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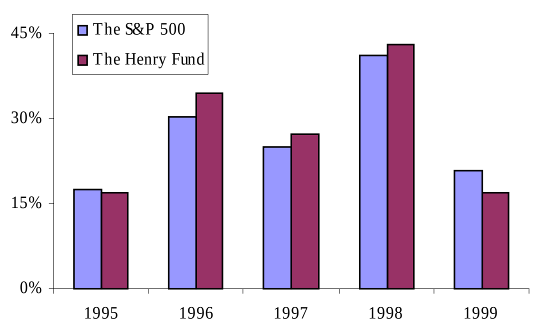
LETTER FROM THE INVESTMENT TEAM

DEAR STAKEHOLDERS,

As the entrusted members of The Henry Fund, we all realized the challenge that we had ahead us as we took over the fund management in the fall of 1998. Our task was to keep the strong tradition of the fund alive and continue to earn above average returns in a world of volatile and ever changing markets. Through hard work and guidance by professionals in both the academic arena and the investment community, we feel we have made the changes that will enhance and continue the proud tradition of the fund.

As of the end of the fiscal year, ending April 30, 1999, the total return to The Henry Fund was 16.9% compared to a return on the S&P 500 of 20.8%. While this performance level was below that of the S&P, we feel that we have made the appropriate investment decisions that will lead to equal or above average return relative to the S&P in the future.



The investment philosophy of the fund was based on two primary principles:

- Using the Discounted Cash Flow (DCF) model we hoped to better understand the true value creation of the companies in the portfolio, while at the same time being able to quantify risk and the future cash flows.
- We invested in companies that provide positive earnings potential into the future based on their standing in their industry and firm specific economic factors.

In addition to building on the tradition of the fund's performance we also aimed to continue to build a stronger network with the business and investment community. This was accomplished through in class speakers, company visits, and presentations to members of the investment committee.

It was also decided that in order for The Henry Fund to outperform the S&P 500 we would need to reduce the amount of cash holdings that the fund had. In the process of reassigning the new weights to the economic sectors we used the excess cash built up through cash tender offers and dividends to increase the amount of money held in the active portfolio. Through this action we hope to increase our return as we continue to invest in high quality investment vehicles.

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 adviser, who provided invaluable guidance and wisdom. He will be missed greatly. In addition thanks go out to members of the Investment Advisory Committee, The Henry Fund Donors, and the many research and resource contributors listed in the acknowledgements section of this report. Their valuable contributions of time and resources have made The Henry Fund a success.

We welcome the 1999-2000 Henry Fund team and wish them the best of luck.

Best Regards,

THE 1998-1999 HENRY FUND TEAM

Ryan Anderson	**Consumer Cyclical**
Daniel Gu	**Utilities**
Michael Harmelink	**Energy**
Brent Krambeck	**Financial**
Jennifer Meents	**Healthcare**
Michael Ostern	**Transportation**
Daniel Reouk	**Industrials**
Jonathan Sarvis	**Consumer Non-Cyclical**
John Volanis	**Basic Materials**
Hemant Wadhwa	**Technology**

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 manager's 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 cyclical; consumer non-cyclical; 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 managers perform the administrative tasks of portfolio management, including marketing the fund to outside donors and producing an annual report.

THE HENRY SCHOLAR

A portion of the returns generated by The Henry Fund is used to support a scholarship, The Henry Scholar. The 1995-96 Henry Fund Team created the program. 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 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, NA
Henry B. Tippie, Rollins Truck Leasing Corp.

Henry Royer attended Colorado College, where he received a BA 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. In February 1999, Tippie made a major commitment to the College of Business Administration to support its students and faculty. In recognition of his past, present, and future support that will exceed $30 million, the college will be called the **Henry B. Tippie College of Business.**

ACADEMIC ADVISOR

Tim Loughran

BROKERAGE SERVICES

Securities Corporation of Iowa

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Michael Sandler
Pacific Financial Research

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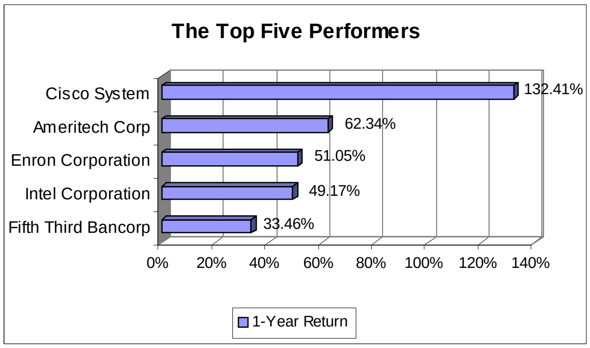
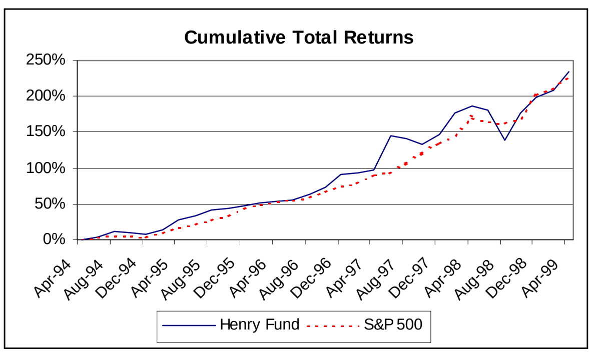
EXCHANGE DATA CONTRIBUTORS
Dow Jones Markets
The Iowa Exchange Data Consortium

FUND PERFORMANCE

The semester started with the Russian Collapse. Shortly after came the Brazilian Crisis. Within the past year we experienced an astonishing 3000 point-swing of the Dow Jones, which eventually broke through the 10,000-point barrier for the first time in history in April 1999. The extreme volatility of the market made it very challenging to compete with the S&P 500. The Henry Fund achieved a return of 16.88% compared to the S&P 500 Index return of 20.82% for the 12-month period ended in April 30, 1999. The market value of the active portfolio of the fund increased from $251,662 on April 30, 1998 to $294,131 on April 30, 1999. The stellar performers were our holdings in the financial services, technology, and utilities sector.



Since its inception in 1994, The Fund has posted a cumulative return of 234.87%, which is 6.17% above the return of the S&P 500 Index.



Basic Materials

Basic material stocks have under-performed the S&P 500 over the last few years with few exceptions. Bemis Company has been altering its strategic position in the past few years, and thus, has been involved in major acquisitions and divestitures with varying performance results, which became apparent in 1998 and the 1st quarter of 1999. AK Steel Holding Corp. has proved itself as the steel industry leader, distancing itself from the pack. The company has managed above average profitability in a below average profitability industry. This is due to the effectiveness of management and employees, the productivity of manufacturing operations and the quality of products and customer service. We will delete Bemis from our portfolio and add AK Steel, slightly increasing our exposure in the sector.

Consumer Cyclical

In the consumer cyclical sector, Dollar General continued to perform well, driven by continued strong sales gains and a more efficient distribution network. The Walt Disney Company, although experiencing weakness in its Broadcasting and Creative Content segments, continues to offer The Fund significant stock price appreciation potential due to its valuable brand image, its pipeline of new products, and its expansion on the Internet. Hilton Hotels, a holding since 1996, spun off its gaming operations as Park Place Entertainment in 1998. Given the increased uncertainty in the future of the domestic and international economies, declining fundamentals in the upscale hotel and gaming industries, as well increased risk due to the lack of diversification at these two companies, we propose to sell our investments in Hilton and Park Place. Dayton Hudson is our proposed replacement, which offers the Fund rational growth in an expanding industry through its Target subsidiary. Hasbro acquired Galoob Toys, a portfolio addition in May 1998, for $12 per share in Nov. 1998.

Consumer Non-Cyclical

The three consumer non-cyclical stocks - Coca-Cola, Philip Morris, and PepsiCo did not perform to our expectations. However, all three securities have made promising changes over the past year that will undoubtedly increase their returns to the Henry Fund in 1999. We have retained our holdings because of these changes, their excellent brand equity, strong distribution networks, and strong management teams.

Energy

Within the energy sector the holdings of Mobil performed very well in a time when the industry as a whole was depressed. For the 52 week period ending April 30th, 1999 Mobil had a return of 30.67%. In contrast Halliburton under-performed the market as a whole for the year. However, given the company's strong management team and their positioning in the market, it is believed that the company will generate positive future returns to the fund.

Financial

The financial sector holdings were again major contributors to the success of The Fund. The Fifth Third Bancorp continued its 25-year trend of consecutive earnings per share and dividend growth, ranking them 8th among all public companies for consistency of earnings and dividend growth. We maintained our position in State Street because of its solid performance and increase in institutional businesses. The merger between Travelers and Citigroup created a financial services giant. Citigroup had a poor performance over the summer but rebounded nicely in the first quarter of 1999 as management has begun to realize cross-selling opportunities and cost savings. We held our current weightings for the upcoming year in anticipation of further gains.

Healthcare

In August, United Health Group's stock price plunged on news of charges and a failed merger with Humana. Since then it has come back strong and is a hold because of improving conditions. We recommend selling 1/3 of our position in Pfizer because of its large weighting in the fund and remain optimistic about its future. Using the proceeds from the Pfizer sale, we recommend purchasing Pharmacia & Upjohn. In May 1997, Pharmacia & Upjohn's new management initiated a turnaround plan and 1998 results validate the success of the plan.

Industrials

Industrial sector consists primarily of mature companies with limited potential for growth. Within the sector we believe that electrical equipment has the highest potential for the long-term value creation. Thus our recommendations included purchase of Maytag, a producer of premium home appliances, which is known for its innovation. We also recommended sale of Caterpillar, due to the stagnant demand for construction equipment worldwide and company's inability to reduce costs. We maintain a 'hold' recommendation on Emerson Electric.

Technology

The technology sector's performance in the fund was driven by Cisco Systems. The company is well entrenched in the network equipment industry and is expected to maintain its leadership. We recommend selling part of the stock to avoid over exposure to our fund. The consumerization of PCs resulted in disappointing performance for Intel. However, with the growth of internet demand for file servers and more powerful PCs will help generate top line growth. This year we recommend adding EMC to our portfolio. With storage being viewed as strategically on par with the computer, most CIOs are separating the storage from the server purchase decision. Given these trends, we believe that EMC will be an attractive long-term addition to our portfolio.

Transportation

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. Its fiscal-year return has been 21.04%. We have proposed to sell our position in Heartland Express, because its recent performance of –43.40% for the past fiscal year has been disappointing and the lack of a growth catalyst for the future. Instead, we propose acquiring CNF Transportation, which has great future growth opportunities, one of which is the Priority Mail Contract recently awarded by USPS.

Utilities

The Utilities sector delivered solid performance for the last 12 months. Ameritech gained 62.34% while Enron rose 51.05%. Ameritech continued to deliver very solid growth for the 4th consecutive year. It has been diversifying its business into the wireless, data and cable businesses. Enron continues to aggressively reposition itself in response to the rapid deregulation and international energy market expansion. The company has been penetrating effectively into the higher end service businesses, which will significantly improve its margin. We recommend switching Ameritech to AT&T based on the regulatory environment which will be increasingly favorable towards the major long distance carriers as competition intensifies on the local access market and AT&T's improved market positioning through a series of acquisitions.

The Henry Fund analysts proposed a substantial reduction in The Fund's investment in the Vanguard Index Trust. The proceeds will be used to purchase new companies and to realign portfolio weightings. A complete listing of The Fund's current and proposed holdings is on the following page.

SUMMARY OF TRANSACTIONS

	Portfolio As of (# of Shares)		Proposed Action (# of Shares)	
	April 30, 1998	April 30, 1999	Addition	Deletion
Basic Materials				
Bemis Products, Inc.	90	-		90
AK Steel Holding Corp.	-	500	500	-
Consumer Cyclical				
Dollar General Corporation[1]	268	268	-	-
Hilton Hotels Corporation	170	-	-	170
Galoob Toys, Inc.	900	-	-	900
The Walt Disney Company [1]	120	120	-	-
Dayton Hudson Corporation	-	200	200	
Consumer Non-Cyclical				
The Coca-Cola Company[1]	167	167	-	-
PepsiCo, Inc.	300	300	-	-
Philip Morris Companies, Inc. [1]	260	260	-	-
Tricon Global Restaurants	30	30	-	-
Energy				
Halliburton Corporation	200	200	-	-
Mobil Corporation	136	136	-	-
Financial				
Fifth Third Bancorp	184	184	-	-
State Street Corporation	140	140	-	-
Citigroup, Inc.	420	420	-	-
Healthcare				
Pfizer, Inc.	220	220	-	70
United HealthCare Corporation	100	100	-	-
Pharmacia & Upjohn	-	140	140	-
Industrials				
Caterpillar, Inc. [1]	160	-	-	160
Emerson Electric Company	100	100	-	-
Maytag Corporation	-	160	160	
Technology				
Cisco Systems, Inc.[1]	255	282	-	100
Intel Corporation[1]	176	352	-	-
EMC Corporation	-	235	235	-
Transportation				
Comair Holdings, Inc.[1]	105	200	43	-
Heartland Express, Inc.	105	-	-	105
CNF Transportation	-	80	80	-
Utilities				
Ameritech Corporation[1]	280	-	-	280
Enron Corporation[1]	250	250	-	-
AT & T	-	480	480	-

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

BASIC MATERIALS

2.94% of the Active Portfolio

Analyst: John Volanis **3.55% of the S&P 500 Index**

The basic materials industry is divided into eight industries: 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 those in the Aluminum Industry. However, a bottom-up investment approach that focuses on companies strongly positioned in their markets with efficient operations even at potential downturns should lead to favorable returns for the Henry Fund.

PORTFOLIO HOLDINGS

Bemis, Inc. (NYSE: BMS) 2.94% of the Active Portfolio Proposed Deletion

Bemis is a leading North American Manufacturer of flexible packaging and pressure-sensitive materials. Bemis Company was formed in 1958. They primarily sell to customers throughout the United States, Canada, and Europe with a growing presence in Southeast Asia, and Mexico.

The company has been altering its strategic position during the last eight years, thus, has been involved in major acquisitions and divestitures with, I believe, varying performance results. This, coupled with falling prices and a general economic downturn apparent in the same period, has resulted in the company under performing the S&P 500.

It is expected that the same conditions will prevail both in the macro- and the microenvironment for at least another two years, with Bemis in the one-digit growth figures. Consequently, the share price is expected to level at the $30+ range by next May and Bemis to prove an unsuccessful investment for The Henry Fund.

In January 1997, Bemis acquired Paramount Packaging, a flexible packaging company. Some of the manufacturing plans acquired had operating problems that were unanticipated by Bemis management, so additional costs were incurred related to employee training, while two out of five plants were consolidated. This increased the total cost for the acquisition with the relative effect in Bemis efficiency for the year. During 1997 Bemis consolidated and / or reorganized its paper packaging plants with an impact on revenues and margins. At the same time the company increased its capital spending to a record 8.7% of sales

The above challenges were partly dealt with in 1997, but most of them carried over in 1998 and the first quarter of 1999, significantly affecting sales. In 1998 the company completed the acquisition of Techy Intl. (Belgium), to boost flexible packaging sales in Europe. At the end of the year the company reported a 2.1% decline in flexible packaging sales. Overall, during 1998, Bemis suffered a 2% decrease in sales. This, in addition to an increase in dividend yield and expected lower sales growth for 1Q1999 led the stock price to a ten-year low level of approximately $30 in April 1999.

Bemis, Inc. (BMS)

April 30, 1999 Price	36	Market Cap. (bil)	1.99		EPS	ROIC
52 Week Price Range	$30\frac{3}{16}$-$45\frac{5}{16}$	Shares Outs. (mil)	52.3	1998	2.09	17.2%
52 Week Return	(19.44)	Dividend Yield	2.41%	1999E	2.18	16%
ROE	16.27%	Beta	1	2000E	2.38	15.8%

AK Steel Holding Corp. (NYSE: AKS) Proposed Addition

AK Steel Holding Corp. is fully integrated producer of flat rolled steel, concentrating on the production of coated, cold rolled and hot rolled carbon steel primarily for sale to the automotive, appliance, construction and manufacturing markets.

The company has proved itself as the industry leader distancing itself from the pack. AK Steel has managed above average profitability in a below average profitability industry. This is due to the effectiveness of management and employees, the productivity of manufacturing operations and the quality of products and customer service. I consider this an investment that will add value to Henry Fund relative to our current holdings in the sector.

Outperformance: AK Steel's operating results have significantly outperformed those of its competitors during the past five years. The company has enjoyed the leading position in profitability per ton for the period. This profitability gap is expected to widen as the Rockport facility ramps up. The company has managed these results by driving costs down while constantly raising the productivity bar. Also, by focusing on the most demanding, profitable segments of the flat rolled steel market.

Rockport Works: The works do not add raw steel capacity, but finishing capacity. In this way Rockport will give AK Steel a 50% increase in shipments while reducing its low-end hot-rolled sales by 85%. This finishing capacity will enable the company's hot steel production to run at higher operating rates, bringing down the company's overall average production cost per ton.

Automotive Industry: AK Steel is heavily dependent on the automotive industry as a source of revenue. The auto sector accounts for roughly 50% of the company's shipments and a higher proportion of revenue. For the steel industry, auto exposure is value adding. For AK Steel even more, since the company has received several awards for its outstanding quality and service. North American light-vehicle production forecasts for 1999 are slightly below 1998 levels, and 1998 was considered a strong year.

Steel Pricing: The pressures on steel prices during the 2nd half of 1998 brought prices to the lowest levels seen in the last 20 years. As a result some producers were considering cutting on production in view of pricing not exceeding their marginal costs. The US department of Commerce announced preliminary antidumping margins against imports from Japan and Brazil. This has triggered a falloff in imports from the record levels seen during the 2nd half of 1998, and the trend is expected to continue. However, it will not reach levels where price may be considered favorable for producers, therefore the only companies in the industry that should make a difference are those low cost producers with growing shipment capabilities, like AK Steel.

Galvanized Steel Market: The high-end automotive and appliance coated steel is priced higher than the low-end construction and other end-use markets steel. This has been the trend during the last year ad is expected to continue. AK Steel, with its Rockport facility, is greatly weighted on the high-end market. Overall, coated steel is the fastest growing steel market in the US. Since 1991, the compound annual growth rate of apparent consumption of coated steel in the US has been 9.2% versus closer to 6.5% for overall steel consumption (including coated steel).

Labor Issues: AK Steel does not face the expiration of any labor contract during 1999. So, the company may even benefit if one of its competitors faces a strike, and there are some major producers faced with contract expiration through 1999.

AK Steel Holding Corp. (AKS)

					EPS	ROIC
April 30, 1999 Price	26	Market Cap. (bil)	1.59			
52 Week Price Range	$13^5/_8$ - $29^5/_8$	Shares Outs. (mil)	59	1998	1.92	15%
52 Week Return	25.30%	Dividend Yield	1.86%	1999E	1.90	10.6%
ROE	12.53%	Beta	1	2000E	2.91	13.2%

CONSUMER CYCLICAL

9.40% of the Active Portfolio

Analyst: Ryan J. Anderson **9.01% 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 include inflation, disposable income, unemployment, consumer confidence, interest rates and demographic trends. Another aspect that affects cyclical stocks is the aging of the baby boomers. By 1999, citizens aged 55 and over will account for a large proportion of the population. Throughout the 1990s 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. — 3.99% of the Active Portfolio

Dollar General Corporation operates more than 3,687 neighborhood stores in 24 states located typically in small communities 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 that will incur lower costs and provide better inventory controls. The company has been shifting away from hanging apparel and towards items like toiletries and snack foods, and its redesigned store format is more appealing to customers, uses space more efficiently, and offers improved traffic flow. 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	ROIC
April 30, 1999 Price	35 1/16	Market Cap. (mil)	7,012			
52 Week Price Range	20 – 38	Shares Outs. (mil)	177.0	1998	.85	23.2%
52 Week Return	-10.0%	Dividend Yield	0.39%	1999E	1.11	27.6%
ROE	28.7%	Beta	1.0	2000E	1.40	28.1%

The Walt Disney Company — 3.89% 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, Consumer Products, as well as the company's Internet businesses. 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 company's strong leadership, outstanding brands, franchise and media diversity, and global expansion opportunities will continue to make Disney a core holding for The Fund.

The Walt Disney Company (DIS)

					EPS	ROIC
April 30, 1999 Price	31 3/4	Market Cap. (mil)	68,612			
52 Week Price Range	22 – 43	Shares Outs. (mil)	2,037	1998	0.89	23.0%
52 Week Return	-11.2%	Dividend Yield	0.62%	1999E	1.08	18.9%
ROE	10.1%	Beta	1.0	2000E	1.20	21.3%

Dayton Hudson Corporation — Proposed Addition — N/A of the Active Portfolio

Dayton Hudson is the fourth largest retailer in the United States and operates three principal divisions. Target (851 stores) is an upscale discount chain operating in 40 states across the country, Mervyns's (268 stores) is a moderately priced family department store, and The Department Stores division (63 stores) operates under the Dayton's, Hudson's, and Marshall Field's nameplates. Dayton Hudson is dominated by Target, which has become a major provider of consumable basic merchandise, middle market apparel, and home fashion that appeals to a higher-demographic female customer. Dayton Hudson's EVA focus, the growth of the Discount Retailing industry, and Target's unique market position will ensure Dayton Hudson is a valuable contributor to The Henry Fund.

Dayton Hudson Corporation (DH)

April 30, 1999 Price	67 5/16	Market Cap. (mil)	30,213		EPS	ROIC
52 Week Price Range	31 – 76	Shares Outs. (mil)	464	1998	2.04	12.7%
52 Week Return	50.8%	Dividend Yield	0.60%	1999E	2.45	13.4%
ROE	19.0%	Beta	1.0	2000E	2.76	13.7%

Hilton Hotels Corporation — Proposed Deletion — 0.90% of the Active Portfolio

Hilton Hotels Corporation is one of the world's leading lodging companies. Hilton ended 1998 by spinning off Park Place Entertainment, which now owns and operates the gaming businesses formerly operated by Hilton. Among the 250 hotels that Hilton has an interest in are such well known names as the Waldorf-Astoria, Hilton Hawaiian Village, and the Palmer House Hilton. Hilton is also expanding the franchising of its Hilton Garden Inns concept. Given the increased uncertainty in the future of the domestic economy as well as unfavorable supply and demand conditions in the lodging industry and in the upscale hotel segment, continued investment in Hilton is unwarranted.

Hilton Hotels Corporation (HLT)

April 30, 1999 Price	15 5/8	Market Cap. (mil)	4,047		EPS	ROIC
17 Week Price Range	12 – 22	Shares Outs. (mil)	261	1998	0.72	6.6%
17 Week Return	6.8%	Dividend Yield	0.50%	1999E	0.78	10.1%
ROE	16.8%	Beta	1.0	2000E	0.88	10.2%

Park Place Entertainment — Proposed Deletion — 0.62% of the Active Portfolio

Park Place Entertainment is the world's largest casino operator, with significant gaming assets in Nevada, Atlantic City and Mississippi. After spinning off from Hilton on 12/31/98, the company acquired the Mississippi operations of Grand Casinos. The company is expected to open its $750 million Paris casino project in Las Vegas in late 1999. Given the anticipated 15% increase in the supply of hotel rooms in the Las Vegas market in the next 18 months, the increase in the number of states with some form of legalized gambling, as well as flat gaming demand by year-end 1999, industry profits will continue to remain depressed. The company will be a major player in the consolidation of the Gaming industry, but deteriorating economics makes divestiture of this investment prudent.

Park Place Entertainment (PPE)

April 30, 1999 Price	10 13/16	Market Cap. (mil)	2,879		EPS	ROIC
17 Week Price Range	6 – 11	Shares Outs. (mil)	305	1998	0.48	6.6%
17 Week Return	44.2%	Dividend Yield	0.0%	1999E	0.36	4.6%
ROE	3.6%	Beta	1.0	2000E	0.48	5.6%

Galoob Toys, Inc. — Deletion — N/A of the Active Portfolio

Galoob Toys was a Henry Fund portfolio holding since May 1998. In September 1998, Hasbro acquired the company for $12 per common share, for a total transaction value of approximately $220 million. The Henry Fund received cash for its shares of Galoob.

CONSUMER NON-CYCLICAL

10.73% of the Active Portfolio

Analyst: Jonathan Sarvis **14.10% of the S&P500 Index**

The Consumer Non-Cyclical sector consists of a number of industries including both Alcoholic and Non-Alcoholic Beverages, Tobacco, Food Processors and Wholesalers, Household Products and Housewares. These industries tend to be dominated by large multinational firms who compete across the various sector industries. Many of these industries are highly concentrated with the majority of industry market share devoted to three or four industry leaders. The oligopolistic nature of the non-cyclical sector has had a tremendous effect on pricing and the competitive nature of each industry.

Demand for the consumer non-cyclical sector products is strongly tied to population growth and household income trends. Currently in the United States neither of these two trends look favorable for the consumer non-cyclical industries. Population growth in the United States has slowed substantially. In addition, older Americans now account for a greater percentage of the population than ever before. These changes have caused a corresponding decrease in the rate of new household formations and hence a trend of declining household incomes. In recent months, real disposable personal income growth has fallen slightly. Although income levels remain strong, especially when compared to world income growth levels, domestic income figures are increasingly becoming skewed. With fewer families being able to afford consumer staples at the lower end of the spectrum and consumers at the top end of the spectrum already satiated with non-durable products, the consumer non-cyclical industries are struggling to increase domestic sales and are looking to overseas markets for future growth opportunities.

PORTFOLIO HOLDINGS

The Coca-Cola Company — 3.86% of the Active Portfolio

The Coca-Cola Company continues to remain the world's undisputed leader in the non-alcoholic beverage industry. Coke sells more than 160 different brands in approximately 200 countries and has over 14 million customers selling or serving its products around the world, giving Coca-Cola a true global presence. The company's products include soft drinks, carbonated sports drinks, milk-based drinks, juices, teas, and coffees. Worldwide, Coca-Cola owns approximately 50% of the market and can boast having two of the top three selling soft drinks, (#1 Coca-Cola classic and #3 Diet Coke).

1998 was a difficult but promising year for The Coca-Cola Company. By July the stock had posted a 33% gain but ended the year up only 0.5% yielding a total return on investment, including dividends, of only 1.4%. Although strong gains in volume contributed to increased market share throughout the world, foreign economic crises and downward pricing pressures whittled away at earnings.

Despite the 1998 results, we continue to remain optimistic regarding Coke and will continue to hold the security in our portfolio. Chairman of the Board and CEO, M. Douglas Ivester continues to run the company with a focus on the long-run, taking advantage of global economic crises by making bargain investments in depressed economies. This strategy will pay off as soon as these troubled economies turn around leaving The Coca-Cola Company poised for tremendous future growth opportunities. Through its powerful brand names and marketing excellence Coke has provided equity holders with a substantial return over the years and will continue to do so into the future.

The Coca-Cola Company (KO)

					EPS	ROIC
April 30, 1999 Price	68.06	Market Cap. (mil)	167,900			
52 Week Price Range	53.63 – 88.94	Shares Outs. (mil)	2,470	1998	1.37	30.2%
52 Week Return	(10.29)%	Dividend Yield	0.94%	1999E	1.78	32.2%
ROE	42.94%	Beta	0.90	2000E	2.08	31.7%

PepsiCo Incorporated — 3.77% of the Active Portfolio

PepsiCo is the world's second largest producer of soft drinks and owns the world's largest snack foods company, Frito-Lay. In addition, in 1998 PepsiCo purchased Tropicana, the world's largest maker and marketer of branded juices.

Over the past 3 years PepsiCo has been undergoing a transformation. Beginning in 1996 the company chose to focus on its core competencies. Since then, the company has made several strategic divestitures and alignment changes including the spinoff of its restaurant chains in 1997. The most recent of these changes was the spinoff of the Pepsi Bottling Group (PBG), in March of 1999. The divestment of PBG gives PepsiCo a more streamlined business model and allows the company to focus on its higher margin, less capital-intensive concentrate business. In addition, the spinoff will free up cash flows that were slated for capital investments in PBG. These additional cash flows will be used to fuel further growth in the Frito-Lay Division.

In the coming months we expect PepsiCo's share to appreciate in value due to the positive changes being made within the company.

PepsiCo Incorporated (PEP)

					EPS	ROIC
April 30, 1999 Price	36.94	Market Cap. (mil)	54,500			
52 Week Price Range	27.56 – 43.75	Shares Outs. (mil)	1,480	1998	1.29	16.3%
52 Week Return	(13.83)%	Dividend Yield	1.41%	1999E	1.27	17.4%
ROE	30.92%	Beta	0.90	2000E	1.38	18.2%

Philips Morris Incorporated — 3.10% of the Active Portfolio

Phillip Morris Companies Incorporated consists 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. The company also owns Philip Morris Capital Corporation, a financial services division. Philip Morris maintains some of the world's leading brand names including the ever-popular Marlboro family of cigarette brands.

Over the past several years, Philip Morris has been defending itself against a multitude of different lawsuits. 1998 was no exception with a host of lawsuits coming to trial and new suits popping up around the globe. Although the litigation risks faced by Philip Morris remain substantial recent settlements are signaling a favorable trend. In April of 1999 the U.S. Court of Appeals for the Second Circuit unanimously ordered that two class action lawsuits brought against the industry by two labor union health and welfare trust funds and four public employees health plans in New York be dismissed in their entirety. This decision followed a dismissal of a similar labor fund class action suit in Pennsylvania and a recent unanimous jury verdict in the Ohio Ironworker's case settled in favor of the industry. These recent settlements are a sign that the court systems are growing weary of meritless lawsuits posed against Philip Morris and the Tobacco Industry in general.

With the legal tide beginning to change, the recent restructuring of management in the company's troubled Miller Brewing division, an aggressive stock repurchase program and growing opportunities for foreign growth, we believe that Philip Morris is an attractive holding for the coming year.

Philip Morris Incorporated (MO)

					EPS	ROIC
April 30, 1999 Price	35.19	Market Cap. (mil)	85,400			
52 Week Price Range	33.06 – 59.50	Shares Outs. (mil)	2,430	1998	2.36	19.7%
52 Week Return	(5.22)%	Dividend Yield	5.00%	1999E	2.92	21.1%
ROE	35.72%	Beta	1.00	2000E	2.19	22.5%

ENERGY

7.74% of the Active Portfolio

Analyst: Mike Harmelink

6.19% of the S&P 500 Index

The previous year in the energy sector has been a trying one not only for the companies within the sector but also for investors. The low point came for many in late November when OPEC dismissed their semi-annual meeting without enforcing further oil production cuts. When the news broke West Texas Intermediate (WTI) crude prices dropped to near $10 a barrel and the stocks of many companies within the sector were also adversely affected. The hardest hit sub-sectors over the past 52 weeks have been the secondary integrated oil companies whose composite index has had a return of –21.5% and the oil field equipment services industry whose composite index had a return of –26.3%. In contrast the major integrated international oil composite had a return of 15.8% for the past 52 weeks, which was greater than the Dow's return for that same period of 14.5%. The major international integrated oil firms were primarily driven by Mobil, a current Henry Fund holding, which had a 52-week return of 34.5%.

Even though the majority of the past 52 weeks has been trying, there is a sense of hope and optimism in the air. With the agreement reached by OPEC on March 23rd to reduce the amount of production among member nations we have seen a revival in the price of oil and a more favorable investment outlook within the oil industry. The member nations along with some non-OPEC nations have agreed to reduce production by 2.1 million barrels per day, or a drop in production of 7% for one year effective April 1st. In anticipation of the agreement by OPEC the price of oil had steadily climbed to the low teens. The price of WTI crude closed at $18.55 on April 30th, the highest level in over a year, as it is expected that there will be high compliance to the production cuts.

In order for the price of crude to remain in the upper teens there will be a strong need for compliance among both member and non-member nations. Fortunately, there is a strong incentive for many countries to do just that. Many countries have realized the fact that for their economy to recover they will need to adhere to the production cuts in hopes that the price of oil will rebound, which would then provide a boost to their economy. In addition to high compliance, the oil industry will also be helped by a renewed optimism that the world economic crisis is starting to lessen. There are currently nascent signs in Japan that their economy is starting to turn around once again. With an eventual recovery in the worldwide economy there will also come an increase in the demand for petroleum and refined crude oil products.

The Henry Fund currently holds two of the stronger players in the oil industry in Mobil and Halliburton. With a sustained increase in the price of oil we will experience positive returns as these two companies once again return to their core capabilities in the 'oil patch.'

PORTFOLIO HOLDINGS

Mobil Corp (MOB) Hold **4.84% of the Active Portfolio**

As was mentioned above, 1998-99 was a stellar year for the performance of the company's stock as it showed a positive return of 34.5% in a time when the industry was feeling increasing pressures on their bottom line. The primary catalyst for this performance was: 1) company management, 2) the announcement of a merger with Exxon in December of 1998, and 3) rising oil prices in the spring of 1999.

The company's management, led by CEO Lucio Notto, has a focused strategy for growth and has made a strong commitment to further reduce costs on top of the major cost reductions that have already been achieved. One such example of this commitment is the downstream joint venture they have entered into with BP-Amoco in Europe where they are sharing approximately $600 million in annual pre-tax savings.

This desire to further reduce costs and improve overall performance of the company has led Mobil into the proposed merger with Exxon. Based on current estimates it is expected that the cost savings from the merger will total $2.8 billion over a period of years for the combined company. The merger will combine the operations of two premier oil companies whose operations are diversified both geographically and functionally. For example, there are areas such as in West Africa where Mobil is a major producer of oil, while Exxon does not have a presence. The merger will reinforce each other's strengths in areas where they are already well positioned and it will compliment its operations in areas of relative weakness.

The company will remain highly dependent on the price of oil, however, given the company's strong management team and the ability and willingness to cut costs, Mobil will remain a solid investment vehicle.

Mobil Corp (MOB)

					EPS	ROIC
April 30, 1999 Price	105 $^{3}/_{16}$	Market Cap. (mil)	79,390.00			
52 Week Price Range	62 $^{7}/_{16}$–107$^{3}/_{8}$	Shares Outs. (mil)	781.21	1998	2.10	3.9%
52 Week Return	31.30%	Dividend Yield	2.34%	1999E	2.97	9.1%
ROE	8.70%	Beta	.85	2000E	3.54	7.6%

Halliburton (HAL) Hold 2.90% of the Active Portfolio

Halliburton is one of the largest global oilfield service companies and the largest in terms of revenues ($17.3 billion in 1998). The company operates in over 120 countries across the world with nearly two-thirds of total revenues being accounted for from international operations. Following the recent merger with Dresser Industries, which was finalized on September 29th, 1998, Halliburton became one of the largest energy construction companies in both the upstream and downstream segments of the oil and gas industry. Former US defense secretary Dick Cheney heads the company as the CEO, with William Bradford, the former CEO of Dresser Industries, presiding as the Chairman of the Board.

The company's share price is down approximately 20% within the past 52 weeks. However, Halliburton is currently executing a strategy that is likely to generate above average earnings growth relative to the oil service industry. This strategy is reflected in the merger with Dresser Industries. This merger created a powerful organization within the oilfield service industry. Through synergies present between the two companies, Halliburton will be able to continue to grow its revenues at a strong rate while also being able to cut costs in areas where the two companies have overlapping operations.

Playing to the strengths of its leadership, Halliburton should be quite capable of defending its bottom line while scrambling for big gains. The shares should once again begin to rise as the price of oil stabilizes and the development of oil projects begins to pick up. In the short term the stock will not see a lot of capital appreciation, however, the long term upside potential is significant. In the long run investors will be rewarded for their patience.

Halliburton (HAL)

					EPS	ROIC
April 30, 1999 Price	42 $^{3}/_{8}$	Market Cap. (mil)	18213.0			
52 Week Price Range	25 - 57 ¼	Shares Outs. (mil)	438.8	1998	-0.03	15.0%
52 Week Return	-23.5%	Dividend Yield	1.33%	1999E	1.09	19.1%
ROE	-0.41	Beta	.95	2000E	1.38	23.8%

FINANCIAL SERVICES

16.28% of the Active Portfolio

Analyst: Brent Krambeck **16.48% of the S&P 500 Index**

The Financial Services sector is broadly defined as lending institutions, insurance, investment management, real estate investment trusts and diversified financial service companies. The stocks in the Henry Fund are currently focused in the Banking and Diversified Financial subcategories. The entire industry has been struck by a wave of consolidations, and this year has proved to be no different. In fact, the number of banks last year was reduced to 9,143 from 14,000 just ten years ago. This trend will continue as the large financial institutions attract corporate clients due to their extensive resources and global reach. Several large mergers have just recently been announced. Mercantile Bancorp agreed to be acquired by Firststar Corporation, while Everen Securities, an investment banking firm, will be acquired by First Union.

The barriers separating insurance, banking and brokerage services are expected to further dissolve as we move towards the concept of a "financial supermarket." These large financial giants will be able to offer their clients more services and should be able to take advantage of cross selling opportunities and eventual cost savings through economies of scale. The domestic economy with its low unemployment, low inflation, a stable interest rate and high consumer spending should lead to another strong year in the Financial Services sector.

PORTFOLIO HOLDINGS

Fifth Third Bancorp — 4.48% of the Active Portfolio

Fifth Third Bank is a $30 billion dollar diversified financial services company headquartered in Cincinnati, Ohio. It is one of the most efficiently managed banks with offices in Ohio, Indiana, Kentucky, Arizona and Florida. Fifth Third provides a broad array of products and services through four primary businesses: Commercial Banking, Retail Banking, Investment Advisors and Midwest Payment Systems, the Bank's data processing subsidiary. Currently, it is among the top 30 bank holding companies in the country and among the 15 largest in market capitalization.

Fifth Third has continued its 25-year trend of consecutive earnings per share and dividend growth, ranking them 8th among all public companies for consistency of earnings and dividend growth. The company has grown through strategic acquisitions to expand its base of customers and increase profits. Towards the end of 1998, Fifth Third announced that it would acquire South Florida Bank Holding Company, Enterprise Federal Bancorp and Ashland Bankshares. The three companies combined will add over $700 million in assets.

The company's industry leading low overhead ratio of 42.3%, versus the industry average of 59%, continued to decline in the 1st quarter of 1999. With a strong balance sheet, high quality revenue growth and an experienced management team, Fifth Third should continue to be a strong performer for the Henry Fund.

Fifth Third Bancorp (FITB)

					EPS	P/E
April 30, 1999 Price	71 11/16	Market Cap. (mil)	19,147.73			
52 Week Price Range	47 1/2 – 75 7/16	Shares Outs. (mil)	267.1	1998	2.04	34.4
52 Week Return	36.87%	Dividend Yield	1.06%	1999E	2.36	27.0
ROE	17.17%	Beta	1	2000E	2.68	23.5

State Street Corporation — 4.16 % of the Active Portfolio

State Street is the world's leading specialist in serving institutional investors. The company provides information services, custody, securities lending, investment management, performance and analytic measurement, cash management and recordkeeping services. Clients include pension funds, insurance and investment companies, mutual funds, endowments and foundations. Headquartered in Boston, the company currently has offices in 60 cities in 24 countries. State Street has $4.8 trillion in assets under custody and $485 billion in assets under management. Investment in technology, global expansion and product development has helped the company to sustain and improve its operating performance.

For the fiscal year 1998, the company posted 18% revenue growth with a return on stockholders' equity of 20.2%. The company currently provides custody services for 42% of registered U.S. mutual funds.

State Street Corporation (STT)

					EPS	P/E
April 30, 1999 Price	87 1/2	Market Cap. (mil)	14,087.5			
52 Week Price Range	47 7/8 – 95 1/4	Shares Outs. (mil)	161	1998	2.66	26.5
52 Week Return	23.65%	Dividend Yield	0.65%	1999E	3.05	22.9
ROE	20.58%	Beta	1	2000E	3.46	20.5

Citigroup, Inc. 7.64% of the Active Portfolio

Citigroup, Inc. is a broadly diversified holding company providing personal and commercial financial services to clients in 100 countries worldwide. It is the result of the merger between Citicorp and the Travelers Group which was completed in October of 1998. Citigroup's main operating segments are Citibank, Salomon Smith Barney, Travelers Life and Annuity, Primerica Financial Services, Commercial Credit Company and the Travelers Property Casualty Company. Together all of these groups provide $700 billion in assets and $43.6 billion of equity capital. Citicorp is the largest financial services company in the United States and is one of the largest in the world.

Citigroup's stock performed nicely in the first quarter of 1999, trading at its yearly high, as world markets calmed and investors began to place confidence in the management team's ability to realize cross selling opportunities and cost savings. The company had an 18.3% earnings surprise in the first quarter with a ROE at 24.3%. Management has stated that they are focused on 15% EPS growth and a 20% ROE. Sandy Weill and John Reed recently indicated that they expect earnings to double in the next five years.

The consolidation in the financial services industry has created an elite group of very large companies - Citigroup should remain at the top.

Citigroup, Inc. (C)

					EPS	P/E
April 30, 1999 Price	74 7/8	Market Cap. (mil)	169,217.5			
52 Week Price Range	28 1/2 – 77 5/8	Shares Outs. (mil)	2,260	1998	2.66	20
52 Week Return	22.65%	Dividend Yield	1.12%	1999E	3.81	14.6
ROE	14.54%	Beta	1	2000E	4.32	12.4

HEALTHCARE

10.50% of the Active Portfolio

Analyst: Jennifer Meents **10.85% of the S&P 500 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 1997, total national health expenditures (NHE) in the United States were estimated to have reached $1.1 trillion dollars - 13.5 percent of the GDP[1]. 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. However in the last several years, political reforms have stalled because of disagreements on proper course of action. The future political scene seems less threatening than it was in the early 90s.

The overall fundamental outlook for the health care industry is favorable due to demographic trends and the performance of sub-sectors.

- Fundamentals for the U.S. ***pharmaceutical group*** have never been brighter. Earnings growth can be sustained in the 12-14% range, on average, through the end of the decade, driven by unit volume growth, new product rollouts and a relatively friendly regulatory environment. Issues to focus on are pricing, currency, and patent expirations, but they are all manageable.
- The hype around ***the biotechnology industry*** seems to have faded after few companies showed profitability. Biotechnology firms have become essentially another R&D arm of the drug industry, alliances between pharmaceutical and biotech companies are the norm. There is little reason to accept the enormous risk of a biotechnology firm, when most of the returns can be achieved by owning less risky pharmaceutical companies, whom will likely be a future partner.
- Growth in the ***managed care industry*** is expected to slow as most markets are becoming saturated. Additionally, there has been a decrease in broadly insured health plans as those enrollees switch to employer-funded PPO plans. Premium increases are necessary and important to cover escalating medical costs.
- Fundamentals for ***healthcare service providers*** remain mixed. Pressure points on pricing and utilization persist as managed care penetration continues to increase. However, inpatient admissions and revenues are flat. Consolidation will taper off as politicians and consumer groups are creating an environment where it is increasingly difficult to get a for-profit/not-for-profit deal completed.
- ***Medical device industry*** fundamentals are expected to remain stable over the next several years.
  Fundamentals are expected to remain stable. Stagnating surgical procedures will be offset by growth in the alternate site market.

PORTFOLIO HOLDINGS

United Health Group — 1.90% of the Active Portfolio

United Health Group, formerly United HealthCare Corporation, owns or manages more than two dozen HMOs and PPOs. Through a variety of other health services, including workers' compensation programs and Medicare and Medicaid, the company touches about 13 million lives in all 50 states. United also has an agreement with AARP to provide Medicare gap insurance for more than five million people. United has been a major consolidator in its

[1] Health Care Financing Administration (HCFA) database, 1998.

industry and has grown quickly, but not without a price. In 1998 charges to help it assimilate companies led to the demise of its deal to acquire Humana. Because of its reorganization and stable fundamentals, I maintain a hold recommendation based on the price.

United Health Group (UNH)

April 30, 1999 Price	56 1/8	Market Cap. (mil)	10,146.38		EPS	ROIC
52 Week Price Range	29 9/16 – 73 15/16	Shares Outs. (mil)	180.8	1998	-1.12	14.0%
52 Week Return	-20.1%	Dividend Yield	0.05%	1999E	2.40	14.4%
ROE	-4.5%	Beta	1.0	2000E	2.42	14.7%

Pfizer, Inc. Partial Deletion 8.60% of the Active Portfolio

Pfizer Inc. is a research-based, global health care company operating in pharmaceutical and animal health businesses. 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 demand those superior products. Pfizer divested its medical technology group and is focusing on human and animal pharmaceuticals. 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.

Because Pfizer makes up such a large portion of the fund and its stock prices depends heavily on the success of future research and development, I recommend a partial selling.

Pfizer, Inc. (PFE)

April 30, 1999 Price	115 1/16	Market Cap. (mil)	$148,795.94		EPS	ROIC
52 Week Price Range	86 – 150 1/8	Shares Outs. (mil)	1293.2	1998	$2.55	23.5%
52 Week Return	4.0%	Dividend Yield	0.76%	1999E	$2.49	24.0%
ROE	40.0%	Beta	1.0	2000E	$2.51	24.8%

Pharmacia & Upjohn Proposed Addition

Pharmaceutical giant Pharmacia & Upjohn was formed by the merger of Pharmacia Aktiebolag, a Swedish company, and The Upjohn Company, an American company, in November 1995. The global pharmaceutical company engages in the research, development, manufacture and sale of pharmaceutical and healthcare. The company is trying to reconcile US top-down and Swedish team-oriented management styles while centralizing corporate power in its new US headquarters in Bridgewater, New Jersey, near several major rivals. The company makes about 70% of its sales from pharmaceuticals for central nervous system diseases, infectious diseases, inflammation, metabolic disorders, oncology, ophthalmology, and women's health.

The company is taking steps to reduce costs and smooth out wrinkles from the merger. The new leadership has taken a stand and results have already been seen, such as reduced SG&A by 1% from 1997 to 1998 and double-digit revenue growth in first quarter 1999. Because of its room to improve and focus on doing so, I recommend buying Pharmacia & Upjohn.

Pharmacia & Upjohn (PNU)

May 4, 1998 Price	55 5/8	Market Cap. (mil)	28,184.57		EPS	ROIC
52 Week Price Range	40 7/16 – 66 3/8	Shares Outs. (mil)	506.7	1998	1.31	10.7%
52 Week Return	32.2%	Dividend Yield	1.93%	1999E	1.85	13.0%
ROE	12.8%	Beta	1.0	2000E	2.14	15.8%

INDUSTRIALS

5.69% of the Active Portfolio

Analyst: Daniil Reouk **8.26% 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.

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 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.

Markets that are served by 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. Proposed Deletion 3.50% 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. The company competes in markets around the world with international equipment sales from Asia/Pacific, Europe, Latin America, Africa/Middle East and Canada.

At the same time there are clearly certain limits of company's long-term growth. Markets that company serves are experiencing constant downward price pressure. Sales in the US are expected to be relatively flat, with companies offering extensive discounts to the customers. The domestic construction equipment market has steadily improved during the last six years, with 1998 demand more than twice the level of 1992. Given the cyclical nature of the industry and recent softening in construction equipment demand the market peak might be near. The downturn can be steep in case of increase in interest rates.

Huge Caterpillar's exposure to the international markets and especially developing nations is a great point of concern. About half of Caterpillar sales come from international markets and company has above-average exposure to Asia-Pacific and Brazil, where demand for farm and construction equipment has slowed dramatically. With expected sales and earnings decrease this year, it might be the case that company's earnings peak in 1998 will never be achieved again.

Caterpillar, Inc. (CAT)

					EPS	ROIC
April 30, 1998 Price	$63^{13}/_{16}$	Market Cap. (mil)	$22,800			
52 Week Price Range	$64^{7}/_{16}$ - $39^{1}/_{16}$	Shares Outs. (mil)	357.20	1998	4.10	14.25%
52 Week Return	12.04%	Dividend Yield	1.20%	1999E	3.42	13.03%
ROE	30.11%	Beta	0.81	2000E	3.92	13.33%

Maytag Corp. Proposed Addition

Maytag designs, manufactures, distributes, markets and services a broad line of home appliances. Products include washers, dryers, dishwashers, refrigerators, cooking appliances and floor careproducts primarily under the Maytag, Hoover, Jenn-Air and Magic Chef brand names. Hoover vacuum cleaners, are one of the best known and best selling vacuum cleaners in the nation. The Company's home appliances are sold to major national retailers, independent retail dealers and distributors in the US and overseas. Commercial appliances include vending equipment and commercial cooking equipment, primarily under the Dixie-Narco, Blodgett and Pitco Frialator brand names. Maytag's commercial appliances are sold to soft drink bottlers, distributors and food service providers.

One of the most visible positive traits in the company is innovation. By creating products that do the job well with features that are often unexpected by the customer – and creating a lot of them – Maytag drives purchases of its largely premium-priced products. Strong sales growth and margin expansion is a result. In 1999 the company is introducing a wide array of new products, the most visible one being new Neptune washer, than allows, for example, to save whopping 53% of water consumption over similar models in the market.

While innovation may be Maytag’s most visible positive trait, its strong operating performance is also a function of successfully executed strategies under CEO Len Hadley and his top management teams in the 1990s. It is also a function of a well-managed balance sheet and cash flow. Company’s executive team is extremely cohesive and motivated to expand market share, bring value to the customers and shareholders and make Maytag even greater success story than it was over the last year.

Maytag, Corp. (MYG)

					EPS	ROIC
April 16, 1999 Price	$64^{9}/_{16}$	Market Cap. (mil)	$6,060			
52 Week Price Range	$66 – 39^{5}/_{8}$	Shares Outs. (mil)	89.1	1998	3.05	22.31%
52 Week Return	21.89%	Dividend Yield	1.06%	1999E	3.76	23.64%
ROE	52.11%	Beta	0.94	2000E	4.20	24.93%

Emerson Electric Company — 2.19% 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.

Since 1970s company has adopted innovative manufacturing techniques and consistently concentrated on cost reduction, which allowed Emerson to be well prepared for the new economic era of 1990s, where price increases are becoming more and more problematic and almost the only way for the company’s to increase its profits is through constant cost reduction. At the same time Emerson has the ability to locate excellent growth opportunities. It showed an exceptional growth through acquisitions and joint ventures. The company is keeping up with the technological progress and is well positioned to enter new information age. Increase in sales of new products and services grew at an average rate of 18 percent and reached 33 percent of the Company’s total sales in 1998.

Emerson Electric Company (EMR)

					EPS	ROIC
April 16, 1999 Price	$61^{5}/_{16}$	Market Cap. (mil)	$25,600			
52 Week Price Range	$66^{15}/_{16} – 51^{7}/_{16}$	Shares Outs. (mil)	437.4	1998	3.25	30.68%
52 Week Return	-3.66%	Dividend Yield	2.22%	1999E	3.00	30.65%
ROE	21.58%	Beta	0.77	2000E	3.29	32.28%

TECHNOLOGY

22.13% of the Active Portfolio

Analyst: Hemant K. Wadhwa

20.12% of the S&P 500 Index

If the technology sector during 1998 were to be defined in one-word, we will call it "E-commerce". Electronic commerce is the "killer" application of the Internet. The Internet Revolution is creating an Internet Economy where technology connects everyone to everything and where open communications, open standards, and open markets prevail. The growth of the Internet has both driven and been driven by, significantly changing attitudes toward electronic commerce. In 1998, businesses came to recognize and respect Internet as a significant, strategic and commercial opportunity. In previous years, Internet was viewed as a new entry point for existing customers into the sales cycle, although seen internally as a useful carrier for intra-company communication. As a result, companies that viewed themselves as Internet-aware generally had corporate-wide e-mail and a Web site. By the end of 1997, however, these offerings were *de rigueur,* and companies that had not done anything more were in sudden danger of falling behind. We have seen gradual decentralization of processing power as computing moved away from large data centers towards client/server architecture. We believe that the march toward greater decentralization will continue and Internet is a giant step in that direction.

PORTFOLIO HOLDINGS

Intel Corporation - HOLD 7.32% of the Active Portfolio

Intel is the leading designer and manufacturer of microprocessors that are used in personal computers, with a market share that exceeds 85%. Not only is Intel the largest microprocessor manufacturer, but it is also the premier semiconductor manufacturer with market share of roughly 18%.

Intel faced extraordinary business conditions in 1998. Competition in the value PC market segment, inventory corrections among some of its large customers in the first half of the year and an economic slowdown in some parts of the world all took their toll. As a consequence, Intel's financial results in the first half of the year were not as strong as we would have liked. Revenues for the year were up 5% to $26.27 billion, with net income down 13% to $6.1 billion compared to a year ago.

As long as the premium on performance was there, Intel was able not only to hang onto market share, but also to enjoy rising average selling prices. The consumerization of PCs has changed all that for Intel, which must now focus on maintaining presence in a high volume, price competitive desktop PC market while leveraging its core capabilities in design and manufacturing to enter higher growth markets. The clearest opportunity for Intel lies in the server market which offer all the characteristics that the desktop PC market did a decade ago – rapid unit growth and an emphasis on performance rather than price. The company considers this opportunity so significant that more than half of its microprocessor R&D investment is now committed to workstations and servers. The major driver of sales growth in the future is the Internet, which is creating explosive demand for not only file servers but also more powerful PCs. Moreover, 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)

April 30, 1999 Price	$61^{3/16}$	Market Cap. (mil)	203,571		EPS	ROIC
52 Week Price Range	$32^{13/16}$ - $71^{13/16}$	Shares Outs. (mil)	3,327	1998A	1.83	28.77%
52 Week Return	49.17%	Dividend Yield	0.20%	1999E	2.25	29.55%
ROE	27%	Beta	1.38	2000E	2.98	28.25%

Cisco Systems, Inc. - Over-Exposed Trim 14.81% of the Active Portfolio

Cisco Systems is the leading provider of high performance routers to service providers and enterprise networks, and is the leading provider of switching solutions for the LAN backbone. Cisco is transitioning from primarily an enterprise networking company to a provider of carrier-class telecommunications systems. Cisco has traditionally grown through acquisitions - during fiscal 1998, the company made six acquisitions.

During 1998, Cisco experienced an annual growth rate of 31percent and gained market share in each of the key areas in which it competes despite a very challenging year for the industry. Cisco's revenues increased to $8.5 billion, a 31 percent increase compared with revenue of $6.4 billion in fiscal 1997. Net income for the year rose to $1.3 billion compared with net income of $1.0 billion a year ago.

For the past 10 years, the majority of the Global 2000 enterprises have relied on Cisco routers and switches for their mission-critical client-server traffic. As enterprise customers upgrade their existing network infrastructure, Cisco's tremendous mind share and worldwide service and support capabilities, as well as its strong customer relationships will enable it to further gain market share. With network costs skyrocketing and corporate resources dwindling, organizations are partnering with a single networking vendor to provide end-to-end solutions. Cisco's ability to provide one-stop shopping, complemented by its strong technical service & support capabilities, is unmatched in the industry. The future holds many exciting opportunities for everyone in the Internet Economy, and Cisco plays a key role in empowering the Internet Generation. Hence, we believe that Cisco is a very attractive long-term investment.

Cisco Systems, Inc. (CSCO)

April 30, 1999 Price	$114^{1/16}$	Market Cap. (mil)	182158		EPS	ROIC
52 Week Price Range	$41\ ^{1/8}$ - 120 -	Shares Outs. (mil)	1597	1998A	0.86	39.84%
52 Week Return	132.39%	Dividend Yield	NA	1999E	1.34	44.53%
ROE	24%	Beta	1.33	2000E	1.84	38.00%

EMC Corporation — Proposed Addition

EMC is a leading manufacturer of storage solutions for mainframe and open system computers. The company's products include disk array hardware and software designed to service enterprise storage needs. EMC has consistently grown share by being first to market. The company begins by marketing its technology to innovators and early adopters. By the time early and late majority users enter the market, EMC has already established itself as a de facto standard.

During 1998 EMC's revenues rose 35 percent to $3.97 billion versus to a year ago. EMC's software sales grew 152 percent to $445 million, making EMC the world's fastest-growing major software company and contributing to the rise in its gross margin to 57 percent. Net income climbed 47 percent to $793 million. Earnings per share were $1.58, up 45 percent from a year ago.

The average global 2000 business manages more than 40 terabytes of online data in its data center. An industry forecast from market research firm International Data Corporation shows storage growing at a compounded annual rate of 86 percent between 1998 and 2002, to 1.4 million terabytes. That's 12 times 1998's volume. Driving this strong storage demand are e-commerce, ERP deployments, data warehousing, enterprise-wide storage consolidation, and Internet growth. With customer retention rate of above 99 percent, it will not be a difficult task for EMC to capture a lion's share of this opportunity. Moreover, with the introduction of a real network fiber between servers and storage, called EMC Enterprise Storage Network (ESN), the company is able to help customers for the first time to connect hundreds of servers with dozens of storage systems that may be kilometers apart. CIOs are now viewing storage as strategically on par with the computer and are separating the storage from the server purchase decision. Given these trends, we believe that EMC is an attractive long-term addition to our portfolio.

EMC Corporation (EMC)

April 30, 1999 Price	$108\ ^{15/16}$	Market Cap. (mil)	54926		EPS	ROIC
52 Week Price Range	$40\ ^{3/16}$ - $134\ ^{15/16}$	Shares Outs. (mil)	504.2	1998A	1.58	25.55%
52 Week Return	131.78%	Dividend Yield	NA	1999E	2.03	27.45%
ROE	28%	Beta	1.4	2000E	2.69	28.95%

TRANSPORTATION

1.68% of the Active Portfolio

Analyst: Michael Ostern

1.08% of the S&P500 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 costs, 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.

- 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 trucks, the industry is positioned to see larger profits throughout 1999. The stock I would like to add to the Fund is CNF Transportation (CNF). With a further Priority Mail contract expansion expected later in the year, CNF will experience tremendous growth opportunities.

- In the **airline industry**, 1999 has been 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.

PORTFOLIO HOLDINGS

Comair Holdings, Inc. 1.18% of the Active Portfolio

Comair Holdings, Inc. is the parent of Comair, an airline operating code-sharing agreement with Delta Airlines from hubs in Cincinnati and Orlando. Comair's 102 aircraft fleet serves 80 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.

The stock has appreciated nicely over the past year. It has some short-term concerns, but I continue to recommend that the fund increase its 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, and 3) the Cincinnati hub has favorable growth prospects. My price objective is $33, which represents a 24% increase over the next 12 months.

Comair Holdings, Inc. (COMR)

April 30, 1999 Price	22.06	Market Cap. (mil)	$2,148.20		EPS	ROIC
52 Week Price Range	13 7/8 - 29 ¼	Shares Outs. (mil)	97.38	1998	$1.02	26.57%
52 Week Return	20.58%	Dividend Yield	0.44%	1999E	$1.24	25.71%
ROE	28.25%	Beta	0.80	2000E	$1.42	26.83%

Heartland Express, Inc. Proposed Deletion 0.50% 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 compounded 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. I estimate that the company can grow 1999 earnings to $1.30 with a price target of $16.

Heartland is truly unique in that it carries no debt on its books. A policy that I disagree with, but John Cosaert, Heartland's CFO seems to want to wait for a downturn in the economy that will force non-profitable trucking companies either into bankruptcy or into selling their businesses at a much lower price than what they are worth right now. Other than a downturn in the economy, I do not see any growth catalyst for the company. As long as the trucking industry is on an upturn, Heartland Express has a difficult time attracting and keeping experienced drivers, who are a major growth component for the company.

Heartland Express, Inc. (HTLD)

					EPS	ROIC
April 30, 1999 Price	13 15/16	Market Cap. (mil)	$418.13			
52 Week Price Range	12 ½ - 29 ¼	Shares Outs. (mil)	30.00	1998	$1.10	17.53%
52 Week Return	-43.4%	Dividend Yield	0.00%	1999E	$1.24	15.71%
ROE	19.56%	Beta	0.91	2000E	$1.34	14.33%

CNF Transportation Proposed Addition

CNF Transportation is a global transportation company composed of three primary units: Emery Worldwide, Con-Way Transportation Services, and Menlo Logistics. Emery provides airfreight services in the U.S. and to some 200 other countries.

It is the US's leading heavy airfreight transporter and overnight cargo transporter. Through its three regional less-than-truckload carriers, Con-Way deploys a fleet of approximately 25,000 trucks, trailers, and tractors. Menlo Logistics develops software and distribution networks, integrating warehouse and delivery tasks worldwide. CNF also makes trailers (Road Systems) and operates a wholesale truck parts business (Vantage Parts).

The Priority Mail contract is CNF's most dramatic growth opportunity. Driven by internal growth of 12%, and an expected 67% expansion in population served, CNF's Priority Mail business is expected to account for over half of revenue growth from 1999 to 2000.

CNF Transportation (CNF)

					EPS	ROIC
April 30, 1999 Price	44	Market Cap. (mil)	$2,112.00			
52 Week Price Range	21 ½ - 48 ¾	Shares Outs. (mil)	48.00	1998	$2.29	15.96%
52 Week Return	1.31%	Dividend Yield	0.00%	1999E	$2.22	14.21%
ROE	18.82%	Beta	0.90	2000E	$2.47	11.72%

UTILITIES

12.91% of the Active Portfolio

Analyst: Jing Gu **10.36% of the S&P 500 Index**

The telecommunications industry has been dramatically redefined in the past 12 months. Deregulation, technological innovations and mega-mergers will continue to drive the changes in the coming year. The ability to provide last mile broadband connection will become a competitive imperative to all the major telecom firms. As the traditional voice business is migrating to the wireless network, data business will become the value driver for all the wireline operators. As competition in the long distance side builds up, FCC will intensify its effort to pry open the local telephone market where RBOCs and GTE still holds monopoly. We believe the regulatory environment will become increasingly adverse for RBOCs and GTE. Deregulation will continue to erode their monopolistic power held through the proprietary ownership of the access lines. Such a trend has been shown clearly through the recent FCC decision regarding the reciprocal compensation and Supreme Court's ruling regarding the Unbundled Network Element Platform. We believe the changes favorable towards the Big Three long distance carriers: 1) they are more used to competition, 2) the traditional voice long distance has already been commoditized and all the three firms aggressively are repositioning themselves on the data market. Among the three major long distance carriers, share price of AT&T has been unfairly depressed because of its recent acquisitions and restructuring. It is optimal time for Henry Fund to switch from Ameritech to AT&T.

In the energy sector, we believe in the come year, growth will continue to be driven by the domestic deregulation and international expansion. Prior to the deregulation, local distributors monopolize access lines to the end users. Such a monopoly will be broken. International capacity build-up will continue at a robust rate, as shortage remains keen on the global energy market. Well-positioned companies like Enron at set to capitalize on an effective global strategy. As competition intensifies, the business will migrate towards greater economy of scale as companies trying to spread cost through larger production and distribution volumes. Geographical diversification will continue to drive the expansion of major utility firms, as they replicate their capabilities in less developed markets. Value will come from higher end service-oriented businesses, including risk management and financial management.

PORTFOLIO HOLDINGS

Ameritech Corporation **6.49% of the Active Portfolio**

Ameritech continued to show very strong growth in 1998. EPS of the company grew to $3.46/share. In addition to its traditional local business, the company is expanding to long distance and cable video services. We believe its merger with SBC will complete by the end of 1999 or early 2000. Despite all the positive news about Ameritech, we recommend switching to AT&T. Our recommendation is based upon deregulation will benefit the long distance carrier much more than the local carriers as traditional local operators' monopolistic power breaks down. As data is quickly replacing voice as the driver of the telecom sector, we doubt Baby Bells are as well positioned now as the long distance operators and emerging data carriers. Our valuation model shows Ameritech is trading at a premium of its fair value. Current share price of Ameritech has already fully reflected its upside including anticipation of finalizing merger with SBC in a near term. However, the downside of the company including an uncertain regulatory environment has not yet been reflected.

Ameritech Corporation (AIT)

					EPS	ROIC
April 30, 1998 Price	68.44	Market Cap.	$69.8billion			
52 Week Price Range	41.5-69.93	Shares Outs. (mil)	1,098	1998	3.46	33%
52 Week Return	60%	Dividend Yield	2%	1999E	3.26	34%
ROE	38.1%	Beta	1	2000E	3.51	34%

Enron Corporation **6.42% of the Active Portfolio**

After a very disappointing 1997, Enron achieved remarkable growth in 1998. EPS rose to $ 2.06/ share from $1.71 in 1997. 1997 EPS drop was mainly due to its restructuring charges. Enron's major business opportunities come from progress in domestic deregulation and international market expansion. Enron has been aggressively repositioning itself to lead the change in the industry.

- The company will continue to its aggressive wholesale business rollout by leveraging its position in electricity and natural gas market. It will focus on the provision of more value-added business including international contracting, asset management and risk management. Margin will improve accordingly. The company currently has a USD 20 billion asset development backlog.
- In retail business, Enron will continue its effort in establishing the more high-ended service oriented businesses. The company achieved an impressive 57% growth in this particular sector in 1998. We believe the growth rate will go down to 36% in 1999, but remain at above 20% before 2001.
- Enron has a very sound track record of building up new businesses. We have full confidence in the capabilities of the current management. Based on our valuation model with very conservative assumptions, the stock price is still reflecting a mild discount to its fair value. We recommend keeping the current holding of Enron shares.

Enron Corporation (ENE)

April 30, 1998 Price	75.25	Market Cap. (mil)	$242,000		EPS	ROIC
52 Week Price Range	40.625-75.25	Shares Outs. (mil)	351	1998	2.06	13%
52 Week Return	50.5%	Dividend Yield	1.45%	1999E	2.81	17%
ROE	21.7%	Beta	1	2000E	3.82	19%

AT&T (T) — Proposed Addition

AT&T has significantly improved its strategic position during the past 12 months. Current management focused tightly on drastic cost reductions and pursuit of fast growing data businesses.

Fully aware of the market risk, AT&T has cautiously adopted a second mover strategy in rolling out its new businesses. Instead of being the first mover, the company monitored its competitors closely. Strategic actions won't be taken until a similar strategy has been proven effective by its competitors. Given its marketing, technology and financial power, we believe the strategy pays off in a long run.

We expect MediaOne acquisition will eventually go through. AT&T has aggressively redefined its core business through recent acquisitions. Both MediaOne and TCI takeover are pivotal to its broadband strategy. TCI controlled 79% voting share of @Home, currently the leader in high speed cable telephony industry. Adding the asset controlled by MediaOne, AT&T has put its hands on a high speed cable network with access to 50% of American households. Meanwhile, MediaOne used to be @Home's most important contender in the high speed cable industry. Such a move will enable AT&T to consolidate competing versions of technologies into an industry standard. Through the deployment of two way high-speed hybrid cables, AT&T will be able to completely bypass the last mile connection controlled by the Baby Bells.

FCC will continue its effort to pry open the local market. As mentioned above, the regulatory environment will be increasingly favorable towards the long distance players who are more used to competition and readier for a data-centric market. Our valuation shows that AT&T is still trading at a significant discount to its fair market value. We acknowledge that consolidation of AT&T's new business takes time. Up-front investment into the cable industry and local business will be dilutive in a short run. However, given its sound business model, unrivalled marketing power and a strong deal-making management, we believe AT&T stock offers a substantial upside potential with limited downside risk.

AT&T Corporation (T)

April 30, 1998 Price	50.5	Market Cap. (mil)	168,000		EPS	ROIC
52 Week Price Range	33.25-64.08	Shares Outs. (mil)	3,150	1998	2.0	45%
52 Week Return	33%	Dividend Yield	1.65%	1999E	2.2	30%
ROE	20.65%	Beta	1	2000E	2.4	32%

STATEMENT OF SECURITY HOLDINGS

April 30, 1999		April 30, 1998	
Active Portfolio (at market):		**Active Portfolio (at market):**	
Ameritech Corporation	$19,163	Ameritech Corporation	$11,918
Amoco Corporation	-	Amoco Corporation	$4,260
Bemis Inc.	$8,640	Bemis Inc.	$4,005
Caterpillar Inc.	$10,300	Caterpillar Inc.	$9,110
Cisco Sys Inc.	$43,572	Cisco Sys Inc.	$18,679
Citigroup Inc.	$22,463	Citigroup Inc.	-
The Coca-Cola Company	$11,367	The Coca-Cola Company	$12,671
Comair Holdings	$3,464	Comair Holdings	$2,868
Disney Walt	$11,430	Disney Walt	$14,948
Dollar General Corporation	$11,641	Dollar General Corporation	$10,108
Emerson Electric Corporation	$6,450	Emerson Electric Corporation	$6,369
Enron Corporation	$18,813	Enron Corporation	$12,297
Fifth Third Bancorp.	$13,191	Fifth Third Bancorp.	$10,120
Halliburton Co.	$8,525	Halliburton Co.	-
Heartland Express Inc.	$1,463	Heartland Express Inc.	$2,612
Hilton Hotels Corp.	$2,656	Hilton Hotels Corp.	$5,429
Intel Corporation	$21,538	Intel Corporation	$12,607
Mobil Corporation	$14,246	Mobil Corporation	$10,761
Park Place Entertainment	$1,838	Park Place Entertainment	-
PepsiCo Inc.	$11,081	PepsiCo Inc.	$12,859
Perez Company	-	Perez Company	$6,063
Pfizer Inc.	$25,314	Pfizer Inc.	$25,039
Philip Morris Companies	$9,116	Philip Morris Companies	$9,653
Sherwin Williams Company	-	Sherwin Williams Company	$6,555
State Street Corporation	$12,250	State Street Corporation	$10,010
Travelers Group Inc.	-	Travelers Group Inc.	$25,699
United HealthCare Corporation	$5,613	United HealthCare Corporation	$7,025
Total Active Portfolio	**294,131**	**Total Active Portfolio**	**$251,663**
Vanguard Index Trust	$48,397	Vanguard Index Trust	$28,061
Money Market	$828	Money Market	$2,834
Cash Balance	$0.35	Cash Balance	$121
Total Fund Assets	**$343,356**	**Total Fund Assets**	**$282,678**
Scholarship Appropriation	($4,000)	Scholarship Appropriation	($4,000)
Net Fund Assets	**$339,356**	**Net Fund Assets**	**$278,678**

INCOME STATEMENT

April 30, 1999	
Beginning Fund Balance	**$278,678**
Cash Added	$6,212
Income	
Dividend Income - Active	$2,992
Dividend Income - Index	$452
Interest Income	$75
Total Income	**$3,519**
Capital Gains	
Realized – Active	$526
Realized – Index	$366
Unrealized – Active	$67,244
Unrealized – Index	$5,106
Total Capital Gains	**$73,242**
Capital Losses	
Realized – Active	($187)
Unrealized – Active	($18,108)
Total Capital Losses	**($18,295)**
Taxes and Fees	$0
Scholarship Appropriation	($4,000)
Miscellaneous	$0
Ending Fund Balance	**$339,356**

April 30, 1998	
Beginning Fund Balance	**$198,785**
Cash Added	$1,612
Income	
Dividend Income - Active	$2,781
Dividend Income - Index	$334
Interest Income	$268
Total Income	**$3,383**
Capital Gains	
Realized – Active	$305
Realized – Index	$170
Unrealized – Active	$74,367
Unrealized – Index	$6,136
Total Capital Gains	**$80,978**
Capital Losses	
Realized – Active	($213)
Unrealized – Active	($1,868)
Total Capital Losses	**($2,081)**
Taxes and Fees	$0
Scholarship Appropriation	($4,000)
Miscellaneous	$1
Ending Fund Balance	**$278,678**

A special thanks to Jennifer Meents and Hemant Wadhwa for their dedication and commitment to the 1999 Annual Report.