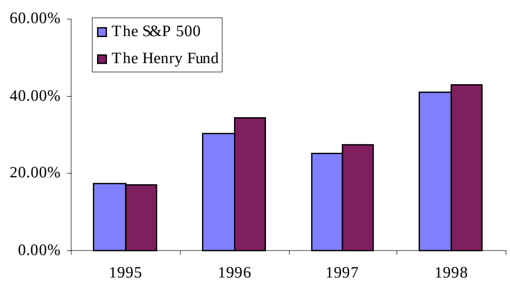
TABLE OF CONTENTS

LETTER FROM THE INVESTMENT TEAM

DEAR STAKEHOLDERS,

We want to share with you a story of a journey, which began exactly 250 days from date. We were ten young, future MBAs entrusted with the responsibility of managing the equity investments of the Henry Fund. We were thrilled, we were excited, but also little unnerved by this awesome task. It has been a great learning experience and we wish to thank all of you for providing us with this great opportunity. We sharpened our skills in analyzing and valuing companies, acquired broad industry and region knowledge and developed our communication skill sets. The journey has now come to an end and we are ready to hand in the reins to the next Henry Fund team.

And, we are glad to announce that the Henry Fund has maintained its phenomenal success streak. On a year-to-year basis, Henry Fund posted an annualized return of 43.08%. It was the best performance of the fund since its inception.



Our investment strategy was based on two cornerstones:

- Evaluating the earnings potential of the companies on a long term perspective, and
- Using Discounted Cash Flow (DCF) model to quantify risk and return of cash flows.

The direct outcome of this investment strategy was to invest in market leading companies that operate efficiently in their core businesses.

Building on The Fund's strong historical performance was a challenging task for us this year. Our first decision was to realign The Fund in light of current and expected economic conditions. We maintained our sector holdings parallel to the S&P 500 index with a judicious mix of under and over weighting based on our risk-return models, valuation measures and regulations governing the fund.

We also continued our initiative in building a stronger network with the investments community. Towards this goal, we made periodic onsite presentations on industry and region analysis to the Investment Committee members. We also upgraded our web site and it has become a valuable research source for the public. Morning notes are also part of the site.

We are very proud to be a part of a successful program and would like to express our gratitude to Professor Tim Loughran, our academic advisor, members of the Investment Advisory Committee, The Henry Fund Donors and the many research and resource contributors listed in the acknowledgments section. Their valuable contributions of time and resources have made The Henry Fund a success.

We welcome the 1998-99 Henry Fund team and wish them luck.

Best Regards,

THE 1997 - 1998 HENRY FUND TEAM

IDIL AYDOGAN	**UTILITIES**
RICHARD HARTLEY	**CONSUMER CYCLICALS**
DARREN HULSE	**TECHNOLOGY**
SVETLANA KALININA	**PHARMACEUTICALS**
SHANE LARSON	**TRANSPORTATION**
KEVIN LAUB	**CONSUMER NON-CYCLICALS**
RICHARD LIES	**ENERGY**
ANDREW OSTROV	**BASIC MATERIALS**
JONATHAN SCHALLER	**INDUSTRIALS**
ABHIJIT SENGUPTA	**FINANCIAL**

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, the 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. The Henry Fund team, 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.

The Fund is divided into three separate accounts, active, passive and cash. The active account is the main account and contains the portfolio holdings. Since this account is the measurement of the managers stock selectivity, the return of this account is used for the reported performance. The Vanguard Index Trust serves as the passive account. A balance in this account is maintained to provide a source of funds for future stock selections. Historically, this account represented a significant portion of The Fund. The Henry Fund Scholar necessitates The Fund keep a money market account in order to meet its annual commitment. This account also receives dividends and is used to pay brokerage fees and other costs incurred during the year.

The 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 analytically and 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 an extensive industry analysis which identifies the important value drivers of the industry. After the managers achieve a solid understanding of their sectors, they research individual companies for potential investment. Recommendations are valued using three possible methods: 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 and 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 presented to the Investment Advisory Committee for final approval. In addition, the administrative tasks of portfolio management, including marketing The Fund to outside donors and producing an annual report, are performed by the managers.

THE HENRY SCHOLAR

A portion of the returns generated by The Henry Fund is used to support a scholarship, The Henry Scholar. The program was created by the 1995-96 Henry Fund Team. The $2,000 per year scholarship is awarded to a first-year MBA student and is renewable for the second year based on the student's academic performance. The $4,000 in scholarship money is transferred annually to a university cash account designated for The Henry Scholar. The goals of The Henry Scholar Program are to encourage and prepare students for careers in investments as well as to attract outstanding candidates to manage The Henry Fund.

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 Mr. Royer held various positions with First National Bank (Norwest), Duluth, Minnesota. 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, California.

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 B. Tippie grew up in Belle Plaine, Iowa, and, after serving in the Army Air Force, earned a BSC in accounting from The University of Iowa in 1949. He began his forty-four year career with Rollins in 1953, starting by balancing the small firm's checkbook. Today, five Rollins companies are traded on the NYSE and Tippie is still involved with Rollins Truck Leasing Corp. and the other Rollins Companies. 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 several research professorships in the business school. He also has endowed 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.

ACADEMIC ADVISOR
Tim Loughran

BROKERAGE SERVICES
Securities Corporation of Iowa

DONORS
Catherine Green
INVISTA Capital Management, Inc.
Michael Sandler
Pacific Financial Research

INVESTMENT ADVISORY COMMITTEE
Catherine Green
INVISTA Capital Management, Inc.
Sharon Kress
Mercantile Bank of Dubuque
Thomas Myers
AEGON USA Investment Management
Douglas Ramsey
INVISTA Capital Management, Inc.
Paul Eckley
State Farm Insurance

UNIVERSITY OF IOWA FOUNDATION LIAISON
Larry Bruse
Treasurer, The University of Iowa Foundation

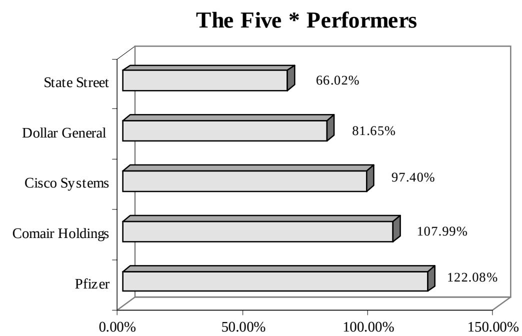
ELECTRONICS RESOURCE CONTRIBUTORS
BARRA, Inc.
Bloomberg LP
Bridge Information Systems
The DAIS Group Inc.
Ford Investor Services, Inc.
Hewlett Packard
Leading Market Technologies
Logical Information Machines
Sun Microsystems
Thomson Financial Services -- First Call
Vestek Systems

RESEARCH CONTRIBUTORS
Birinyi Associates, Inc.
The Chicago Corporation
Cleary, Gull, Reiland & McDevitt, Inc.
Dain Bosworth, Inc.
Donaldson, Lufkin and Jenrette
Dorsey Wright and Associates
Duff and Phelps Corporation
Edward D. Jones and Company
Economic Analysis Associates
First Chicago - First National Bank of Chicago
Goldman, Sachs and Company
I/B/E/S
McCarthy, Crisanti and Maffei, Inc.
Merrill Lynch
Nomura Research Institute
Nomura Securities International, Inc.
Paine Webber.
Piper Jaffray, Inc.
Smith Barney Shearson
Stone and McCarthy Research Associates
Zacks Investment Research, Inc.

EXCHANGE DATA CONTRIBUTORS
Dow Jones Markets
The Iowa Exchange Data Consortium

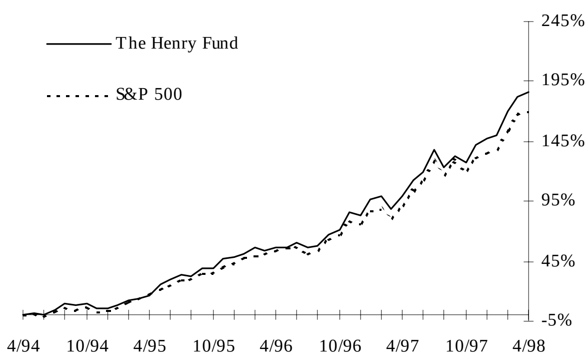
FUND PERFORMANCE

We achieved a record performance for the 12-month ended April 30, 1998. The Henry Fund had a return of 43.08% compared to the S&P 500 index return of 41.15%. It was a challenge to beat the S&P 500 index, when the market is performing so well. The market value of the active portfolio of the fund increased from $136,180 as on April 30, 1997 to $251,710 as on April 30, 1998. The stellar performers were our holdings in the pharmaceutical, technology, financial services and the retail sector.



SOURCE: VESTEK

Since inception in 1994, The Fund has posted a cumulative return of 186.52%, which is 16.01% above the return of the S&P 500 index.



SOURCE: VESTEK

The risk profile of the portfolio has been kept to a minimum with sector holdings broadly mimicking the S&P 500. The fund's beta was 1.08 and weighted beta quintile was 3.42 compared to 1.00 and 2.90 of S&P 500 respectively. The weighted portfolio PE ratio was 27.08 compared to 25.99 of the benchmark index. After making the proposed changes in the portfolio, the PE ratio, beta and the weighted beta quintile is expected to increase to 35.16, 1.10 and 3.46 respectively. We expect the slight increase in the risk is in line with our expectations of continued domestic economic growth.

Our financial sector holdings were major contributors to the success of The Fund. The returns generated were superior to the market and the comparable S&P 500 index. Our decision to maintain an over-weighted position in the financial sector further strengthened The Fund's returns. We have proposed diluting our holdings in the Travelers Group in view of the uncertainties related to its recent merger with Citicorp. Before dilution it was the single largest holding in the portfolio. We maintained our holdings in the Fifth Third Bancorp because of its excellent operational performance coupled with a likelihood of becoming an attractive takeover target. State Street maintained its solid performance with increase in institutional businesses.

The health care sector led by Pfizer Inc, was a strong performer during the year. It was the best performing stock in our portfolio. The company's emphasis on n R&D and launch of a series of new products including the drug "*Viagra*" is expected to sustain its excellent performance.

The technology sector's performance was driven by Cisco Systems. The company is well entrenched in the network equipment industry and is expected to maintain its leadership. However, the performance of semi-conductor giant, Intel was disappointing. Intel recently introduced new, faster microprocessors and chips for the sub-$1000 PCs, which is expected to bolster its performance. We have made a slight increase in our Intel holding.

Comair has strengthened its position as an upcoming regional airline serving the area adjoining the Cincinnati hub. The company's code-sharing arrangement with Delta, strong cash position and the continued growth in the airline industry makes it an excellent performer for the Fund. We retained our stake in Heartland Express because of its market leadership in Midwest trucking industry and strong management.

In the consumer-cyclicals sector, Dollar General posted a stellar performance. Dollar General's strong physical expansion, improving operating margin, stable cash flow generation, healthy balance sheet, highly committed management and growing customer base provide upside opportunities which makes Dollar General a terrific Henry Fund holding. We also propose to acquire stocks of Galoob Inc. Galoob has retained a license from Lucas Films to produce small-scale action figures for the next three Star Wars films and other Lucas productions. Though the company's past financial performance has been poor, in view of its promising future revenue potential, we propose its inclusion in the Fund.

We sold our position in Perez Companc, SA. Its recent performance has been disappointing. The stock also appeared illiquid, which made it vulnerable to significant market fluctuations. The lack of street research further contributed to our decision to propose a sell. We propose acquiring Halliburton Corp., which has become a leader in the oil drilling services industry. The lack of future growth opportunities and disappointing stock performance led us to propose selling off our holdings in Amoco.

Our holdings in basic material sector include Bemis, Inc, and Sherwin Williams Co. We propose selling our holdings in Sherwin Williams as we believe that the stock is over valued. We propose increasing our exposure to Bemis as we expect that with consolidation in the flexible packaging industry, the company would be able to leverage its scale economies.

The three consumer non-cyclical stocks - Coca-Cola, Philip Morris and PepsiCo did not perform to our expectation. However, we have retained our holdings because of their excellent brand equity, strong distribution network and strong management.

In spite of disappointing performance of the industrial sector, we maintained our holdings for their long term potential. The performance of utilities sector was well above the average. Ameritech continues to be a leader in the local telecommunication market and is an attractive takeover target. Enron, with its diversified operation worldwide remains a strong player in the energy market.

A complete listing of The Fund's current and proposed holdings is on the following page.

SUMMARY OF TRANSACTIONS

	Portfolio As of:		Portfolio	Proposed Action:	
	April 30, 1997	April 30, 1998	Weighting	Addition	Deletion
Basic Materials					
Bemis Products, Inc.	-	90	1.59%	150	-
The Sherwin Williams Company	184	184	2.60%	-	184
Consumer Cyclicals					
Dollar General Corporation[1]	171	268	4.05%	-	-
Hilton Hotels Corporation	-	170	2.16%	-	-
Galoob Toys, Inc.	-	-	-	900	-
The Walt Disney Company	-	120	5.94%	-	-
Consumer Non-Cyclicals					
The Coca-Cola Company[1]	142	167	5.03%	-	-
PepsiCo, Inc.	300	300	4.73%	-	-
Philip Morris Companies, Inc. [1]	225	260	3.83%	-	-
Tricon Global Restaurants	30	30	0.38%	-	-
Energy					
Amoco Corporation[1]	48	96	1.69%	-	96
Halliburton Corporation	-	-	-	200	-
Perez Companc[1]	450	1,004	2.40%	-	502
Mobil Corporation[1]	33	136	4.28%	-	-
Financial					
Fifth Third Bancorp[1]	82	184	4.02%	-	-
State Street Corporation[1]	70	140	3.98%	-	-
The Travelers Group, Inc. [1]	280	420	10.21%	-	120
Healthcare					
Pfizer, Inc.	-	220	9.95%	-	-
United HealthCare Corporation	100	100	2.79%	-	-
Industrials					
Caterpillar, Inc. [1]	60	160	3.62%	-	-
Emerson Electric Company	-	100	2.53%	-	-
Technology					
Cisco Systems, Inc.	-	255	7.42%	-	-
Intel Corporation[1]	78	156	5.01%	20	-
Transportation					
Comair Holdings, Inc.	-	105	1.14%	-	-
Heartland Express, Inc.	-	105	1.04%	-	-
Utilities					
Ameritech Corporation[1]	140	280	4.73%	-	-
Enron Corporation[1]	165	250	4.89%	-	-
Cash and Equivalents			12.90%	-	-

[1] The increase in number of shares was the result of a stock split or dividend.

BASIC MATERIALS

4.19% of the Active Portfolio

Analyst: Andrew Ostrov

5.52% of the S&P 500 Index

The basic materials industry is divided into eight sectors: metals and mining, agricultural products, chemicals, gold, packaging and containers, paper and forest products, and steel. The sector encompasses a wide variety of products from commodities to manufactured finished products. Equities in the industry are generally moderate-risk with low volatility, often serving as a hedge to other investments.

Basic materials stocks have under-performed the S&P 500 over the last year, with the exception of the S&P basic chemicals sector. However, a bottom-up investment approach that focuses on companies that are strongly positioned in their markets with efficient operations should lead to favorable returns and steady earnings growth.

The Henry Fund is currently slightly under-weighted in basic material holdings by 120 basis points. At this point in time I recommend maintaining this weighting, not to increase it. While the industry as a whole has not performed well in comparison to the market, individual securities within the sector have provided excellent returns to investors. It is critical that investments in this industry take on a long-term focus, as few sectors within the industry are expected to outperform the market in the short-term. Stock selection that is forward-looking and value-oriented should allow the basic materials sector to contribute positively to Henry Fund performance over the long-term.

Due to the large number of companies in the basic materials sector, stock selection will be focused on those industries best positioned to perform well over the long-term or that have been severely depressed relative to the S&P 500 over the past few years.

PORTFOLIO HOLDINGS

Bemis, Inc — 1.59% of the Active Portfolio

Bemis Company, Inc. is the most attractive company in the fast-growing flexible packaging industry. Flexible packaging provides an alternate solution to rigid packaging, producing a product that is more appealing to many consumers and often offered at a lower cost. New applications are constantly being developed for new markets; medical and agricultural applications are growing quickly, in addition to the traditional food industry end market.

Bemis has positioned itself as the market leader in the flexible packaging industry, a highly fragmented market. As the packaging industry continues its acquisition trend, companies that have the ability to develop economies of scale and influence pricing will win out. Bemis has benefited from this trend through the acquisitions in 1995 of Perfecseal, a medical packaging company, and Paramount Packaging, a privately-owned, flexible packaging manufacturer.

Furthermore, the company just closed two of its multi-wall paper bag facilities and consolidated them with its existing multi-wall paper bag facilities. The consolidation should allow Bemis to improve its efficiencies, product mix, and focus factory implementation.

Bemis, Inc. (BMS)

					EPS	P/E
April 30, 1998 Price	$44\frac{1}{2}$	Market Cap. (mil)	$2,288.19			
52 Week Price Range	$47\frac{5}{16}$-$35\frac{15}{16}$	Shares Outst. (mil)	51.42	1997	2.01	22.26
52 Week Return	1.56%	Dividend Yield	1.97%	1998E	2.27	19.71
ROE	17.83%	Beta	1.06	1999E	2.58	17.34

Source: Bloomberg

PORTFOLIO CHANGES

The Sherwin-Williams Company Proposed Deletion 2.60% of the Active Portfolio

The Sherwin Williams Company has established itself as one of the dominant players in the Building Materials Industry. Over the past several years, management's main objective has been to expand through acquisitions. These acquisitions include locations in North and South America and in the United Kingdom. The acquisitions in 1996 of Pratt & Lambert United, Inc. & Thompson Minwax Holding Corp. increased Sherwin Williams representation in the independent dealer and mass merchandising channels of distribution, and provided leading brands in the waterseal, stain and varnish categories.

Furthermore, management has especially focused on an acquisition trend in Latin America. Sherwin Williams has purchased three firms in Chile in the last twelve months and nine firms in Latin America over the past three years.

However, a discounted cash flow analysis resulted in a $29 price that was an 18.39% discount to the market price. Moreover, sensitivity analyses indicated unreasonable numbers to warrant a market price of $34.50. Just recently, Sherwin Williams surpassed its stock-split adjusted target price of $31.50 predicted by the last Basic Materials analyst in the Henry Fund. Hence, it is my opinion that Sherwin Williams should be trading in a price range closer to $29.

The Sherwin-Williams Company (SHW)

					EPS	P/E
April 30, 1998 Price	$35^{5}/_{8}$	Market Cap. (mil)	$6,159.92			
52 Week Price Range	$37^{1}/_{2}$-$25^{5}/_{16}$	Shares Outst. (mil)	172.91	1997	1.51	23.84
52 Week Return	29.73%	Dividend Yield	1.25%	1998E	1.66	21.66
ROE	17.41%	Beta	1.16	1999E	1.96	18.37

Source: Bloomberg

CONSUMER CYCLICALS

12.15% of the Active Portfolio

Analyst: Richard Hartley **12.80% of the S&P 500 Index**

The Consumer Cyclical Sector consists of autos and trucks, retail stores and products, furniture, appliances, home-building, recreation and leisure, restaurants, broadcast media and publishing. Each sub-group has different cycles and is affected differently by economic trends. The most important influences on cyclical companies are economic indicators including inflation, disposable income, unemployment, consumer confidence and interest rates. Demographic trends are also important determinants in consumer spending patterns.

Another aspect that affects cyclicals stocks is the aging of the baby boomers. By 1999, citizens aged 55 and over will account for large proportion of the population. Throughout the 1990's baby boomers will enter their peak earning years (45-54) which should translate into more spending. This trend should create demand in both the cyclical and non-cyclical sectors. Additionally, companies in the cyclical group have been focusing on inventory and management controls, downsizing and consolidation, and integration through both vertical and horizontal mergers and acquisitions.

PORTFOLIO HOLDINGS

Dollar General, Inc. — 4.05% of the Active Portfolio

Dollar General Corporation operates more than 3,100 neighborhood stores in 24 states with distribution centers in Kentucky, Georgia, Oklahoma, Virginia, and Mississippi (opening this year). Dollar General stores are typically located in small towns in the Midwest and Southeast. The company seeks profitable growth by providing value in "consumable basics" merchandise to low, middle and fixed-income families.

Dollar General has focused on using a larger and superior distribution system which will incur lower costs and provide better inventory controls. Last year the company shifted away from hanging apparel and towards items like toiletries and snack foods. The redesigned store format is more appealing to customers, uses space more efficiently and offers improved traffic flow. Dollar General's Point Of Sale scanning and Electronic Data Inventory with key vendors demonstrate management's commitment to technology. Dollar General's strong physical expansion, improving operating margin, stable cash flow generation, healthy balance sheet, highly committed management and growing customer base provide upside opportunities which makes Dollar General a terrific Henry Fund holding.

Dollar General, Inc. (DG)

					EPS	P/E
April 30, 1998 Price	$37^{7}/_{8}$	Market Cap. (mil)	$6,319.97			
52 Week Price Range	$39^{5}/_{8} – 18^{7}/_{8}$	Shares Outst. (mil)	166.864	1997	.91	40.80
52 Week Return	80.75%	Dividend Yield	0.43%	1998E	1.05	35.36
ROE	25.47%	Beta	.95	1999E	1.31	28.33

Source: Bloomberg

Hilton Hotels Corporation — 2.16% of the Active Portfolio

Hilton Hotels Corporation is the world's leading lodging and casino gaming company. Among the 250 hotels that Hilton is a part of there are such well-known names as the Waldorf=Astoria, Hilton Hawaiian Village, Palmer House Hilton and Flamingo Hilton. The company has an interest in 15 hotel casinos and riverboat casinos in Las Vegas, Atlantic City, and Australia. Currently the company is working on the $750 million Paris casino in Las Vegas which is expected to open in 1999. The company's goal is to have a 50/50 split in EBITDA for the hotel and gaming divisions.

After Hilton's failed bid for ITT which was eventually bought by Starwood lodging last year, Hilton may choose to pursue another target or begin buying back stock. Given Steven Bollenbach's (Hilton's CEO) reputation which he gained as CFO for Disney, an acquisition should be forthcoming. The outlook for the lodging industry is good with Hilton enjoying prime locations in major cities with high barriers to entry. The gaming industry is predicted to see modest gains in 1998 with a major event being the opening of Mirage Resort's Bellagio in the fourth quarter. This new Las Vegas strip hotel should draw visitors to Vegas late this year. Next year should be interesting as well with the addition of a few more strip offerings (including Hilton's Paris Resort). In the near term it will be interesting to see what Mr. Bollenbach will do to create value for shareholders with Hilton's strong balance sheet.

Hilton Hotels Corporation (HLT)

					EPS	P/E
April 30, 1998 Price	$31^{15}/_{16}$	Market Cap. (mil)	$7,872.82			
52 Week Price Range	$35^{3}/_{8} – 26^{1}/_{2}$	Shares Outst. (mil)	246.507	1997	1.41	22.87
52 Week Return	8.40%	Dividend Yield	.99%	1998E	1.42	22.70
ROE	7.22%	Beta	.83	1999E	1.70	18.97

Source: Bloomberg

The Walt Disney Company — 5.94% of the Active Portfolio

The Walt Disney Company is a highly synergized, vertically integrated global entertainment company. The company's businesses are organized into three segments: Creative Content, Theme Parks & Resorts and Broadcasting. Creative Content is the largest segment and includes Walt Disney Studios and Consumer Products. Theme Parks & Resorts includes Walt Disney World, Disneyland, Tokyo Disney, the new cruise ships, as well as the Mighty Ducks professional hockey team and the Anaheim Angels professional baseball team. Broadcasting is composed of the ABC Network, owned and operated television stations, radio stations and cable operations including ESPN, The Disney Channel, A&E, Lifetime and E! Entertainment interests.

The giant entertainment company is well positioned for global growth. Disney's arsenal of television stations, radio stations, networks and cable operations position the company for possible expansion and exploitation in all areas. The strong leadership, outstanding brands, franchises and media diversity and global expansion opportunities will make Disney a core holding for The Fund.

The Walt Disney Company (DIS)

					EPS	P/E
April 30, 1998 Price	$124^{5}/_{16}$	Market Cap. (mil)	$84,401.47			
52 Week Price Range	$124^{5}/_{16} – 75^{3}/_{16}$	Shares Outst. (mil)	678.946	1997	2.98	42.50
52 Week Return	55.20%	Dividend Yield	.50%	1998E	3.17	39.96
ROE	11.78%	Beta	.95	1999E	3.76	33.69

Source: Bloomberg

PORTFOLIO CHANGES

Galoob Toys, Inc. — Proposed Addition

Founded in 1957, Galoob Toys, Inc. is an international toy company that designs, develops, markts, and sells a variety of high-quality toy products in an expanding number of product categories. There current product line includes Micro Machines, Pound Puppies, Anastasia dolls, Spice Girls dolls, and small-scale Star Wars action figures.

Galoob has retained a license from Lucas Films to produce small-scale action figures for the next three Star Wars films and other Lucas productions. The first "prequel" for Star Wars will be released in May of 1999 and will be followed by two more films to be released in three-year intervals. This gives Galoob a steady stream of revenue from the most successful license in the history of the toy industry for approximately the next 8-10 years. Furthermore, Galoob's management has recently re-focused their product line to take advantage of higher margin core offerings. This has allowed the company to concentrate on cutting costs and striving for profitable growth through the Star Wars license and other popular toys.

Galoob Toys, Inc. (GAL)

					EPS	P/E
April 30, 1998 Price	$10^{13}/_{16}$	Market Cap. (mil)	$195.81			
52 Week Price Range	$23^{1}/_{2} – 8^{1}/_{8}$	Shares Outst. (mil)	18.11	1997	-1.63	neg
52 Week Return	-36.17%	Dividend Yield	0.0%	1998E	-.08	neg
ROE	-18.89%	Beta	0.95	1999E	1.18	9.53

Source: Bloomberg

CONSUMER NON-CYCLICALS

13.97% of the Active Portfolio

Analyst: Kevin Laub **13.10% of the S&P 500 Index**

Growth within the sector has been driven by large manufacturers with a multi-national presence. This increased global focus can be seen in diverse outlooks as the expansion of existing products, such as Coca-Cola and Philip Morris' traditional strategies, to Gillette's purchase of Duracell, a domestically strong company with untapped international potential. The ability to gain global distribution and the establishment of brand recognition within these new markets will be the key drivers to future non-cyclical growth.

The Consumer Non-Cyclical sector consists of Beverages-Alcoholic, Beverages-Soft Drinks, Cosmetics, Food Processors, Food Wholesalers, Household Products, Housewares, and Tobacco. Growth is expected to continue in the Soft Drink and Cosmetic lines, with Tobacco returns contingent upon the outcome of on-going litigation against cigarette manufacturers.

PORTFOLIO HOLDINGS

The Coca-Cola Company — 5.03% of the Active Portfolio

The Coca-Cola Company had another strong year in 1997, returning 26.6%[1] for the calendar year. Growth is expected to continue for the brand, with management aggressively pursuing growth through steady domestic sales and international expansion. The Henry Fund believes Coca-Cola has the necessary characteristics to be considered a core holding: A market leader performing efficiently in their core business. The company manufactures, markets, and distributes soft drinks, soft-drink syrups, and concentrates. The Coca-Cola Company is the world's largest soft-drink company marketing the world's most recognizable brand in over 200 countries.

The Coca-Cola Company (KO)

					EPS	P/E
April 30, 1997 Price	$75^7/_8$	Market Cap. (mil)	$187,514.44			
52 Week Price Range	$81^3/_{16} – 53^5/_{16}$	Shares Outst. (mil)	2,471.36	1997	1.62	46.90
52 Week Return	17.19%	Dividend Yield	0.79%	1998E	1.63	46.70
ROE	61.32%	Beta	1.25	1999E	1.90	40.60

Source: Bloomberg

PepsiCo, Inc. — 4.73% of the Active Portfolio

PepsiCo returned a strong 32.1% for calendar year 1997. Recent moves by management appear to be in the right direction for the company. The restaurant division was spun off in the third quarter of 1997. This should increase funds available for much needed capital expenditures in both the beverage and snack divisions. In beverages, the company will look to build brands in traditionally strong international areas, shying away from points of Coke domination. The snack division plans on expanding low-fat brands, which have been very successful, as well as no-fat products.

PepsiCo Inc. is world's second-largest producer of soft drinks, the world's largest snack foods company. 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.

PepsiCo, Inc. (PEP)

					EPS	P/E
April 30, 1997 Price	$39^{11}/_{16}$	Market Cap. (mil)	$59,175.25			
52 Week Price Range	$44^{11}/_{16} – 32^{3}/_{64}$	Shares Outst. (mil)	1,491.03	1997	1.02	37.30
52 Week Return	15.99%	Dividend Yield	1.37%	1998E	1.34	28.30
ROE	31.60%	Beta	1.00	1999E	1.53	25.40

Source: Bloomberg

Philip Morris Companies, Inc. — 3.83% of the Active Portfolio

Philip Morris stock continued its roller caster ride in 1997. The stock rode the wave of investor excitement following an apparent legislative settlement followed with renewed fears in regard to the potential expenses related to litigation and or legislation, finishing the calendar year at 21.3% return[2]. The stock currently trades at a discount to its intrinsic value due to possible loss of litigation and product liability risks. The company continued to show increased sales and earnings, especially internationally where the company is the market leader in the most populated underdeveloped countries. The Henry Fund feels the potential for the stock, especially in a market correction, is significant, and recommends a hold for Philip Morris despite the potential litigation risks.

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)

					EPS	P/E
April 30, 1997 Price	$33^{5}/_{16}$	Market Cap. (mil)	$90,600.50			
52 Week Price Range	$47^{7}/_{8} – 37^{5}/_{16}$	Shares Outst. (mil)	2,427.9	1997	2.65	14.40
52 Week Return	-3.98%	Dividend Yield	4.19%	1998E	3.20	11.90
ROE	43.31%	Beta	0.85	1999E	3.56	11.00

Source: Bloomberg

PORTFOLIO CHANGES

Tricon Global Restaurants — Proposed Deletion — 0.38% of the Active Portfolio

Tricon Global Restaurants is the world's largest quick service restaurant company based on the number of system units, with more than 29,000 restaurants in 103 countries and territories. The worldwide business of Tricon's core concepts, KFC, Pizza Hut and Taco Bell include the operations, development, franchishing, and licensing of a system of both traditional and non-traditional quick service restaurant units featuring dine-in, carryout, and in some instances drive-thru or delivery service.

On October 6, 1997, Tricon became a publicly owned company via a tax-free distribution of common stock to the shareholders of the former parent, PepsiCo, Inc. Analysts Recommendation: Sell. Tricon operates in an over-competitive, low margin, low growth, high capital intense industry.

Tricon Global Restaurants

					EPS	P/E
April 30, 1997 Price	$31^{3}/_{4}$	Market Cap. (mil)	$4,835.53			
52 Week Price Range	$35^{5}/_{16} – 25^{15}/_{16}$	Shares Outst. (mil)	152.3	1997	-.73	NA
Return since spin off	8.09%	Dividend Yield	None	1998E	1.97	15.30
ROE	-8.48%	Beta	NA	1999E	2.23	13.50

Source: Bloomberg

ENERGY

8.37% of the Active Portfolio

Analyst: Rich Lies **8.92% of the S&P 500 Index**

The current period may well represent the energy industry's "technology age." Numerous new technologies that lower the cost and increase the efficiency of finding and developing oil and gas reserves have been developed. As a result, many projects that were previously neglected because they were not economically feasible are being undertaken, providing sufficient returns on their capital. The oil industry profits still rise and fall with changes in the price of crude, but technology lets the companies maintain healthy earnings at steadily lower oil prices.

Today, most majors have cut their costs so much that their newest projects can make money even with oil as low as $15 a barrel. The oil industry is closer to a high-tech industry than the commodity business it once was. The majors no longer dominate simply on the basis of their extensive reserves, refineries, and distribution networks. The new winners appear to be the oil-service companies that lead in the key technologies driving down the costs of exploration and production.

PORTFOLIO HOLDINGS

Mobil Corporation 4.28% of the Active Portfolio

1998 should show great returns in the market for Mobil. Driving this positive outlook is the underlying fact that Mobil's stock is (extremely) cheap, its management is among the best in the industry, and its asset quality is superior to almost all in the industry. Mobil's senior management is likely to create a catalyst to ignite the share price, given the team's focus on shareholder return and the stock's lagging performance since late 1995.

The list of possible catalysts is extensive and will not likely be limited to a single factor. In October 1997, Mobil announced its plans to restructure its Japanese operation, providing one small example of the company's active management style. More announcements are possible but are not necessary to justify a positive outlook in Mobil. In addition, the company is sharing approximately $600 million in annual pre-tax savings realized through its downstream joint venture with British Petroleum in Europe. Similarly, Mobil could form other geographic joint ventures (JVs) or combinations involving its downstream or chemical operations. Moreover, a catalyst for the stock could be an aggressive share repurchase program. Even without a share repurchase or JV announcement, Mobil's stock is attractive because it is cheap relative to its peer group and is trading at even deeper levels versus its historical average valuation versus the S&P 500.

Mobil Corp (MOB)

					EPS	P/E
April 30, 1998 Price	79	Market Cap. (mil)	$61,259.04			
52 Week Price Range	$79^7/_8$-$64^1/_2$	Shares Outst. (mil)	781.76	1997	4.09	18.40
52 Week Return	27.68%	Dividend Yield	3.03%	1998E	3.91	19.27
ROE	17.0%	Beta	.97	1999E	4.23	17.50

Source: Bloomberg

PORTFOLIO CHANGES

Amoco Corporation Proposed Deletion 1.69% of the Active Portfolio

Management has been forecasting a potentially strong turnaround in its oil and gas business, which should provide significant growth opportunities in 2000 and beyond. The company intends to have a focused capital and exploration spending budget and a goal of 10% earnings growth per year, with a long-term financial target of 15% return on capital employed within five years.

These initiatives and goals might be achievable, assuming Amoco reaches its oil and gas production growth target of 25% by the year 2001 (from a 1997 base) and petrochemical margins post a strong improvement (augmented by scheduled volume increases). However, with the understanding that the primary growth will most likely not occur until after 2000, there will be no significant increase in earnings over the next several years. In addition, with the prospect of increased industry capacity in petrochemicals in 1998 and the risk of a slowdown in demand growth, it is questionable if their chemical earnings in 1998 can even exceed $500 million, which would be the lowest level since 1993. The prospect of lower chemical earnings and higher corporate expenses, which have been unexpectedly ratcheting up are the main reasons for a negative future outlook on Amoco.

Amoco Corporation (AN)

April 30, 1998 Price	$44^{1}/_{4}$	Market Cap. (mil)	$21,337.35		EPS	P/E
52 Week Price Range	$49^{3}/_{16} – 39^{1}/_{2}$	Shares Outst. (mil)	482.2	1997	5.55	15.06
52 Week Return	4.35%	Dividend Yield	3.59	1998E	4.40	18.98
ROE	18.13	Beta	0.84	1999E	5.00	16.85

Source: Bloomberg

Pérez Companc — Proposed Deletion — 2.40% of the Active Portfolio

Commodity prices, especially petrochemicals, have been suffering from strong bearish markets over the past few months, eroding the income of Perez's petrochemical segment. Furthermore, electricity spot prices have been falling as a result of excess capacity and increasingly more efficient providers. Prospects for 1998 electricity prices, which are crucial for Perez's Genelba project, are bleak.

However, oil remains the most important component of Pérez's revenue mix, and the company has made an extremely wise move by hedging its oil production. The long-term view however, is still neutral on the company, especially because of its oil-related projects in Venezuela, Perú and Bolivia. Pérez looks to be entering a consolidation stage, which could last two to three years until the most promising projects, such as the Venezuelan oil fields, mature. The price performance over the past year of the four commodities important to Pérez Companc creates an unsettling impression: the prices of oil, gold, urea, ammonia and the Argentine electricity spot price have fallen sharply.

Pérez Companc (CNPZY)

April 30, 1998 Price	$12^{4}/_{25}$	Market Cap. (mil)	$5,118.14		EPS	P/E
52 Week Price Range	$16^{73}/_{79}-11^{9}/_{10}$	Shares Outst. (mil)	841.8	1997	.429	14.15
52 Week Return	-9.68%	Dividend Yield	0.0%	1998E	.408	14.88
ROE	20.53%	Beta	0.86	1999E	NA	NA

Source: Bloomberg

Halliburton — Proposed Addition

Halliburton is a leading provider of energy, construction, engineering, and maintenance services to a variety of industrial customers, particularly the oil and gas industry. Former US defense secretary Dick Cheney heads the company, and Dallas Cowboys Hall of Famer Roger Staubach sits on its board. It's core Energy Group has four subsidiaries that focus on the oil and gas industry.

Halliburton is effectively executing a strategy that is likely to generate above average earnings growth both relative to the oil service industry and to corporate earnings as a whole. While oil prices are likely to remain weak or weaken over the near term, which could well put further downward pressure on Halliburton shares (as well as those of other energy stocks), its price is relatively close to a bottom.

Halliburton (HAL)

April 30, 1998 Price	55	Market Cap. (mil)	$14,492.50		EPS	P/E
52 Week Price Range	$62^{11}/_{16}-34^{15}/_{16}$	Shares Outst. (mil)	263.5	1997	1.78	29.46
52 Week Return	49.82%	Dividend Yield	.95	1998E	2.32	22.60
ROE	19.16	Beta	1.15	1999E	2.99	17.54

Source: Bloomberg

FINANCIAL SERVICES

18.21% of the Active Portfolio

Analyst: Abhijit "Avi" Sengupta

15.40% of the S&P 500 Index

The Financial Services sector continued to experience consolidation and increased technological advancement during 1997. The recent wave of merger ushered in with the Citicorp and Traveler combination, followed by merger announcement of NationsBank/BankAmerica and Banc One/First Chicago NBD is expected to lead to further consolidation. The barriers separating insurance, banking and brokerage services are further expected to dissolve and the concept of financial supermarket is gaining prominence. The domestic economy with its low unemployment, low inflation, a stable interest rate and high consumer spending promises that the financials services sector is going to witness further increase in
earnings. The financial services companies have experienced increased earnings as they have taken actions to contain costs.

The companies in the financial services sector have focused their growth on expanding their coverage both geographically and by product offering. The competition in the industry has increased with firms strategically combining to increase their market coverage. The companies are attempting to differentiate themselves to attract new customers to their unique competitive advantages. The growth in technology has increased the ability to interact with customers through new platforms and helped firms to manage their risk exposures.

PORTFOLIO HOLDINGS

Fifth Third Bancorp — 4.02% of the Active Portfolio

Fifth Third is one of the most efficiently managed banks with offices in Ohio, Indiana, Kentucky and Florida. The company has grown through strategic acquisitions to expand its base of customers and increase profits. During 1997, it announced three acquisitions – CitFed Bancorp Inc., with assets of $3.3 billion, State Savings Company, a privately owned thrift company with $2.8 billion in assets, and The Ohio Company, a full service broker. These acquisitions are expected to be completed by mid-1998. The company has one of the lowest overhead ratio in the whole banking sector (less than 40%). Fifth Third has maintained a high quality balance sheet while expanding its operations. Earnings per share increased 20% to $2.54 in 1997, which was its 24th consecutive annual earning increase. The company recently announced a 3 for 2 stock split on April 16, 1998. The company is being viewed as an attractive takeover target and the company's shares are trading at an all-time high.

Fifth Third Bancorp (FITB)

					EPS	P/E
April 30, 1998 Price	55	Market Cap. (mil)	$8,542.05			
52 Week Price Range	$58^{37}/_{64} – 32^{25}/_{32}$	Shares Outst. (mil)	155.31	1997	2.59	33.54
52 Week Return	82.33%	Dividend Yield	1.17%	1998E	2.69	29.34
ROE	18.15%	Beta	0.97	1999E	NA	NA

Source: Bloomberg

State Street Boston Corporation — 3.98 % of the Active Portfolio

State Street is the world's leading specialist in serving institutional investors. As of June 30, 1997, it serviced $3.45 trillion in assets, with market leading position in mutual funds and pension. The company provides custody of assets and performs record keeping operations. It also manages assets and a leading domestic player in equity and global indexing. Investment in technology, global expansion and product development has helped the company to sustain and improve its operating performance. For the fiscal year 1997, the company posted 24% growth in revenue and earnings per share increased by 30% to $2.32. The company declared a 2 for 1 stock split on May 29, 1997.

State Street Boston Corporation (STT)

					EPS	P/E
April 30, 1998 Price	$71^1/_2$	Market Cap. (mil)	$11,511.50			
52 Week Price Range	$73^5/_{16} – 39^3/_8$	Shares Outst. (mil)	161	1997	2.37	29.91
52 Week Return	101.43%	Dividend Yield	0.68%	1998E	2.68	26.47
ROE	20.16%	Beta	1.28	1999E	NA	NA

Source: Bloomberg

The Travelers Group, Inc. 10.21% of the Active Portfolio

Travelers Group and Citicorp announced a merger of equals on April 6, 1998 creating the largest financial services company in the world. Citigroup – the company created by the merger – based on 1997 results will have assets of $700 billion, net revenues of nearly $50 billion, operating income of $7.5 billion and equity of more than $44 billion. The management believes that combination of Citibank's leading global retail banking with Travelers insurance, loans, retirement services and investment banking businesses would provide significant opportunities for cross-selling as well as moderate amount of cost savings by integrating back office operations. The merger is a step in the direction of becoming a financial supermarket. The deal is expected to close by the third quarter of 1998. In terms of regulatory approval, Traveler would become a bank holding company. The present provision of Glass-Steagall Act prevents a bank holding company from retaining an insurance underwriting operations. However, the law allows for retaining existing operations for two years and then one-year extensions for a total of five years. Citigroup expects that within this five-year window, the provision would be relaxed and the company need not divest its insurance operation. The other factors for concern are –a) whether such a giant company would be flexible and able to respond to market changes quickly, and b) be able to integrate the different culture and resources of these two different companies.

The Henry Fund portfolio includes 420 shares of Travelers, comprises 10.87% of total portfolio holding valued at April 15, 1998 prices. TRV is the largest individual holding in the portfolio. In view of the uncertainties involved, it seems reasonable to partially liquidate our holdings of this stock and limit the exposure. We recommend selling 120 shares, comprising 29% of the total TRV holding. This would reduce TRV's weight in the active portfolio to 7.76%. The partial liquidation would allow us to share possible upswings from the merger which the financial markets are betting on as evident from the subsequent merger announcement of NationsBank/BankAmerica and Banc One/First Chicago NBD.

The Travelers Group, Inc. (TRV)

					EPS	P/E
April 30, 1998 Price	$61^3/_{16}$	Market Cap. (mil)	$70,527.77			
52 Week Price Range	73 - 36	Shares Outst. (mil)	1,152.65	1997	2.69	24.35
52 Week Return	95.10%	Dividend Yield	0.76%	1998E	3.24	20.19
ROE	16.34%	Beta	1.59	1999E	NA	NA

Source: Bloomberg

HEALTHCARE

12.74% of the Active Portfolio

Analyst: Lana Kalinina **10.95% of the S&P500 Index**

The health care industry is one of the largest segments of the U.S. economy, representing about one-sixth of the annual gross domestic product (GDP). In 1995, total national health expenditures (NHE) in the United States were estimated to have reached $988 billion dollars - 13.6 percent of the GDP[3]. The share of GDP allocated toward health has more than doubled in dollar terms since 1975 when it was just 8.0 percent. Rising health care costs can be attributed to several factors, notably demographic shifts in the population and the explosion of life-prolonging innovation.

With a large portion of healthcare costs funded by federal or state government programs, there are frequent government proposals to "reform the industry" in an effort to lower the amount of spending on healthcare. Since the beginning of the decade, the healthcare industry has faced rapidly changing market conditions. The threat of government-legislated health care reform in the early 1990s had a profound impact on many players, from insurers to providers, in the health care market. In an effort to productively manage the expected market reforms, sweeping strategic shifts were undertaken such as horizontal integration with complimentary organizations, vertical integration into managed care distribution through the purchase of pharmacy benefits management companies, etc.

The outlook for most of the managed healthcare sector is greatly affected by government efforts to reshape the U.S. healthcare system. The primary drivers of federal health policy include the federal budget and deficit; the amount of public debt; the financial status of Medicare trust funds; state budget shortfalls or surpluses; general business profits and growth trends; and public perceptions of the U.S. healthcare system and of the need for changes.
The overall fundamental outlook for the health care industry is favorable due to the strong performance of all the subsectors.

- Fundamentals for the U.S. ***pharmaceutical group*** have never been brighter. Earnings growth can be sustained in the 15-16% range, on average, through the end of the decade, driven by unit volume growth, new product rollouts, continued active consolidation, and a relatively friendly regulatory environment. Issues to focus on are pricing, currency, patent expirations, and valuation, but they are all manageable.
- The fundamentals that tend to drive ***the biotechnology industry*** are still intact. Innovation is still a major part of the industry, involving many cutting-edge technologies in life sciences for the pharmaceutical industry. As essentially the R&D arm of the drug industry, alliances between pharmaceutical and biotech companies are expected to continue. Many companies in the biotech area are still basically one-product players, which results in considerable volatility in the stock price.
- Ongoing growth in the ***managed care industry*** is expected because employers will continue to seek lower cost healthcare benefit solutions. Pricing has improved in 1997, and there will be a tremendous focus on the cost side - both on medical costs and on overhead economies-of-scale. Companies with consumer-driven products, strong infrastructure, and clinically-based information-driven medical management will be the primary beneficiaries.
- Fundamentals for ***healthcare service providers*** remain mixed. Pressure points on pricing and utilization persist as managed care penetration continues to increase. With the pressure on inpatient admissions, hospitals continue to pursue outpatient business; publicly traded hospital management companies are generating some 40% of their revenues, on average, from outpatient sources. In the long-term care industry, fundamentals appear to be steady to slightly positive. The challenge for the industry is to keep a steady stream of referrals of short-stay patients.
- ***Medical device industry*** fundamentals are expected to remain excellent over the next several years, reflecting a continued rise in surgical procedure rates, the effectiveness of devices relative to some drugs, increasing globalization of medical device companies, a friendlier regulatory environment, and further consolidation of this fragmented industry. Two issues to watch are currency fluctuations and managed care.

PORTFOLIO HOLDINGS

United HealthCare Corporation **2.79% of the Active Portfolio**

[3] Health Care Financing Administration (HCFA) database, 1997.

United HealthCare Corporation owns and manages health maintenance organizations and provides specialty managed care services to individuals through employers, employee groups, insurers and HMO operators. Services provided include claims processing and marketing, financial and accounting services, prescription drug benefit programs, mental health/substance abuse programs and other programs.[4]

Being the largest for-profit health care management organization, it is viewed as the premier company in the industry. The company has excellent market position, with dominant health plans and multiple markets and attractive growth opportunities in its core business, particularly its consumer-driven product design (point-of-service and open-access plans) and the ability to leverage the base of assets in the MetraHealth acquisition. As a result, United continues to achieve above-industry health plan growth despite tight pricing discipline. It has shown incredibly strong enrollment growth in 1997 to date. The company has a clinically driven medical management focus that is data driven. That makes it relatively unique in this industry. Being one of the best-positioned large health care companies, it is likely to sustain long-term growth of 15-20% or higher for revenue and 18-22% for EPS.

Despite the positive outlook for the company and its strong fundamentals I maintain hold recommendation based on the price. The company is fairly valued and all the strengths and positive expectations are already incorporated in the price.

United HealthCare Corporation (UNH)

					EPS	P/E
April 30, 1998 Price	70¼	Market Cap. (mil)	$13,457.09			
52 Week Price Range	72 ½ - 43 $^{1}/_{16}$	Shares Outst. (mil)	191.56	1997	2.30	28.06
52 Week Return	43.43%	Dividend Yield	0.04%	1998E	2.76	24.51
ROE	10.16%	Beta	1.13	1999E	3.30	20.53

Source: Bloomberg

Pfizer, Inc. — 9.95% of the Active Portfolio

Pfizer Inc. produces ethical drugs, hospital products, animal health items and consumer products. In the early 1990s the management of Pfizer stuck with its belief that innovative products will assure success and that even with more restrictive market conditions customers will still demand those superior products. With over 100 discovery projects and 150 research partnerships, this strategy has paid off, as Pfizer has one of the most expensive pipelines in the pharmaceutical industry.

The company spent about $2.0 billion on R&D in 1997 and currently has 35 products in late stage development. The revenue growth is projected to reach $14.9 billion in dollar terms in 2000. The bulk of this growth is expected to come from core therapeutic areas such as anti-invectives, cardiovascular and CNS drugs, growing by 14%, 14% and 21%, respectively. Currently marketed products that will drive near-term growth include Zithromax for infections, Cardura and Norvasc for hypertension and Lipitor (co-promoted with Warner-Lambert) for elevated cholesterol. EPS are projected to grow by 20% per year through 2001, driven by 16-18% top-line growth and margin gains. Growth should accelerate as 1998 progresses, given impact from new drug rollouts. The company has already added two new drugs in 1998, Trovan and Viagra. Viagra is expected to be a new blockbuster drug for the company. The possible divestiture of the medical technology division is also expected to contribute to this growth, as the company will concentrate on its core business.

Pfizer, Inc. (PFE)

					EPS	P/E
April 30, 1998 Price	113 $^{13}/_{16}$	Market Cap. (mil)	$147,808.29			
52 Week Price Range	117 $^{5}/_{8}$ - 48	Shares Outst. (mil)	1,298.7	1997	1.76	34.28
52 Week Return	126.54%	Dividend Yield	0.68%	1998E	2.04	51.66
ROE	29.7%	Beta	1.0	1998E	2.45	42.87

Source: Bloomberg

[4] Hoover's Handbook, 1997

INDUSTRIALS

6.15% of the Active Portfolio

Analyst: Jonathan Schaller **7.03% of the S&P 500 Index**

Industrial companies produce an array of products and services sold as final goods or utilized as inputs to produce others. In fact, the Industrial Sector incorporates a wide variety of companies as well as sun-industries. Based upon the Henry Fund benchmark, the S&P 500, the industrials sector is comprised of seven subgroups. These include: Aerospace/Defense, Electrical Equipment, Engineering & Construction, Heavy Trucks & Parts, Machinery-Diversified, Manufacturing-Diversified and Pollution Controls.

The driving factors for the Industrial Sector are interest rates, economic cycles, diversification and expansion. Industrial firms are sensitive to interest rates and economic cycles due to their large capital requirements. As mostly large and mature industries, the capital goods industries share a number of trends and general themes. Among the common issues are globalization, consolidation, cyclicality and ever-growing demands for improved value and service.

In general, Industrial companies compete in mature markets. Because of this factor, companies operating in this realm are forced to look globally for growth opportunities. In fact, most capital goods companies have opened their operations across various borders and continents.

In an effort to increase market penetration and share, companies have trended toward consolidation. While the largest segments have tended to be highly centralized, the opportunities are present for smaller acquisitions offering line extensions or region penetration. Companies can expand their geographic range or acquire specialty firms that expand their capabilities.

As in many industries, this industry are highly cyclical. The industry tends to lag behind the economies of nations. This is due to the fact that during the beginning stages of economic expansion, excess capacities tend to exist. As the economic cycle progresses, capacity utilization rates tend to increase. The reverse, concurrently, happens during a recession or slowdown. Thus, the margins of capital goods companies act in accordance with the economy. This however, is done through a lagged effort. Product diversification within core competencies and international expansion are the prevailing strategies used to alleviate exposure to interest rates and economic cycles.

PORTFOLIO HOLDINGS

Caterpillar, Inc. 3.62% of the Active Portfolio

Caterpillar, Inc. designs, manufactures, and markets earthmoving and construction machines, as well as mining and agricultural machinery. Caterpillar also provides financing alternatives for its equipment. The company's products are distributed through 65 dealers in the United States and 132 internationally. Caterpillar conducts business operations in three principal areas: machinery, engines and financial products. Caterpillar machines are used for marine, agricultural, petroleum, industrial and other applications. The company competes in markets around the world with international equipment sales from Asia/Pacific, Europe, Latin America, Africa/Middle East and Canada. The firm's strong franchise name and dealer network in international markets are helping the company gain market share in rapidly developing regions of the globe.

Imagine generating nearly $1 billion dollars in free cash flow. The thought seems almost unimaginable. Caterpillar, however, is doing just that. Concurrently, the company is using this cash flow to invest in the most attractive growth opportunities awaiting the company. In fact, the company expects the traditional areas of business to experience sustained growth in both industrialized nations as well as developing countries. In addition, growth will come from the introduction of new product lines.

Financial results demonstrate the soundness of the company's strategies. From 1993 to 1997 sales and revenues increased 63%. In addition, profit increased 155%, while profit-per-share increased 176%. Caterpillar's export sales from the United States also set a record in 1997, totaling more than $6 billion, the highest ever.

Caterpillar has recently announced that continued growth and profitability appear to be realistic possibilities, allowing the company to grow for decades to come. Fundamental building blocks for continued success and future growth are in place at Caterpillar. These include modern factories and processes, cutting-edge technologies, an effective organizational structure and culture, and new product families to serve expanding markets.

Caterpillar, Inc. (CAT)

April 30, 1998 Price	$56^{15}/_{16}$	Market Cap. (mil)	$20,888.09		EPS	P/E
52 Week Price Range	$60^{15}/_{16}$ - $44^{1}/_{2}$	Shares Outst. (mil)	366.86	1996	7.07	12.60
52 Week Return	12.89%	Dividend Yield	1.83%	1997	4.44	12.10
ROE	20.83%	Beta	1.09	1998E	4.55	12.30

Source: Bloomberg

Emerson Electric Company — 2.53% of Active Portfolio

The products manufactured by the Company are classified into the following industry segments: Commercial and Industrial Components and Systems, and Appliance and Construction-Related Components. Emerson Electric Company principally designs, manufactures, and sells a variety of electrical, electromechanical, and electronic products and systems. Emerson produces process control instrumentation, industrial motors, industrial machinery and electronics. Emerson also provides fractional motors and appliance components as well as heating and air conditioning parts and tools.

The Commercial and Industrial segment includes process control instrumentation, valves and systems; industrial motors and drives; industrial machinery, equipment and components; and electronics. These products are generally highly engineered, both in product design and manufacturing process. Products of this segment are sold to commercial and industrial distributors and end-users for manufacturing and commercial applications.

The Appliance and Construction-Related segment consists of fractional motors and appliance components; heating, ventilating and air conditioning components; and tools. This segment includes components sold to distributors and original equipment manufacturers for inclusion in end products and systems. These components are then sold through commercial and residential building construction channels. Originally engaged in the manufacture and sale of electric motors and fans, Emerson subsequently expanded its product lines through internal growth and acquisitions. Emerson is now engaged principally in the worldwide design, manufacture and sale of a broad range of electrical, electromechanical and electronic products and systems.

Emerson concluded the 1997 fiscal year with record sales, net earnings and earnings per share. This achievement was the 40th consecutive year of increased earnings and earnings per share for the company. In addition, sales, net earnings and earnings per share of Emerson for the first quarter of 1998 were the highest for any quarter in the company's history. The increase was the result of domestic demand and the contribution of 1997 acquisitions, including consolidations. Excluding the negative impact of currency, underlying international subsidiary sales showed solid improvement as a result of continuing strength in Latin America as well as improving conditions in Europe. However, export sales were limited by weakness in the Asia-Pacific region, particularly for heating, ventilating and air-conditioning products.

Emerson Electric Company (EMR)

April 30, 1998 Price	$63^{5}/_{8}$	Market Cap. (mil)	$28,211.33		EPS	P/E
52 Week Price Range	$67^{1}/_{8}$ - $50^{5}/_{8}$	Shares Outst. (mil)	443.4	1996	2.28	22.30
52 Week Return	15.39%	Dividend Yield	1.81%	1997	2.59	25.10
ROE	19.03%	Beta	0.94	1998E	2.79	23.30

Source: Bloomberg

TECHNOLOGY

12.43% of the Active Portfolio

Analyst: Darren Hulse

14.15% of the S&P 500 Index

The technology sector is driven by many factors, growth in computer sales, economic growth, competition, and pricing pressures to name a few. The end of 1997 and the Southeast Asia Crisis showed just how important economic conditions are and will continue to be in the technology sector. At the same time Southeast Asia is casting a shadow over many companies, Asia still has enormous long-term potential.

The technology sector is at the stage where consumers are stressing an importance on added-value. Consumers are becoming much more service oriented instead of product oriented. Investment opportunities will arise from companies being able to provide high quality products and services to the consumer. Also the ability to penetrate foreign markets will become increasingly important as computers begin to catch on worldwide. The Internet is a prime example as companies seek to establish worldwide networks, and most companies are realizing the importance of providing products and services over the Internet.

PORTFOLIO HOLDINGS

Intel Corporation — 5.01% of the Active Portfolio

Intel is the world leader in the design and manufacturing in microprocessors, the central processing unit of PCs. Recently, Intel has suffered a sharp decrease in its share price. Intel has responded to the weak first quarter by proposing to reduce 3000 workers over the next six months, delaying construction of a new plant, and increasing their stock repurchase program.

After an unimpressive stock return in 1997, Intel's share price has fallen due to concerns of low earning expectations, a direct result of a slowdown in demand, increased costs, falling computer prices, and increased competition from rivals. Intel is meeting these threats by introducing a new 400mhz processor which keeps them ahead of AMD which only recently began delivering 300mhz K6 processors. A strong demand for these chips should result with the introduction of Microsoft's next generation Windows 98 and NT 5.0 operating systems. At the same time Intel has introduced a 266mhz processor (Celeron chip) which targets the sub $1000 computer market. Intel also has been creating demand by introducing plans to use their chips in other areas such as digital television, automobiles, home appliances, Internet machines, and many other areas, as well as developed the next generation chip architecture, *Merced*. These plans should pay off for Intel in the long-run.

Using a discounted cash flow analysis, we have valued the Intel common shares at $98. Intel is 4.79% of the active Henry Fund portfolio. We believe Intel is in position to shake off its poor stock performance of the last six months and get back on track in the second half of 1998. Considering low worldwide penetration rates of computers and a shortening of replacement cycles, Intel will continue to be a very attractive long-term investment.

Intel Corporation (INTC)

					EPS	P/E
April 30, 1998 Price	$80^{13}/_{16}$	Market Cap. (mil)	$131,562.75			
52 Week Price Range	$100^{1}/_{2} – 69^{1}/_{8}$	Shares Outst. (mil)	1,628	1997	3.87	17.94
52 Week Return	17.02%	Dividend Yield	0.16%	1998E	3.28	23.27
ROE	31%	Beta	1.39	1999E	4.07	18.74

Source: Bloomberg

Cisco Systems, Inc. — 7.42% of the Active Portfolio

Cisco is the largest and most diversified networking equipment supplier in the world. Cisco is an active acquirer of smaller networking companies and has an uncanny successful track record with these acquisitions. Two such purchases were announced in the last month alone, NetSpeed and Precept Software. Cisco provides an investor with access to all the different areas within the networking universe.

1997 proved to be an exciting year for Cisco with a 94% return in the last year. Much of Cisco's success has come at the hands of their competitors' downfall. While share prices of many of Cisco's competitors plummeted, Cisco gained market share as businesses looked for companies that could satisfy all of their networking needs. Cisco has also been very active in acquiring companies to complete their product lines and has a successful record of acquiring companies. Cisco is in the top three in all of their product categories.

Using a discounted cash flow analysis, the intrinsic value of the company is $73. While the importance of the Internet and the number of businesses setting up various networks continue to grow, the market for networking equipment offers one of the strongest growth opportunities available in the technology sector.

Cisco Systems, Inc. (CSCO)

April 30, 1998 Price	$73^{1}/_{4}$	Market Cap. (mil)	$74,933.79		EPS	P/E
52 Week Price Range	$73^{7}/_{8}$ - $34^{1}/_{2}$ -	Shares Outst. (mil)	1022.987	1997	1.37	51.82
52 Week Return	94.63%	Dividend Yield	0.00%	1998E	1.74	38.22
ROE	25%	Beta	1.39	1999E	2.15	30.93

Source: Bloomberg

TRANSPORTATION

2.18% of the Active Portfolio

Analyst: Shane C. Larson **1.60% of the S&P 500 Index**

The transportation sector is composed of airline, railroad, trucking, maritime and logistic companies. Over the past few years these segments have seen substantial stock price appreciation as a result of job specific management which has conservatively increased revenues, aggressively cut cost, and substantially improved asset utilization. Going forward, the transportation industry will have significant consolidation and growth in earnings opportunities as companies continue to focus on adding shareholder value.

Consolidation in the **railroad industry** may be nearing an end as customers continue to demand answers for the problems with the merger between Union Pacific and Southern Pacific. In the railroad industry, revenue growth will be hard to come by, therefore, earnings growth will continue to come from cost cutting and rationalization of nonessential and non-performing assets. A stock to watch in this industry is Canadian National (CNI) which will be rationalizing a substantial portion of its non-performing assets.

The **trucking industry** experienced revenue growth as a result of higher rate structures, which remained in effect due to capacity constraint. Driver retention remains the largest hindrance to growth for the industry. Driver pay has increased, and the associated costs have been passed through to customers. With lower fuel costs and cargo moving from rails to truck the industry is positioned to see larger profits throughout 1998. A stock to watch in this industry is CNF Transportation (CNF), which may gain a larger portion of the U.S. Postal contract as Phase II is implemented.

In the **airline industry**, 1998 will be the fifth consecutive year of profits for the industry. It is important to remember that the airline industry has never had more than three consecutive years of profits, but I believe that new management has been job specific – focusing on profit and loss. Profit has returned with stable prices, which has been fueled by capacity rationalization and improved asset utilization. The principal component of regional airlines' growth has been the turnover of unprofitable markets by the majors to their code-sharing regional airline partners. Although this is expected to slow somewhat, regional airlines are expected to grow on average at a 15% compounded annual rate for the next several years. A stock to watch in this industry is U.S. Airways (U), new management will look to reduce costs through an alliance or possible merger.

PORTFOLIO HOLDINGS

Comair Holdings, Inc. — 1.14% of the Active Portfolio

Comair Holdings, Inc. is the parent of Comair, an airline operating code-sharing agreements with Delta AirLines from hubs in Cincinnati and Orlando. Comair's 92 aircraft fleet serves 79 cities in 28 states and three countries with a route network that stretches east-west from Boston to Wichita and north-south from Montreal to Nassau. Approximately 80% of Comair's capacity serves the Cincinnati hub, 14% in Florida (Orlando hub and intra-Florida service) and the remainder in the Northeast. Comair has a single code-sharing agreement with Delta, which owns 21% of the company.

Comair also known as the Delta connection continues to take advantage of this by filling the gap for short and intermediate flights for its partner Delta. As the majors' continue to reduce slots in underutilized cities – Comair will be able to increase its load factor – leading to increased profits. In 1997 the average load factor for the majors was 68% while during that same time Comair's load factor averaged 63%. Ultimately, the company has room to improve its cost structure and utilization of assets, but if fuel prices remain low and the rate structure remains in place Comair will continue to add value for shareholders.

The recent development between Continental and Northwest to code share domestically could eventually put some pressure on Comair's Cincinnati hub. With hubs in Cleveland, Detroit and Minneapolis, NW/CO will be a very powerful juggernaut in the Midwest; this could be a concern to Comair since the Cincinnati hub supports a substantial amount of flow traffic. However, in the near term, we think the impact to Comair will be minimal since a priority for NW/CO in each of their major hubs will be to better serve the large local market.

The stock has appreciated nicely over the past year, it has some short-term concerns but I continue to recommend that the fund maintain it position for the following reasons: 1) the company continues to surprise consensus estimates; 2) the company has $250 million in cash on the balance sheet which could be used to repurchase stock or make acquisitions; 3) the Cincinnati hub has favorable growth prospects. My price objective is $32 which represents a 26% increase over the next 12 months.

Comair Holdings Inc. (COMR)

					EPS	P/E
April 30, 1998 Price	$27\frac{5}{16}$	Market Cap. (mil)	$1,824.20			
52 Week Price Range	$30\frac{1}{8} – 13\frac{21}{64}$	Shares Outst. (mil)	66.79	1997	1.13	22.12
52 Week Return	24.35%	Dividend Yield	0.64%	1998E	1.43	17.48
ROE	30.57%	Beta	0.56	1999E	1.60	15.63

Sources: First Call & Bloomberg

Heartland Express, Inc. — 1.04% of the Active Portfolio

Heartland Express, Inc. is a short-to-medium haul truckload carrier based in Iowa City, Iowa. The Company provides nationwide transportation service to major shippers, using late-model tractors and a uniform fleet of 53-foot aluminum plate dry vans. The Company's primary traffic lanes are between customer locations east of the Rocky Mountains, with selected service to the West. Management believes that the Company's service standards and equipment accessibility have made it a core carrier to many of its major customers.

Heartland Express has grown revenues at a compound annual growth rate of 18% since 1993, while at the same time maintaining an average operating ratio of 84.4%. Earnings estimates are difficult to make for this company due to the lack of information that the company provides to the public. To quote Russell Gerdin, CEO, “I won’t tell you from what orchard the apples were taken from, and I won’t tell you how much sugar I used all I will tell you is that your going to get a good pie.” I estimate that the company can grow 1998 earnings to $1.20 with a price target of $33. As of the end of 3Q97 the company sells at a 36% premium on twelve month forward earnings to the S&P 500, a stark contrast to its peers in the truckload industry that trade at a 1% discount to the market.

Growth in the 15% - 20%. As stated earlier Heartland has had revenue growth over the past five years of 18% (CAGR) and EPS growth of 24% (CAGR using 1997 EPS estimate of $1). The company contends that it will continue this trend by growing revenues internally and by making acquisitions that are profitable. Management admits that its acquisition history has not been impeccable, the Munson acquisition in March of 1994 had extreme difficulties.

Operate in the low 80’s. The average margin for the truckload industry in 3Q97 was 12% (1 – OR, see figure 4), while during the same time period Heartland’s margin was 17%. This spread represents the focus of the company to only accept freight that it can make a profit on, typically time-sensitive, which the company charges a premium for. With such a low operating ratio one might conceive that Heartland has cut labor expense, but to the contrary the company pays one of the highest wages in the industry. This strategy has proven effective; driver turnover is down significantly compared to the industry as well as insurance claims as a result of hiring drivers with at least five years of work experience.

Do them both debt-free. Heartland is truly unique in that it carries no debt on its books. A policy that I disagree with, nonetheless a policy the company maintains will position them for future growth. John Cosaert, CFO, is a true believer in buy low and sell high, he seems to be waiting for a glitch in the economy that will force non-profitable trucking companies either into bankruptcy or to be acquired at a much lower price than what they are selling for currently.

Heartland Express (HTLD)

					EPS	P/E
April 30, 1998 Price	$24\frac{7}{8}$	Market Cap. (mil)	$746.25			
52 Week Price Range	$30\frac{1}{4} – 20\frac{7}{8}$	Shares Outst. (mil)	30	1997	1.00	24.00
52 Week Return	12.35%	Dividend Yield	0.00%	1998E	1.16	20.69
ROE	21.68%	Beta	0.37	1999E	1.33	18.05

Sources: First Call & Bloomberg

UTILITIES

9.62% of the Active Portfolio

Analyst: Idil Aydogan **16.30% of the S&P 500 Index**

A new era started in the Telecommunications Sector with the passage of the Deregulations Act of 1996. The consequences are the emergence of new players within each sub-sector of the industry, cost cutting efforts, alliances, increasing efficiency, big mergers that are designed to provide the “bundled” services and become major players not only in the US market, but also in the global market. Bundling of services is considered to be a way out of price wars, so as to stabilize the prices. So, every company in the market, be it local or long distance carrier is trying to position itself to offer all these bundled services to its customers. In the meantime the technology in the telecommunications market is advancing at an incredible pace. This is also to these companies’ advantage, but the ones who will win are going to be the ones, that make the right investment choices at the right time. In the mean time, the regulatory matters continue to be an obstacle for some companies. For example, it is highly unlikely that the RBOCs will succeed to enter the long distance business within their own territories. Even though a decision made by Judge Kendall, declaring a provision of telecom law against constitution seemed to clear up the way for RBOCs to accomplish their goals in a short cut, the appealing process is expected to extend the resolving of this issue into 1999. State by state activity on pricing for local services and treatment of an “unbundled network elements platform” (UNE-P) is also moving slowly. Also, the calendar is pushed back for Supreme Court hearing on FCC’s role on UNE-P, and is expected by October 1998. FCC-mandated price decreases for access charges have affected most of the long distance companies’ bottom lines favorably in 1997. Another important and unexpected obstacle to RBOCs is the Public Utility Commissions’ (PUC) decision to impose proper provisioning systems requirements to be able to qualify to enter the long distance market within their territories.

In the Electric Utility Sector, many electric companies are expected to combine forces with natural gas utilities, following the trend of becoming “total energy providers”. This will help them achieve greater scale in the face of a weakened top-line revenue growth, due to pricing pressures from industrial customers and regulatory caps on rates. Two major factors contributed negatively to the sector’s performance in 1997 and into 1998. First, the high prices in 1996 led major users such as electric utilities to switch to sources like coal. Second, the unexpectedly warm weather due to El Nino has caused less usage throughout the winter ‘97-98. However, in the near future the Gas Utilities’ earnings power is expected to rise due to policy decisions to reduce the pollution in the world. Natural gas is going to displace oil, electricity and coal in traditional industrial, commercial, residential and power applications. We expect to see consolidation in the sector to continue.

PORTFOLIO HOLDINGS

Ameritech Corporation 4.73% of the Active Portfolio

In the midst of a fast paced challenging telecommunications industry, Ameritech is strengthening its position by establishing strong brand equity. The Company is not only strong in marketing, but also its increasing power in providing a wide range of quality service is helping establish this brand equity. In addition to its local phone, cellular, wireless, paging, cable, Internet, and security monitoring services, the Company is the closest company within the Baby Bells to satisfy the requirements set forth by the FCC to get into the long distance business within its local territory. In fact, the Company is ready to give long distance in Illinois, Indiana, Michigan, Ohio and Wisconsin. Our outlook for the Company is positive for a couple of reasons. First, it announced very favorable results for 1997. The Company extended its record of double-digit profit growth to five consecutive years and 17 consecutive quarters. For the first time, however, the Company’s first quarter earnings fell 8% in 1998 because of expenses tied to a cost cutting program and its investment in Denmark’s Telecom Company. However, the charges included $64 million for a plan to reduce expenses by $3 billion over the next five years and $34 million for currency-related adjustment from its 42 % stake in Tele Denmark. Second, with the purchase of 42% stake ($3.2 billion) in Tele Denmark, the Company is becoming the largest US investor in European telecom business (with $5 billion invested so far). The expansion into Europe looks very favorable, as the Europe’s markets, which are expected to grow at 10% a year until 2002, have opened up competition at the beginning of 1998. The Company is also planning to cut 5,000 jobs, or about 7 percent of its work force, as part of a plan to slash expenses by $3 billion over the next five years. In addition, we believe the Company is very well positioned within the US market for future challenges, as it has expanded its platforms -- through major investments in high-potential areas such as security monitoring (doubled its business through acquisitions), cellular (launched a new digital cellular phone service in Detroit & Chicago areas) and cable TV.

Ameritech Corporation (AIT)

					EPS	P/E
April 30, 1998 Price	$42^{9}/_{16}$	Market Cap. (mil)	$46,848.54			
52 Week Price Range	$49^{3}/_{4} – 30^{1}/_{4}$	Shares Outst. (mil)	1,100.70	1997	2.12	21.06
52 Week Return	52.54%	Dividend Yield	2.77%	1998E	2.33	18.62
ROE	27.97%	Beta	0.93	1999E	2.57	16.88

Source: Bloomberg

Enron Corporation 4.89% of the Active Portfolio

The Company’s 1997 results reflected strong “operating” performance, which was offset by a number of non-recurring changes. Enron's core businesses generated recurring after-tax earnings of $585 million in 1997 compared with $493 million in 1996. However, due to those non-recurring charges, Enron reported 1997 “net income” of $105 million compared with $584 million in 1996. During 1997, Enron created a new business segment, Enron Energy Services (EES), which is developing energy products and services to sell directly to end use customers as deregulation opens this enormous market to competition.

Pacific Telesis Group has chosen Enron to supply electricity and to develop and implement energy management and efficiency projects for the telecommunications giant's 8000 facilities in California. The Company is also further penetrating into South America, with plans to build and operate a 480-megawattpower plant and a pipeline in Mato Grosso. Enron also won a contract for transmitting 1,000 megawatts of power from Argentina to Brazil, and signed a 20-year power purchase agreement with two Brazilian utilities. Furthermore, electricity is a very fast growing part of its Capital & Trade Resources segment.

Despite these positive remarks, the Company’s stock performance is less than what we expected for 1997. The consolidations and uncertainties in the Natural Gas & Electricity sectors negatively affected the Company. Another problem is that this winter the temperatures are warmer than normal (due to El Nino), and this is putting pressure on natural gas prices, as the storage levels rise. Another factor contributing to the Company’s pretty stagnant stock price is the losses it incurred due to its start up business, the Enron Energy Services (EES). However, the recently announced first quarter results started showing a much favorable picture for the Company through improvements in each of its core business groups. In addition, Enron's new energy services group continued investing in its growing business and executing contracts with end-users of natural gas and electricity.

Our outlook for the Company is that we should not expect a sudden increase in the stock price, as it will take sometime for these potential opportunities to pay off. However, in a long run perspective, we believe the Company is very well positioned and very strong within its industry, and should be able to change the investor perceptions in terms of its enterprise value.

Enron Corporation (ENE)

					EPS	P/E
April 30, 1998 Price	$49^{3}/_{16}$	Market Cap. (mil)	$15,326.83			
52 Week Price Range	$51^{15}/_{16} – 35^{5}/_{8}$	Shares Outst. (mil)	311.60	1997	0.16	NA
52 Week Return	34.71%	Dividend Yield	1.96%	1998E	2.15	22.59
ROE	1.92	Beta	0.78	1999E	2.45	19.82

Source: Bloomberg

STATEMENT OF SECURITY HOLDINGS

April 30, 1998		April 30, 1997	
Active Portfolio (at market):		**Active Portfolio (at market):**	
Ameritech Corporation	11,917.64	Ameritech Corporation	$8,558
Amoco Corporation	4,260.00	Amoco Corporation	$4,014
Bemis Inc.	4,005.00	Bemis Inc.	-
Caterpillar Inc.	9,110.08	Caterpillar Inc.	$5,340
Cisco Sys Inc.	18,678.75	Cisco Sys Inc.	-
The Coca-Cola Company	12,671.13	The Coca-Cola Company	$9,035
Comair Holdings	2,867.87	Comair Holdings	-
Disney Walt	14,947.56	Disney Walt	-
Dollar General Corporation	10,108.00	Dollar General Corporation	$5,408
Emerson Electric Corporation	6,368.80	Emerson Electric Corporation	-
Enron Corporation	12,297.00	Enron Corporation	$6,208
Fifth Third Bancorp.	10,120.00	Fifth Third Bancorp.	$6,119
Fila Holding S.p.A.	-	Fila Holding S.p.A.	$2,163
Heartland Express Inc.	2,611.88	Heartland Express Inc.	-
Hilton Hotels Corp.	5,429.46	Hilton Hotels Corp.	-
Intel Corporation	12,606.83	Intel Corporation	$11,944
Lucent Technologies Inc.	-	Lucent Technologies Inc.	$2,360
Mobil Corporation	10,761.00	Mobil Corporation	$4,290
Oracle Corporation	-	Oracle Corporation	$9,540
PepsiCo Inc.	12,858.90	PepsiCo Inc.	$10,463
Perez Companc	6,062.60	Perez Companc	$7,247
Pfizer Inc.	25,038.86	Pfizer Inc.	-
Philip Morris Companies	9,652.50	Philip Morris Companies	$8,859
Sherwin Williams Company	6,555.00	Sherwin Williams Company	$5,566
St. Jude Medical Inc.	-	St. Jude Medical Inc.	$3,153
State Street Corporation	10,010.00	State Street Corporation	$5,513
Travelers Group Inc.	25,698.96	Travelers Group Inc.	$15,540
Tricon Global Restaurants	-	Tricon Global Restaurants	-
United HealthCare Corporation	7,025.00	United HealthCare Corporation	$4,863
Total Active Portfolio	**251,662.82**	**Total Active Portfolio**	**$136,180**
Vanguard Index Trust	$28,060.94	Vanguard Index Trust	$57,284
Money Market	$2,833.85	Money Market	$5,148
Cash Balance	$120.74	Cash Balance	$4,173
Total Fund Assets	**$282,678.35**	**Total Fund Assets**	**$202,785**
Scholarship Appropriation	($4,000)	Scholarship Appropriation	($4,000)
Net Fund Assets	**$278,678.35**	**Net Fund Assets**	**$198,785**

INCOME STATEMENT

April 30, 1998		April 30, 1997	
Beginning Fund Balance	**$198,785**	**Beginning Fund Balance**	**$151,670**
Cash Added	$1,612	Cash Added	$9,897
Income		Income	
Dividend Income - Active	$2,781	Dividend Income - Active	$2,254
Dividend Income - Index	$334	Dividend Income - Index	$842
Interest Income	$268	Interest Income	$99
Total Income	**$3,383**	**Total Income**	**$3,195**
Capital Gains		Capital Gains	
Realized - Active	$305	Realized - Active	$879
Realized - Index	$170	Realized - Index	$157
Unrealized - Active	$74,367	Unrealized - Active	$32,788
Unrealized - Index	$6,136	Unrealized - Index	$8,339
Total Capital Gains	**$80,978**	**Total Capital Gains**	**$42,163**
Capital Losses		Capital Losses	
Realized - Active	($213)	Realized - Active	($1,187)
Unrealized - Active	($1,868)	Unrealized - Active	($2,945)
Total Capital Losses	**($2,081)**	**Total Capital Losses**	**($4,132)**
Taxes and Fees	$0	Taxes and Fees	($15)
Scholarship Appropriation	($4,000)	Scholarship Appropriation	($4,000)
Miscellaneous	$1	Miscellaneous	$7
Ending Fund Balance	**$278,678**	**Ending Fund Balance**	**$198,785**

A special thanks to Idil Aydogan and Abhijit Sengupta for their dedication and commitment to the 1998 Annual Report.