USF&G, considered the weaker of our positions in the property/casualty industry.

With the property/casualty industry facing premium pricing problems due to overcapacity that has plagued the industry for more than eight years, USF&G showed limited upside potential with increased downside risks from rising interest rates, which tend to depress prices of property/casualty insurers. USF&G has been unable to produce a combined ratio (the most critical component of a property/casualty insurer's profitability) that has matched the industry average since 1989 and does not look to have made strides to reverse this trend in the near term.

The decision to sell USF&G is further supported by the fact that the current share price was fairly valued using industry standard assumptions for premium growth rates as well as optimistic figures for combined ratio expenses. A discounted free cash flow model using fairly aggressive figures for premium growth rates produced a share price that was only slightly higher than the current market price.

USF&G Corporation is an insurance holding company. USF&G ranks 17th in the United States in terms of property/casualty premium volume, selling its property/casualty insurance through its force of 4500 independent agents. The company also sells life insurance and annuity products throughout the United States. Net written premium distribution among their business lines is 70% property/casualty, 18% reinsurance, and 12% life insurance and annuities. The company will return to a fully taxable status by 1997 after incurring large losses due to businesses unrelated to the insurance industry, which have since been sold off.

USF&G Corporation (FG-NYSE) 222 Shares			
Price (4/30/96):	$15 7/8	**1995 EPS:**	$1.31
52 Week High:	$19 1/2	**1996 Est. EPS:**	$1.58
52 Week Low:	$14 1/4	**Price/1995E:**	9.80
52 Week Return:	7.63%	**Price/1996E (Est.):**	10.05
Market Value (Mil):	$1,898.8M	**Beta:**	1.05
Yield:	1.26%	**Payout Ratio:**	12.15%

Source: Bloomberg and Henry Fund estimates

State Street Boston Corporation *(Planned Addition)*

We plan to add State Street Boston Corporation to the portfolio to limit our exposure to the interest rate sensitive property/casualty business. State Street generates over 70% of its total revenue from fee based business operations, which tend to be less sensitive to changes interest rates than more traditional banking lines. State Street is one of only a handful of financial stocks with a growth story that does not have a direct exposure to consumer credit risk. The company is positioned as a global market leader as well as a technological innovator in the asset management industry. Valuation figures show that the stock is 20% undervalued. State Street increased assets under custody 32% and assets under management 40% in 1995. In the first quarter State Street added an additional $40 billion dollars of assets. This should act as the catalyst for increasing State Street's earnings in 1996. We recommend adding the stock with a twelve-month price target of $59.25.

State Street Boston Corporation is the holding company for State Street Bank and Trust. The company provides financial asset services, investment and commercial lending. The company is the leading mutual fund custodian in the United States, serving over 2,800 mutual funds. State Street has $2.4 trillion of assets under custody and $252 billion of assets under management. The company has 13 domestic offices and 16 international offices.

State Street Boston Corporation (STT-NYSE)			
Price (4/30/96):	$49 7/8	**1995 EPS:**	$2.98
52 Week High:	$51 5/8	**1996 Est. EPS:**	$3.35
52 Week Low:	$30 7/8	**Price/1995E:**	15.69
Return:	0.0%	**Price/1996E (Est.):**	14.72
Market Value (Mil):	$4,098M	**Beta:**	1.01
Yield:	1.45%	**Payout Ratio:**	22.71%

Source: Bloomberg and Henry Fund estimates

HEALTH CARE *6.74% of Active Portfolio*

The Health Care Sector has been the focus of considerable political attention in recent years due to the rapid rise in national health care expenditures. Having grown to approximately fifteen percent of the United States' Gross Domestic Product, the Health Care Sector has experienced rapid change driven in part by governmental policies and in part by market forces. National health care reform, proposed by the Clinton Administration in 1993, was not enacted; however, current legislative initiatives at the federal and state levels are accelerating the movement toward managed care. Concurrently, the economic interests of business purchasers of health care services have contributed pressures to move to managed care. Under managed care, organizations endeavor to control costs by controlling utilization of health care services while still achieving the desired therapeutic outcomes.

The Health Care Sector comprises several sub-industry groups. These include Health Care Providers (such as managed care organizations, hospitals, long-term care facilities, and physician practice management companies), Information Services, Medical Devices, Medical Supplies, and Pharmaceuticals (including pharmaceutical manufacturers, biotechnology firms, and drug distributors).

The Health Care Sector has been outperforming the S&P 500 Index, and continues to be attractive to investors interested in traditionally defensive stocks. The Henry Fund is evaluating opportunities to increase its portfolio weighting of the Health Care Sector with stocks of carefully selected companies expected to outperform the S&P 500 Index. The industry outlook includes an environment dominated by managed care and cost constraints, continuing consolidation and integration, demographic trends projecting an aging population in the United States, increasing reliance on pharmaceutical treatments, and increasing foreign demand for health care products and services.

PORTFOLIO HOLDINGS

United HealthCare Corp. *3.59% of Active Portfolio*

United HealthCare is a well-positioned, leading company in a growing market with a highly talented management team. Building upon over twenty years of experience in managed care, the company has developed significant competitive advantages, including its management information systems and its Center for Healthcare Policy and Evaluation. Its leaders have articulated clear strategies for growth and laid plans to continue its success by focusing on the four key demands of health care purchasers, which are: (1) cost control; (2) access; (3) quality; and (4) accountability. Success in cost control is reflected in United HealthCare's premium rate increases having declined every year for the past five years. Broader access to services has been enhanced by its emphases on providing preventive care and patient education, on contracting for highly specialized services, and on developing innovative managed care plans for expanding enrollments in the Medicare and Medicaid programs and growth in new geographic regions. Competition on the basis of quality is enhanced through use of its large comparative database to develop benchmarks and clinical practice guidelines. Accountability is reflected in the company's methods of self-analysis as well as its methods of measuring patient satisfaction. We are planning the purchase of thirty-one additional shares of United HealthCare to bring the holdings up to 100 shares, and recommend holding with a twelve month price target of $79 per share.

United HealthCare is recognized as a national leader in health care management. It serves purchasers, users, managers and providers of health care. The company offers a broad range of products through locally based health plans and specialty care management companies. United HealthCare services include HMOs, PPOs, health plan management, managed mental health and substance abuse services, utilization management, workers compensation/casualty services, specialized provider networks, employee assistance services, Medicare and managed care programs for the aged, health care evaluation services, information systems and administrative services. Its major acquisition of MetraHealth occurred in October, 1995.

United Healthcare Corp. (UNH-NYSE) 69 Shares			
Price (4/30/96):	$58 1/2	**1995 EPS:**	$1.58
52 Week High:	$69	**1996 Est. EPS:**	$3.52
52 Week Low:	$34 1/8	**Price/1995E:**	37.03
52 Week Return:	59.18%	**Price/1996E (Est.):**	16.62
Market Value (Mil):	$10,250M	**Beta:**	1.29
Yield:	0.21%	**Payout Ratio:**	1.86%

Source: Bloomberg and Henry Fund estimates

St. Jude Medical, Inc. *3.15% of Active Portfolio*

St. Jude Medical is a dynamic company with twenty years of experience in the medical devices industry, during which it has been the recognized leader in heart valve technology. St. Jude Medical has been pursuing a strategy of diversification to ensure (1) that it reinstates its status as a growth company and (2) that it retains its reputation as an innovative leader in the medical devices industry. St. Jude Medical's objectives are to ensure competitiveness both in terms of pricing and in terms of desired therapeutic outcomes. To achieve these ends and to create shareholder value, the company strives to be the lowest cost producer of the highest quality devices in its selected product lines. At this time, the Henry Fund is holding its shares of St. Jude Medical, Inc.; target $45.

St. Jude Medical is a global, diversified medical device company with an emphasis on cardiac care products. The company now has two divisions that manufacture and market products: the St. Jude Medical Division, which is the global leader in heart valves; and Pacesetter, Inc., a leader in cardiac rhythm management holding the number two market share position in the bradycardia pacing market. As part of its diversification plan, the company recently announced two acquisitions which will expand its technology platforms. On January 29, 1996, it announced a definitive agreement to acquire Daig Corporation, a manufacturer of specialized cardiovascular devices, including devices for the electrophysiology and interventional cardiology markets. On April 8, 1996, St. Jude Medical also announced that it has a merger agreement with Cyberonics, Inc., a company which designs, develops and markets medical devices for the treatment of epilepsy and other neurological disorders. Of particular interest is its neuropacing device used in the care of epilepsy patients refractory to medical treatment. The device is in the final stages of FDA review for use in the U.S., and is already approved for use in 23 foreign countries. The management at St. Jude Medical has announced that this merger concludes its diversification plan and that all four markets -- heart valve disease management, cardiac rhythm management, interventional cardiology and interventional neurology -- represent growth opportunities.

St. Jude Medical, Inc. (STJM-NASDAQ) 97 Shares			
Price (4/30/96):	$36 1/2	**1995 EPS:**	$1.88
52 Week High:	$46	**1996 Est. EPS:**	$2.98
52 Week Low:	$28	**Price/1995E:**	19.38
52 Week Return:	26.22%	**Price/1996E (Est.):**	12.24
Market Value (Mil):	$69.62M	**Beta:**	0.69
Yield:	0.00%	**Payout Ratio:**	0.00%

Source: Bloomberg and Henry Fund estimates

INDUSTRIALS *9.51% of Active Portfolio*

The industrial sector is divided into Building Materials, Conglomerates, Electrical Equipment, Engineering, Construction, and Industrial Services, Machinery, Machine Tools, Diversified Manufacturing, and Pollution Control. In general, the sector has experienced relatively strong performance over the past several quarters. Within specific industries, however, significant underperformance has been seen. The majority of the firms in the industrial sector experience interest rate driven results and, therefore, benefited from the downward drift in interest rates after the Federal Reserve cut rates in July 1995. During early 1996, economic uncertainty led to mild underperformance for the sector as a whole. With recent economic data pointing towards more rapid growth, investor interest in cyclical stocks has resulted in relative out-performance for many firms in the sector. This performance has been tempered by concerns over inflation. While rising inflation will place downward pressure on the market in general, industrial firms will see increased demand for goods until substantial interest rate increases make capital investment less attractive.

In order to more accurately match the risk characteristics of the S&P 500, the Henry Fund has chosen to invest in cyclical stocks despite the dramatic volatility associated with economic cycle uncertainty. Therefore, analyzing a cyclical company involves identifying a strong, experienced management team that will continue to add value despite cyclical downturns in the economy. Evidence of productivity improvements, cost cutting, and international expansion serve as the basis for assessing firm viability in the future.

PORTFOLIO HOLDINGS

Caterpillar, Inc. *3.43% of Active Portfolio*

With the market's focus on economic expansion driving prices, Caterpillar stock has rebounded to mid-1995 levels. The company continues to expand international operations and gain international brand-name recognition. Dealer surveys indicate demand exceeding company forecasts, leading to possible earnings surprises during 1996 and 1997. We recommend holding the stock with a twelve-month price target of $82.00.

Caterpillar, Inc. is a world-wide designer, manufacturer, marketer, and financier of construction, mining, and agricultural machinery. In addition, the company designs and produces engines for use in heavy machinery, locomotives, marine, and heavy-duty trucks. Power generation systems and related parts round out the company's operations. Caterpillar's international operations create jobs for nearly 51,000 United States citizens.

Caterpillar, Inc. (CAT-NYSE) 60 Shares			
Price (4/30/96):	$64 1/8	**1995 EPS:**	$5.75
52 Week High:	$75 1/4	**1996 Est. EPS:**	$5.83
52 Week Low:	$50 3/4	**Price/1995E:**	11.24
52 Week Return:	12.78%	**Price/1996E (Est.):**	11.08
Market Value (Mil):	$12,538.2M	**Beta:**	1.16
Yield:	2.17%	**Payout Ratio:**	22.62%

Source: Bloomberg and Henry Fund estimates

Cummins Engine Company, Inc. *1.08% of Active Portfolio*

After spectacular performance in 1994, August and September of 1995 saw the first negative heavy-duty truck order figures since 1981. The market reacted by discounting Cummins stock price by 20.5% in two months, proving that it still views Cummins as a North American heavy-truck producer. However, since a restructuring announcement after the market close on October 30, 1995, the stock has rebounded 23.4%. Management admitted that profitability during the order craze of 1994 was insufficient and outlined a plan to more properly position the company for future growth. This move eased investor concerns about the expected margin squeeze during 1996 and 1997, and it inspired confidence in management's ability to reduce costs across the board. In addition, international and product line diversification efforts are moving the company away from its deeply cyclical past. Therefore, as the fundamentals at Cummins Engine Company remain intact, we recommend holding the stock with a twelve-month price target of $47.00.

Cummins Engine Company, Inc. is a world-wide designer and manufacturer of fuel-efficient diesel engines, ranging from 76 to 2,000 horsepower. Key markets include heavy-duty trucks, midrange trucks, power generation, bus and light commercial vehicle, industrial products, and marine and government products. In addition, Cummins manufactures a natural gas-powered engine as well as a line of major components and sub-systems critical to engines. Cummins' customer base includes original equipment manufacturers and distributors and revenues are generated through manufacturing, sales, distribution, and service activities world-wide.

Cummins Engine Company, Inc. (CUM-NYSE) 26 Shares			
Price (4/30/96):	$46 3/4	**1995 EPS:**	$5.09
52 Week High:	$48 5/8	**1996 Est. EPS:**	$4.00
52 Week Low:	$34	**Price/1995E:**	9.26
52 Week Return:	4.18%	**Price/1996E (Est.):**	11.78
Market Value (Mil):	$1,894.4M	**Beta:**	0.77
Yield:	2.12%	**Payout Ratio:**	17.86%

Source: Bloomberg and Henry Fund estimates

PORTFOLIO CHANGES

Perez Companc *(Addition)* *5.0% of Active Portfolio*

Perez Companc's ADR was added to the Henry Fund on March 29, 1996. With the rebound in Latin American markets following the Mexican Peso devaluation, Perez experienced six-month returns of nearly 120%. The company will continue to capitalize on the rapid privatization of state-run energy units throughout Latin and South America. We recommend holding the stock with a twelve-month price target of $19.00.

Perez is the most diversified energy conglomerate in Argentina. The company ranks second in oil production, third in gas production, first in oil services, and has participated actively in the privatization of state run energy units. While Perez appears to have a confusing organizational structure, its core businesses emphasize upstream energy and utility activities. Roughly 80% of Perez's net income comes from four divisions: oil and gas (55%), utility management (11%), gas pipelines (9%), and telecom services (6%). Energy-related activities accounted for 72% of sales and 78% of income in 1995.

Perez Companc SA (CNPZY-OTC BULLETIN BOARD) 450 ADRs			
Price (4/30/96):	$12 1/2	**1995 EPS:**	$0.64
52 Week High:	$12 1/2	**1996 Est. EPS:**	$0.70
52 Week Low:	$5 35/64	**Price/1995E:**	19.53
Return (Purchased 3/29/96):	6.38%	**Price/1996E (Est.):**	17.86
Market Value (Mil):	$4,728M	**Beta:**	0.35
Yield:	1.69%	**Payout Ratio:**	13.00%

Source: Bloomberg and Henry Fund estimates

TECHNOLOGY *11.91% of Active Portfolio*

David F. Powers of Edward D. Jones and Co. suggested in September 1995, "Lately, investors who own technology stocks have been eating very well." Only seven months later, it would be interesting to know if his sentiment toward the sector is as volatile as the stocks themselves. Throughout the past year, the technology sector led gains and losses in the market on almost a daily basis. Bets have been placed on the latest and greatest personal, business, enterprise, and global computing solutions involving hardware, software, processors, and peripherals; databases, browsers, services, and servers.

Technology is the fastest growing segment of the U.S. economy, and the long-term prospects for the sector are good. Strong earnings growth is driven by worldwide demand for personal computers and communications equipment, as well as a robust economy and expansion in global markets. While the threat of obsolescence used to deter some individuals and corporations from making investments in computer systems, today's operating systems allow operation of both new and previous versions of software products, removing some risk from the expenditure. Businesses will continue to spend more on technology as they begin to reap its productivity benefits, and will get more for their money as scaleable systems and competitive pricing merge with service offerings for access to a complete package from individual vendors. Media coverage of the Internet's growth and software innovations like Windows 95 will only help to sustain consumer interest in the future product and service offering.

Performance for companies in the technology sector depends on several factors: business conditions and growth in the personal computer industry and general economy; competitive factors, such as rival architectures, software compatible microprocessors, proprietary system development, and price pressures; availability of third party component products at reasonable prices; inventory risks due to shifts in market demand and/or price erosion of purchased components; continued success in the manufacturing ramp; changes in product mix; costs and yield issues associated with initiating production at new factories; and other risk factors [contingent liabilities, etc.].[4]

PORTFOLIO HOLDINGS

Intel Corporation *4.7% of Active Portfolio*

1995 has been an interesting year for all semiconductor manufacturers, including Intel Corporation. While gains of semiconductor shares contributed substantially to the explosion of the technology sector and the market as a whole through the summer months and into the fall, the slightest hint of slowing growth in personal computers and declines in the book-to-bill across the industry led to a devastating plunge late in 1995 that has lingered through the early months of 1996.

Intel introduced the world's first microprocessor in 1971. Today, about 75% of the personal computers in use around the world are based on Intel-architecture microprocessors.[5] Intel supplies the personal computing industry with the chips, boards, systems, and software that are the "ingredients" of the most popular computing architecture. The personal computer industry's conversion to the Pentium Processor in 1995 lifted Intel Corporation to record annual revenue and earnings per share, up 41% and 54% respectively. 1995 was the sixth consecutive year of both record revenue and earnings for Intel. Sustaining those impressive numbers will be a great challenge for Intel.

[4] Intel Earnings announcement, Q4 1995, www.intel.com.

[5] Intel 1994 Annual Report.

As the leading semiconductor manufacturer in the world and the proprietor of today and tomorrow's leading semiconductor technology, Intel is well positioned to sustain leadership in the industry for the intermediate and long-term. While stock performance from late November to early April reflected the increasingly pessimistic sentiment toward the group as a whole, Intel's third quarter earnings announcement reinforces their ability to weather the storm. Using a discounted cash flow analysis, Intel common shares are valued at $71.65 in a range from $66.58 to $79.18. We recommend increasing the investment in Intel at any price below $60.00.

Intel Corporation (INTC-NASDAQ) 78 Shares			
Price (4/30/96):	$67 3/4	**1995 EPS:**	$4.04
52 Week High:	$78 3/8	**1996 Est. EPS:**	$4.45
52 Week Low:	$49 13/16	**Price/1995E:**	16.77
52 Week Return:	32.69%	**Price/1996E (Est.):**	15.22
Market Value (Mil):	$55,622.75M	**Beta:**	1.30
Yield:	0.24%	**Payout Ratio:**	3.48%

Source: Bloomberg and Henry Fund estimates

Oracle Corporation *5.4% of Active Portfolio*

Oracle Corporation is the world's largest maker of database management systems (DBMS), software that allows users to create, retrieve, and manipulate data in computer-based files. Oracle was established to help give businesses faster, easier, and less expensive ways to manage their information. It now generates more than $3 billion in annual revenues. The company continues to introduce new products and innovative technologies, sustaining amazing growth rates in excess of 45%. Oracle's continued growth in the coming years is likely to stem from attempts to capitalize on the growth of the information highway. Oracle is already providing a new breed of software for both the builders of the information highway and the companies that will use it to conduct business.

Free cash flow valuations can only be expected to put you in the ballpark when looking at emerging and growth companies in the technology sector. Using a discounted cash flow model to value Oracle, we find the company fairly valued at today's share price of $33.75. Price-earnings multiples indicate a premium market valuation, which Oracle's fundamentals support. Because near- and medium-term price appreciation of Oracle's common stock will depend more on the success of its products in the global marketplace and the acceptance of products currently in the research and development stage, we are comfortable holding our shares of Oracle at this time. We recommend holding Oracle, with a twelve month price target of $40.

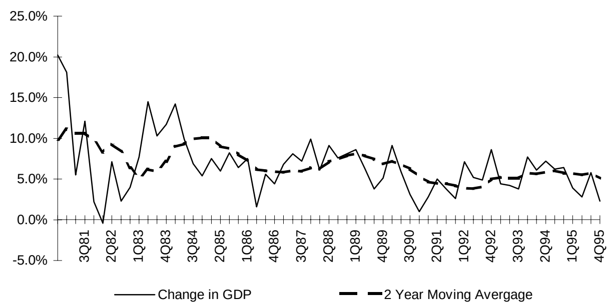
Oracle Corporation (ORCL-NASDAQ) 240 Shares			
Price (4/30/96):	$33 3/4	**1995 EPS:**	$0.78
52 Week High:	$36 43/64	**1996 Est. EPS:**	$0.98
52 Week Low:	$19 53/64	**Price/1995E:**	43.27
52 Week Return:	63.97%	**Price/1996E (Est.):**	34.44
Market Value (Mil):	$22,080M	**Beta:**	1.12
Yield:	0.00%	**Payout Ratio:**	0.00%

Source: Bloomberg and Henry Fund estimates

TRANSPORTATION *0.0% of Active Portfolio*

Based on the markets current expectations of modest economic growth and its impact on stock prices, we are taking a cautious approach to the transportation industry. The transportation stocks have moderately outperformed the S&P 500 this year due mostly to the rebound of the airline industry. Over the long-term, however, returns from the transportation industry are closely tied to the economy. The total transportation pie grows as GDP grows. With that in mind, it is essential to look at the economy when evaluating the transportation sector. The current economic cycle, arguably began in 1992, has flat-lined, especially when viewed on a two-year moving average basis. **(Figure 4)** Although the outlook is unclear, the economy could see even slower growth over the next year or two as this minor cycle has a prolonged "soft landing." Over the long-term, however, transportation stock values should rise as the industry focuses on cost containment, pricing power, and consolidation. If a strong growth picture emerges for the economy, investors will flock to quality cyclicals of which there are several in the industry. Overall, we are cautious on the industry over the next three to six months but bullish long-term and recommend continued S&P-equivalent weighting of the sector**.**

Figure 4 Change in GDP (Current $)



Source: Bloomberg

PORTFOLIO CHANGES

J.B. Hunt Transport Services *(Deletion)*

In March, we sold our shares in J.B. Hunt Transport Services. Previous Henry Fund earnings estimates and price targets had proved to be aggressive in light of current industry overcapacity and the never ending driver turnover story. The long-term benefits of intermodal, moving freight by more than one mode of transportation, appeared to be less than certain, as well. Our valuation indicated an intrinsic value of $16 - $20 per share, which was below the stock's market price and left little upside potential.

Over the years, J.B. Hunt has aggressively expanded into specialized lines of business, such as intermodal, dedicated, logistics, and flatbed. Though this diversification strategy has positioned the company to take advantage of multiple expansion opportunities, poor industry fundamentals as well as significant start-up costs have caused operating margins to collapse from nearly 10% in 1990 to less than 2% in 1995. Margin pressure will keep earnings below previous Henry Fund estimates for at least the next two to three years. We forecast earnings of $0.65 per share in 1996 and $1.06 per share in 1997. We see little upside potential in the near term and, if compensation expenses are higher than our "average-case" estimates, the stock could fall even further.

J.B. Hunt Transport Services (JBHT-OTC)			
Selling Price (3/14/96):	$21 3/4	**1995 EPS:**	$0.23
52 Week High (3/11/95):	$22 1/8	**1996 Est. EPS:**	$0.65
52 Week Low (10/16/95):	$12 3/4	**Price/1995E (3/14):**	94.56
Return (Purchased 5/8/95):	23.57%	**Price/1996E (Est.):**	33.46
Market Value (Mil) (3/14):	$841.51M	**Beta:**	0.65
Yield (3/14):	0.98%	**Payout Ratio:**	19.18%

Source: Bloomberg and Henry Fund estimates

Conrail *(Proposed Addition)*

We are currently planning to add Conrail (CRR) to the Henry Fund to bring the sector weighting back to market levels. The stock has been beaten down below $70 per share and trades at less than 13.5 times our 1996 earnings estimates. We believe the decline presents a buying opportunity for this quality cyclical. Although first quarter results proved disappointing due to the General Motors strike, bad weather and a sluggish economy, Conrail should benefit long-term from its unique geographic franchise in the industrial Northeast. The company has shown a long-term commitment to delivering free cash to shareholders through dividends and stock repurchases, a practice we applaud, and lends itself well to a discounted cash flow analysis. Our valuation indicates an intrinsic value of $70 - $80 per share. Our conservative 12 month price target, if the company remains independent, is $81 per share, or 13.5 times 1997 consensus earnings estimates. Additional upside exists if the company is acquired by another railroad, which we believe is a better than 50-50 possibility within the calendar year. Our takeout price target is $90 per share, which represents a potential return of over 25%.

Most investors believe a company survives and thrives in the marketplace by sustaining some kind of competitive advantage. If we assume this to be true in all industries, then the railroads must be operating at peak efficiency for fear of being pushed out of business by stronger competitors. The railroads, however, operate as geographic monopolies with competition provided only by alternate sources of transportation such as trucks. Further, much of the railroads' freight such as coal and chemicals can realistically only be moved by rail. These near monopolies have allowed many carriers to operate at sub-optimal levels for years without fear of losing market share. With industry deregulation in 1980 and an increasing emphasis on shareholders and customers in the 1990s, railroads have become much closer to operating at optimal levels. However, much room for improvement still exists and this holds true for Conrail. Since its humble beginning as a government-owned combination of several bankrupt railroads, the company has shown a commitment to improving efficiency and maximizing shareholder value. Although its top-line growth is limited to GDP growth plus market share gains in truck-divertable traffic, earnings should grow at close to double digits for the next four to five years as operating expenses are trimmed. This, coupled with capital expenditure restraint, will prove to be a recipe for strong free cash flow for the foreseeable future.

Conrail is the holding company for Consolidated Rail, which, with 1995 revenues of over $3.6 billion, is the nation's fourth largest railroad. Beginning in 1994, Conrail's Marketing and Sales Department and related segments of its Operating Department were organized into four service groups: CORE Service, Intermodal Service, Unit Train Service and Automotive Service, each operationally independent and customer focused. The company employs nearly 25,000 people over 11,800 route miles, extending from the Midwest through the Northeast and into Canada. Because of its access to the Northeast markets, Conrail has the most exposure to economically sensitive commodities of the major U.S. railroads. Conrail's service to the major industrial and population centers makes it one of the largest motor vehicle and parts transporters in the nation. Automotive, intermodal and metals contributed approximately 46% of its revenue in 1994, whereas coal and grain accounted for less than 30%. Because of the extensive highway system in the Northeast, Conrail's major competitors are trucks, with approximately 45-50% of its traffic able to be moved by either mode.[6]

Conrail (CRR-NYSE)			
Price (4/30/96):	$69 3/4	**1995 EPS:**	$4.69
52 Week High (3/19/96):	$77 1/4	**1996 Est. EPS:**	$5.28
52 Week Low (5/4/95):	$51 1/8	**Price/1995E:**	14.87
Return:	0.00%	**Price/1996E (Est.):**	13.21
Market Value (Mil):	$5726.1	**Beta:**	0.98
Yield:	2.44%	**Payout Ratio:**	53.09%

Source: Bloomberg and Henry Fund estimates

[6] Salomon Brothers Inc., "Conrail - Initiating Coverage," April 1995.

UTILITIES *14.1% of Active Portfolio*

The Utilities Sector is composed of companies that provide regulated services such as telephone, electric, natural gas, water and cable television. Most utility companies are regulated to some degree through pricing, earnings, the markets they can and can't serve, and their competitive environment. The purpose of regulation was to allow universal access of the utility's services at affordable prices while maintaining control of the utility's natural monopolistic tendencies. Now that universal access has nearly been achieved in the U.S., regulation is being questioned as an expensive burden that has protected the utilities from free market competition for too long. It appears that market and economic forces are overtaking the need for government regulation as the utilities industry moves into a more deregulated, competitive environment. This new competitive landscape will lead to cost cutting, an intense focus on the means and methods of providing service, forging alliances via joint-ventures, and consolidation within the industry. However, there will still be some regulation remaining in this industry due to the perception that the services provided are an obligation for public well-being and not just a free-market commodity.

The current trend towards deregulation in the utilities industry is intended to foster competition, cut costs and inspire growth and innovation. These intentions should prevail in the telecommunications industry and affect the gas and electric utilities to a much lesser degree. Currently, the telecommunications companies are at a more competitive level than the gas and electric utilities, and thus are better prepared to utilize competitive advantages to seek out new opportunities and expand market share. Opportunities abound in the telecommunications industry, with each advent of new technology translating into a new value-added market. The gas and electric utilities are subject to mature markets and were heavily protected from competition to a greater extent than the telecommunication industry (with the exception of the RBOCs). In the recent deregulatory environment, the gas and electric utilities have been slow to respond to competition from unregulated sources and must go on the defensive to maintain their customer base with growth coming at the expense of other utilities' customer bases. We expect low growth in revenue and earnings from the gas and electric utilities.

The Telecommunications Competition and Deregulation Act of 1996, signed into law on February 8th, will promote greater competition by allowing the various firms of the telecommunications industry to enter each others' markets. We believe the companies best suited and prepared for this turf war are the long-distance carriers and the RBOCs, which will provide strong revenue and earnings growth in the near and long-term. These carriers have been trying to invade each other's markets directly and indirectly for some time while also expanding into new technology markets and entering the international markets. Even after the Act was passed, no one company has appeared to be the indisputable winner as the new telecom law was not intended to favor one telecom group over another, but rather open all markets to competition. As with all competitive markets, the surest winner so far has been the customer, who benefits from more choice, better service and products, and lower costs. We believe the firms that succeed will be full-service providers of telecommunications services (local and long-distance service, wireless, Internet and cable) and be effective marketers to the consumers who expect one-stop shopping for their telecommunications needs. These appear to be the major long-distance carriers and the RBOCs.

PORTFOLIO HOLDINGS

Ameritech Corporation *7.28% of Active Portfolio*

The new telecom law will allow Ameritech to enter the long-distance market after opening its local markets to competition. The company will probably be the first Baby Bell to enter the long-distance market in early 1997, and plans on providing in-region service to an $8.5 billion market with little to no capital investment. The company is positioning itself to prosper, even as its loses core local-service market share to competition, by investing in foreign telecommunication ventures and in businesses that are logical extensions of Ameritech's core business such as electronic commerce, cellular, cable and security monitoring. Ameritech is more deregulated than any of the other

RBOCs which has given it monetary incentives to optimize the performance of its telephone operations in order to keep all earnings growth. We recommend a hold on the stock with a target price of $66 per share.

Headquartered in Chicago, Ameritech is a regional telephone holding company for six subsidiaries under the "Bell Telephone Company" name. The subsidiaries serve 12 million local residential and business phone customers and 2 million cellular customers in Illinois, Indiana, Michigan, Ohio and Wisconsin. The company owns interests in telecommunications companies in Hungary, Poland, New Zealand, and Norway, and is expanding into China and Belgium. The company is currently expanding into cable, interactive and long-distance services and is regarded as the most conservative Baby Bell.

Ameritech Corporation (AIT-NYSE) 140 Shares			
Price (4/30/96):	$58 3/8	**1995 EPS:**	$3.43
52 Week High:	$66 7/8	**1996 Est. EPS:**	$3.72
52 Week Low:	$42 1/4	**Price/1995E:**	16.95
52 Week Return:	28.65%	**Price/1996E (Est.):**	15.63
Market Value (Mil):	$32,192M	**Beta:**	1.18
Yield:	3.65%	**Payout Ratio:**	55.99%

Source: Bloomberg and Henry Fund estimates

AT&T Corporation *6.82% of Active Portfolio*

AT&T's announced breakup into three separate, publicly-traded companies is viewed as a positive and necessary step for AT&T to compete in the rapidly changing telecommunications environment. Once independent, the new companies (AT&T, Lucent and NCR) will be able to better focus on their own businesses and thus optimize earnings and growth. The breakup also mitigates the conflicts related to telecommunication equipment sales to the Bells and formation of foreign alliances with AT&T. Although NCR will continue to struggle, we believe all three companies will make the necessary adjustments for optimal future performance. We recommend a hold on the stock at $64.50 per share.

AT&T is currently a major participant in two industries: the global information movement and management industry, and the financial services and leasing industry. In the global information movement and management industry, AT&T is among the world's networking leaders, providing wireline and wireless communications services and products, communications products, network equipment, business information processing systems, and other systems, products and services that combine communication and computers, to business, consumers, telecommunications service providers and government agencies. Worldwide, AT&T's network handles more than 175 million voice, data, video and facsimile messages on an average business day. AT&T's operations in the financial services and leasing industry involve direct financing and finance leasing programs for AT&T and third party products, leasing products to customers under operating leases, as well as the general purpose credit card business.

AT&T Corporation (T-NYSE) 125 Shares			
Price (4/30/96):	$61 1/4	**1995 EPS:**	$0.24
52 Week High:	$68 7/8	**1996 Est. EPS:**	$3.93
52 Week Low:	$49 1/8	**Price/1995E:**	252.6
52 Week Return:	21.59%	**Price/1996E (Est.):**	15.43
Market Value (Mil):	$96,757.8M	**Beta:**	0.97
Yield:	2.18%	**Payout Ratio:**	1129.5%

Source: Bloomberg and Henry Fund estimates

STATEMENT OF SECURITY HOLDINGS

	4/30/96
Active Portfolio (at market):	
Ameritech Corp.	$8,173
Amoco Corp.	3,504
AT&T Corp.	7,656
Caterpillar Inc.	3,848
Coca Cola Co.	5,787
Cummins Engine Inc.	1,216
Dollar General Corp.	3,596
Enron Corp.	6,641
Fifth Third Bancorp	4,531
Intel Corp.	5,285
LTV Corp.	2,145
Mobil Corp.	3,795
Oracle Systems Corp.	8,100
PepsiCo Inc.	9,525
Perez Companc SA	5,657
Philip Morris Co.	6,759
Sherwin Williams Co.	1,954
Sonoco Products Co.	4,455
St. Jude Medical Inc.	3,541
Travelers Group Inc.	8,610
United Healthcare Corp.	4,037
USF&G Corp.	3,524
Total Active Portfolio	**$112,346**
Vanguard Index Fund	**36,725**
Money Market	**6,600**
Total Fund Assets	**$155,670**
Scholarship Appropriation	**(4,000)**
Net Fund Assets	**$151,670**

	4/30/95
Active Portfolio (at market):	
Ameritech Corp.	$3,759
Amoco Corp.	3,150
Coca Cola Co.	4,127
Cummins Engine Inc.	1,164
Intel Corp.	3,993
LTV Corp.	2,243
Mobil Corp.	3,131
Oracle Systems Corp.	3,050
PepsiCo Inc.	3,205
Sherwin Williams Co.	1,496
Sonoco Products Co.	2,114
Time Warner Inc.	2,117
Travelers Group Inc.	3,145
United Healthcare Corp.	2,501
USF&G Corp.	3,275
Wal-Mart Stores Inc.	2,969
Xtra Corp.	1,689
Total Active Portfolio	**$47,126**
Vanguard Index Fund	**51,826**
Money Market	**16,296**
Total Fund Assets	**$115,248**
Scholarship Appropriation	**0**
Net Fund Assets	**$115,248**

INCOME STATEMENT

	4/30/96		4/30/95
Beginning Fund Balance	**$115,248**	**Beginning Fund Balance**	**$50,053**
Cash Added	-	Cash Added	51,000
Dividend Income - Active	1,745	Dividend Income - Active	852
Dividend Income - Index	623	Dividend Income - Index	769
Interest Income	602	Interest Income	809
Total	2,971	Total	2,430
Capital Gains		Capital Gains	
Realized - Active	549	Realized - Active	-
Realized - Index	100	Realized - Index	126
Unrealized - Active	31,314	Unrealized - Active	6,735
Unrealized - Index	6,435	Unrealized - Index	5,933
Total	38,399	Total	12,794
Capital Losses		Capital Losses	
Realized - Active	(753)	Realized - Active	(409)
Unrealized - Active	(200)	Unrealized - Active	(656)
Total	(954)	Total	(1065)
Scholarship Appropriation	(4,000)	Scholarship Appropriation	-
Miscellaneous	6	Miscellaneous	35
Ending Fund Balance	**$151,670**	**Ending Fund Balance**	**$115,248**

HENRY FUND TEAM

Sector	Analyst
Basic Materials	Mark Traster
Consumer Cyclical	Daniela Spassova
Consumer Non-Cyclical	Laura Vander Pol
Energy	Douglas Fehr
Financial Services	John Shaw
Healthcare	Mary Hensley
Industrials	Cory Gilchrist
Technology	Kelly Winegarden
Transportation	Timothy Quillan
Utilities	Robert Cunningham