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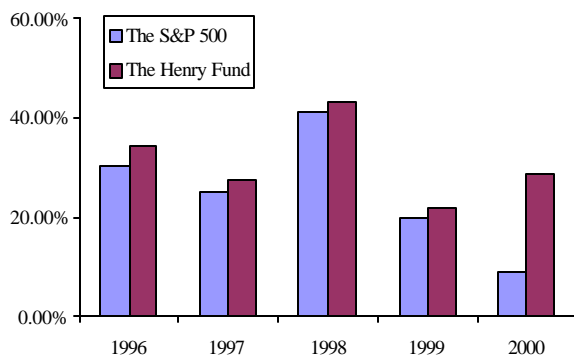
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# LETTER FROM THE INVESTMENT TEAM

## DEAR STAKEHOLDERS,

“Congratulations!” That is the sentiment Henry Fund analysts offered one another following this year’s record-breaking performance. For the fiscal year ended April 30, 2000, the total return of The Henry Fund was 28.58%, compared to the 8.78% return of the S&P 500. This is the largest margin over the index in the fund’s history and the fifth consecutive year we have surpassed our benchmark.



To assure the future competitiveness of Henry Fund analysts and to help maintain this outstanding performance, we implemented the following changes to the structure of the Henry Fund this year.

- **Created a new Energy & Utilities sector** – The similarities between these two sectors provide a natural fit.
- **Creation of Telecommunications sector** – Telecommunication and communication equipment companies have become a significant force in the information economy and now warrant additional analysis.
- **Addition of a second Technology analyst** – The technology sector currently represents almost one third of the S&P 500 index. Assigning two analysts to monitor this sector allows the fund to diversify its technology holdings and expand its investment opportunities. This individual also represents the fund’s eleventh analyst.
- **The timing of the class has been changed** – To better prepare students for their internships and full-time job search, analysts will serve for one full

year beginning in January of their 1<sup>st</sup> year in the MBA program. Additionally, outgoing analysts will have one semester to assist incoming analysts before graduation.

- **Trading in May and December** – By trading twice per year the fund can respond to changing market conditions on a more timely basis.
- **Standardized trade recommendations and economic forecasts** – We standardized “buy”, “sell”, and “hold” definitions on the front page of each company report. The class also agreed on a common outlook for inflation, interest rate, market risk premium and a variety of other economic factors that are used in making trade decisions.
- **Standardized format for company reports** – The first page, or tear sheet, of each report has been standardized in order to reflect a more professional image. Additionally, each report is now downloadable from The Henry Fund web site.

We thank Professor Todd Houge, our academic advisor, for invaluable guidance and wisdom during the year. We are also obliged to the members of our Investment Advisory Committee, Henry Fund donors, fund alumni, guest speakers, and the many research and resource contributors.

We welcome the Fall 2000 Henry Fund team and wish them the best of luck!

*Best regards,*

## THE 1999-2000 HENRY FUND TEAM

Boris Albul	Basic Materials
Peter Bystol	Consumer Cyclical
Savinay Dangi	Technology
Peter Lim	Industrials
Keith Mitchell	Financial Services
Marty Nevshemal	Utilities
Justin Perdue	Healthcare
Matt Sladek	Energy
Kei Tsuboi	Transportation
Nan Yang	Consumer Non-Cyclical

## FUND OVERVIEW

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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 500 Index Fund and the S&P 500 Depository Receipts serve 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 cash in 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 Tippie 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. Considering the growing importance of technology in the economy the existing fund managers have decided to select an additional manager for the technology sector. 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: Discounted Cash Flow, Economic Value Added and Relative P/E Multiple. 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. Two \$2,000 per year scholarships are awarded to first-year MBA students and are 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, Firststar 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 (Firststar), 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

Todd Houge

### BROKERAGE SERVICES

Securities Corporation of Iowa

### DONORS

Catherine Zaharis

*INVISTA Capital Management, Inc.*

Michael Sandler

*Pacific Financial Research*

Kent Oliven

Robert L. Jensen

Firststar Bank Iowa

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*INVISTA Capital Management, Inc.*

Sharon Kress

*Mercantile Bank of Dubuque (retired)*

Thomas Myers

*VMF Capital, LLC.*

Douglas Ramsey

*INVISTA Capital Management, Inc.*

Paul Eckley, Corey Schieler and Lon Erickson

*State Farm Insurance*

### UNIVERSITY OF IOWA FOUNDATION LIAISON

Larry Bruse

*Former Treasurer, The University of Iowa Foundation*

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Stone and McCarthy Research Associates  
Zacks Investment Research, Inc.

**EXCHANGE DATA CONTRIBUTORS**

Bridge Telerate  
The Iowa Exchange Data Consortium

## ECONOMIC OUTLOOK

*12-Month Outlook for the US Economy* – The US economy continues to experience growth absent significant signs of inflation. Consumption remains strong and increases in productivity have largely offset the tight labor market. To further improve the outlook for the US economy is an improving global situation. After a disastrous 1998 when the currency crisis in Asia dramatically reduced demand, the fundamentals of these areas are showing improvement. China continues to offer growth opportunities for US companies and their demand for US finished goods and services is increasing. Japan has also made initiatives to improve the fundamentals of their banking industry and are continuing to consider and implement plans that will stimulate domestic demand. All together, these effects have created an environment where the US economy can grow at a rate higher than historical averages without inflation.

*Real GDP Forecast* – Reflecting the strong core fundamentals of the economy of low inflation, increasing productivity, positive impact of e-commerce and improving global conditions, we forecast a real GDP growth for 2000 to be between 3.0% and 4.0%. However, the Fed maintains that their target for real GDP growth is 2 – 3%. We feel that for the Fed to achieve their target that they would have to raise rates dramatically and quickly which we feel is politically difficult in light of it being an election year and the fact that there is little evidence of inflation.

*Federal Open Market Committee (FOMC)* – The Fed through the FOMC increased the federal funds rate to 6.0% and the discount rate to 5.5% at their latest meeting. Since beginning their tightening policy on June 30, 1999, the Fed has raised rates five times for a total of 125 basis points. Through the November 2000 meeting, we believe that the Fed will move to tighten rates one more time by 25 basis points. This reflects their desire to act preemptively to stave off inflation in light of a tight labor market and higher energy costs. Therefore, we forecast the federal funds rate and the discount rate to be 6.25% and 5.75% respectively by November.

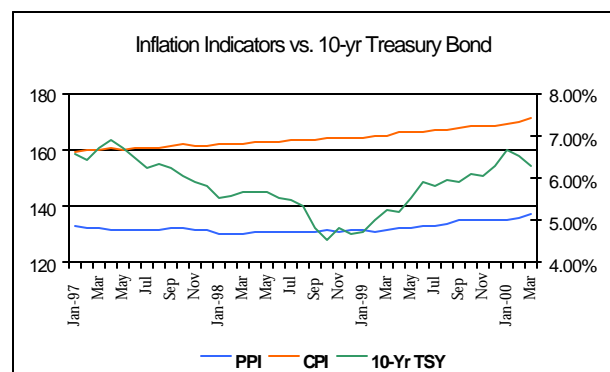
*Inflation Forecast* – Although the economy is experiencing strong growth, our outlook for inflation is relatively tame. We believe that through the

implementation of technology, which increases productivity, and the fact that most competitors are operating in a global environment, that companies will find it extremely difficult to increase prices. Therefore, our outlook for inflation for 2000 is between 2.25% and 2.50%.

*Assumptions for the Risk Free Rate and Expected Return of the Market* – For our financial models, Fund Managers used the 10-year bond yield as the risk free rate when determining the cost of equity for our firms. Our forecast for the 10-year bond yield through November is between 5.85% to 6.25%. Additionally, we used 13.0% as the Expected Return of the Market. This is based on the belief that the long-term returns of the market will be similar to historical returns.

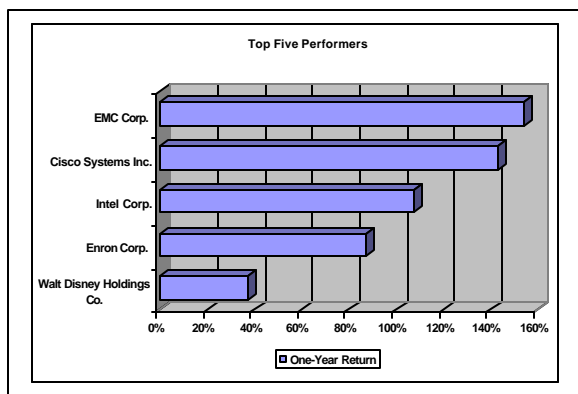
*Unemployment Rate* – Our forecast for unemployment is 4.0% reflecting the tight labor market and the continued growth in the economy.

*Energy Prices* – Although OPEC has successfully been able to limit production, which dramatically increased oil prices above the \$30 per barrel level. Our forecast for oil prices over the next 12 months is that prices will stabilize around \$25 per barrel reflecting OPEC's desire to maintain oil price at levels that will not disrupt the growth of the world economy.

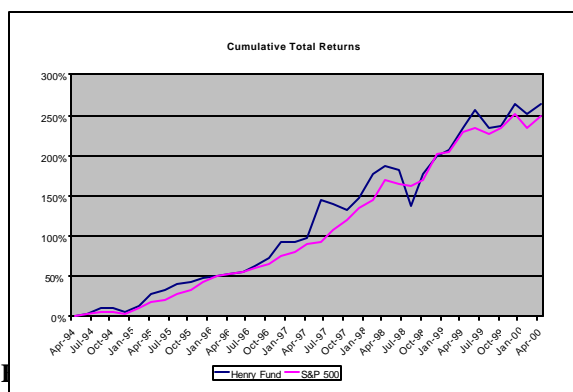


## FUND PERFORMANCE

The year will go into history as a highly volatile one. This is shown in the Dow Jones Index peaking to 11,723 in mid January and bottoming out 9,811 two month later. With these high levels of volatility it was extremely challenging to compete against our benchmark, namely the S&P 500 Index. During a 12-month period ended in April 30, 2000 the Henry Fund returned 28.58%. Over the same period the non-dividend adjusted return of the S&P 500 Index was 8.78%. The market value of the active portfolio increased by over 35% from \$294,131 to \$397,380. Primary driver for the outstanding performance are our holdings in the technology, utilities and the consumer cyclical sector.



Since the inception of the fund in 1994, The Henry Fund has posted a cumulative return of 264.2%, which is 15.44% above the return of the S&P 500 Index.



In the Henry Fund portfolio two steel companies – AK Steel Holding Corporation and Ispat International, represent the basic materials sector. AK Steel was added to the portfolio in May 1999 and by mid April 2000 total losses from this holding reached 46.0%. The decline in the company’s stock price has been

mainly explained by considerable reduction in net earnings. Ispat was acquired in December 1999 and by mid April 2000 the value of the holding declined by 26.4%. The decline is mainly explained by a downturn in the market as a whole.

### Consumer Cyclical:

As of April 14, 2000 the S&P500 was down 4.6% YTD while the S&P Consumer Cyclical Index was down 12.1%. We feel this underperformance is due to factors such as rising interest rates and increased cyclical fears. The good news of this is that we believe that the next recession may already be priced into many of the stocks in this sector. We feel that going forward this sector should be weighted in line with the current S&P500 weights.

### Consumer Non-Cyclical:

The three consumer non-cyclical holdings returned disappointing performance over the last 52 weeks. We closed our position in Coca-Cola last December. We are convinced that the growth potential of the company does not warrant its market valuation. PepsiCo’s proactive changes and strong operating performance encourage us to hold the stock. Litigation concerns beleaguered Philip Morris over the past year, engendering severe discounts. We feel that Philip Morris is capable of managing the litigation risk and retain our position. We propose adding to our portfolio Robert Mondavi, a full line wine manufacturer with keen focus on volume and vigorous diversification efforts. We expect that the upswing in wine consumption will benefit the company in the long run.

### Energy:

The prior 52 weeks has been an interesting period for companies in the oil and energy sector. Stock prices had remained relatively flat throughout the year, while other sectors had rapidly accelerated. This standing changed dramatically over the past few weeks, as massive sell-offs in the “new” economy caused capital to flow into energy stocks. This is hardly surprising, however, as investments in energy companies are seen as a natural hedge to inflation. Investors should expect this trend to continue

### Financial:

Representing over 12% of the portfolio, the financial service stocks represent a broad cross section of the industry. Citigroup and State Street have both performed well, with only Fifth Third posting negative returns. The latter is due mainly to interest rate fears that affected most retail-banking stocks. Citigroup continues to benefit from recent merges and acquisition, and State Street extended its strong presence among institutional clients. Due to the broad diversification and strong fundamentals that these firms bring to the fund, no portfolio changes are recommended.

**Healthcare:**

In September 1999, United HealthCare's stock plunged on concerns over future litigation against managed care companies. Since then it has rebounded to pre-scare levels and is a hold because of strong fundamentals. In March 2000, Pharmacia & Upjohn merged with Monsanto to form Pharmacia Corporation. The merged entity makes the company a formidable powerhouse in the pharmaceutical industry. In December of 1999, we sold our position in Pfizer because of its high price relative to the industry without a strong pipeline to back it up. Using the proceeds from the Pfizer sale, we recommend purchasing Watson Pharmaceuticals, a generic drug maker.

**Industrials:**

The Industrial Sector consists mostly of very mature and capital intensive companies. In addition, the sector is highly sensitive to the overall macroeconomic factors such as interest rates. We closed our position in Emerson Electric last December as the stock consistently underperformed the S&P 500 Index over a three-year period. We propose to maintain our position in Maytag as we strongly believe that Maytag under current levels is oversold. In addition, we propose to buy Ingersoll-Rand, which has a leading position in many of its core business units. Having a solid operational performance and currently trading at 40% of its 52-week high, we truly believe that the valuation for Ingersoll-Rand looks attractive.

**Technology:**

The technology sector outperformed all other sectors in the fund and led to an overall impressive result. Cisco, EMC and Intel – all three doubled in price since last year, giving a return of over 100%. The main

reason for such performance is the leadership of each company in their respective industries. Cisco continues to be a leader in the data networking industry. Intel's strategic shift in focus from PC-centric to a company focused on communication industry has generated enormous potential in this semiconductor leader. EMC continues to be a market leader in data storage and the addition of Data General has filled up the mid-range storage gap for the company. With the growing importance of b2b e-commerce and ASDV's position in this niche market, we believe ASDV to be an attractive long-term addition to our portfolio.

**Transportation:**

Driven down by higher fuel prices, the transportation sector was distressed for the most part of the last 12 months, until it showed some rebound in March 2000 on news of raising oil production. As of April 28, the 52-week changes of Dow Jones trucking and airlines indices were +0.73% and -10.31%, respectively. The trucking industry's earnings were hurt also by increased driver pay. On the other hand, most airlines showed decent earnings, considering high fuel prices, but such results were apparently ignored by the investors throughout 1999. In any way, higher fuel prices seem to have been largely factored into the valuations.

As of April 28, CNF has returned -35.1% since our purchase in May 1999. Frontier Airlines, which we purchased in December 1999, has returned +31.2% in 5 months.

**Utilities**

The Utilities sector has again delivered solid performance over the last 12 months. Enron has increased by 47.2%, on top of the 51% return in 1998. Despite these dramatic increases, we still feel that Enron is an extremely innovative company, which makes it very attractive even at these levels. After the fund divested itself from its AT&T holdings, MCI Worldcom (WCOM) was added. WCOM continues to be a company that everybody likes, yet its stock price has come down. Since January, WCOM is down 22%. Much of the concern is in regards to the uncertainty surrounding the DOJ approval of the proposed merger with Sprint (FON). We are confident that the merger will be approved this year and the combined company will be the premier global communication's company. Therefore, we are very comfortable maintaining our position in WCOM.

## SUMMARY OF TRANSACTIONS

	Portfolio As of (# of Shares)		Proposed Action (# of Shares)	
	April 30, 1999	April 30, 2000	Addition	Deletion
<b>Basic Materials</b>				
AK Steel Holding Corporation	500	500	-	-
Alcoa Inc.	-	-	100	-
Ispat International NV	-	500	-	-
<b>Consumer Cyclical</b>				
Dollar General Corporation <sup>1</sup>	268	415	-	415
The New York Times Company	-	-	250	-
Target Corporation	200	200	-	-
The Walt Disney Company <sup>1</sup>	120	360	-	-
<b>Consumer Non-Cyclical</b>				
The Coca-Cola Company	167	-	-	-
PepsiCo, Inc.	300	600	-	-
Philip Morris Companies Inc.	260	520	-	-
The Robert Mondavi Corporation	-	-	400	-
Tricon Global Restaurants	30	-	-	-
<b>Energy</b>				
Anadarko Petroleum Corporation	-	-	150	-
Exxon Mobil Corporation <sup>1</sup>	136	179	-	59
Halliburton Company	200	200	-	-
<b>Financial</b>				
Citigroup, Inc. <sup>1</sup>	420	450	-	-
Fifth Third Bancorp	184	184	-	-
State Street Corporation	140	140	-	-
<b>Healthcare</b>				
Pfizer Inc.	220	-	-	-
Pharmacia Corporation <sup>1</sup>	140	166	-	-
United Healthcare Corporation	100	100	-	-
Watson Pharmaceuticals, Inc.	-	-	480	-
<b>Industrials</b>				
Emerson Electric Company	100	-	-	-
Ingersoll-Rand Company	-	-	125	-
Maytag Corporation	160	480	-	-
<b>Technology</b>				
Cisco Systems, Inc. <sup>1</sup>	282	728	-	-
EMC Corporation <sup>1</sup>	235	320	-	-
Intel Corporation	352	352	-	-
<b>Transportation</b>				
CNF Inc.	80	80	-	-
Comair Holdings, Inc.	200	-	-	-
Frontier Airlines, Inc.	-	450	-	-
<b>Utilities</b>				
AT&T Corporation	480	-	-	-
Enron Corporation <sup>1</sup>	250	500	-	200
MCI Worldcom	-	540	-	-

<sup>1</sup> The increase in number of shares may also be the result of a stock split or dividend.

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## BASIC MATERIALS

**2.71% of the Active Portfolio**

**Analyst: Boris Albul**

**4.24% 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

In 1999-2000 two steel companies represented the sector in the portfolio. During the year the steel and iron industry experienced considerable improvements (compared to 1998) mainly driven by higher levels of demand. Inventory de-stocking lead to a reduction in supplies and an increase in the industry operating rate that reached 90% by the end of 1999 (compared to 76% in 1998). Additionally, steel prices increased up to \$310-325 per ton by early 2000 compared to \$250 or less in early 1999.

## PORTFOLIO HOLDINGS

**AK Steel Holding Corp. (NYSE: AKS) 1.2 % of the Active Portfolio Maintain Position**

AKS is a fully integrated steel producer. The main product lines of the company include coated, cold rolled, hot rolled and stainless steel products. In 1999 the company shipped 4.6 million tons, of which 51% were to the automotive market, 33% to service centers, and 16% to the appliance, construction and manufacturing sectors. The company is currently operating three steel making facilities – Ashland Works in Kentucky, Middletown Works in Ohio and Rockport Works in Rockport, Indiana. The most significant achievement of the company is that for the last five years it has posted the largest operating profits per ton among the major domestic integrated steel producers.

High product costs is one of the major concerns of basic materials sector companies. The core strategy of AKS in regard to cost management consists of increasing the cost efficiency of the company's current and new facilities. This strategy, however, does not always work. For example, in case of the new cost efficient plant in Rockport, Indiana the company did not realize the expected increase in total returns. The reason was that at the time AKS introduced its new plant the levels of inventories in the Steel and Iron Industry were very high. This did not allow the company to utilize the new plant to the fullest extent, and, consequently, AKS's reported earnings were lower than expected in the fourth quarter of 1999.

Although the performance of the company during the last year could be characterized as negative – the stock price declined by about 60% from \$25 per share in May 1999 to \$10.13 as of April 14, 2000, the expectations for the future of the company are optimistic. The main reason for this includes higher expectations for industry demand in 2000-2001.

### **AK Steel Holding Corporation (AKS)**

April 30, 2000 Price	11.0625	Market Cap. (bil)	1.12		EPS	ROIC
52 Week Price Range	7 7/8 – 29 5/8	Shares Outs. (mil)	110.60	1999	0.75	5.85%
52 Week Return	-63.12%	Dividend Yield	4.91%	2000	0.82	6.43%
ROE (FY 1999)	5.85%	Beta	1.37	2001E	0.91	7.07%

**Ispat International (NYSE: IST) 1.40 % of the Active Portfolio Maintain Position**

IST was incorporated in the Netherlands in 1997. The company is a vertically integrated, low-cost producer with steel-making facilities in the US, Canada, Trinidad, Mexico, Germany, Ireland, and France. IST has grown by acquiring and turning around under-performing steel assets, and by increasing the productivity of its existing facilities. Additionally, IST has one of the most diverse product offerings of any steel company globally. The company manufactures slabs, billets, blooms, carbon sheet, structural sections, wire rod, and other products. High product

costs is one of the core characteristics of the basic materials sector and of IST. The financial success of the sector's companies depends on their ability to manage these high costs. Cost management strategy of IST consists of two major parts. First, the company controls its costs by being operationally efficient. This is reflected in the fact that IST has one of the lowest production costs per ton in the Steel Industry - \$20 per ton for IST versus \$46 per ton industry on average. Second, the company carries out an aggressive acquisition strategy. The main goal of the company is to find undervalued production facilities abroad and create value by turning cost inefficient plants into profit generating enterprises.

The major risk for IST is associated with the company's high levels of debt. IST's total debt to equity ratio of 3.31 is considerably higher than the average debt to equity ratio of 0.65 for the industry as a whole. IST may find itself in a situation when it will not be able to raise more money from creditors. This will negatively affect the company's ability to successfully continue its acquisition strategy.

### *Ispat International (IST)*

April 30, 2000 Price	11 .6875	Market Cap. (bil)	1.51		EPS	ROIC
52 Week Price Range	8 5/8 – 18 3/8	Shares Outs. (mil)	127.0	1999	\$0.67	15.06%
52 Week Return	-5.9%	Dividend Yield	4.20%	2000	\$0.64	16.56%
ROE (FY 1999)	10.46%	Beta	1.45	2001E	\$0.60	18.22%

### **Alcoa Inc. (NYSE: AA)**

### **Proposed Addition**

AA is the world's largest aluminum company and the largest third-party supplier of aluminum through its joint venture with WMC Ltd. AA owns and operates bauxite mines, aluminum refineries, primary aluminum smelters, bulk material ships, and fabricated product operations around the world. It owns extensive operations in Australia and Brazil and has a growing presence in Europe. The company has one of the strongest balance sheets in the industry. AA also has an attractive variable dividend policy (\$0.75/share plus 30% of prior-year earnings above \$2.25/share). In terms of product mix, AA's major business lines are: (1) transportation (\$4.0 billion in revenues in 1999); (2) packaging (\$3.2 billion in revenues); (3) distribution (\$2.9 billion in revenues); (4) aluminum ingot (\$2.2 billion in revenues); (5) building and construction (\$2.2 billion in revenues); and (6) alumina and chemicals (11% in revenues).

AA has three major strengths. The first is *strong management*. The management of the company has proven its strength by maintaining the company's leadership position in the industry and by continuously reporting high net profits. The second is *financial health*. AA's long term debt to long term debt plus equity ratio is 31.5%, reflecting a very strong balance sheet. The third is the company's *M&A strategy*. AA's ability to successfully implement its aggressive acquisition strategy plays a positive role in several dimensions of the company's operations. The first is that AA is mainly focusing on buying out low cost aluminum producers, which helps the company to control high product costs. The second dimension is that merging with low-debt technology companies not only extends AA's operations into new markets but also reduces the level of its total debt. The third dimension is the fact that by carrying out an aggressive M&A strategy the company increases its market share, which is extremely important in the highly competitive Aluminum Industry. New markets allow the company to capture a "larger portion" of the growth of the industry.

### *Alcoa Inc. (AA)*

April 30, 2000 Price	64.875	Market Cap. (bil)	23.38		EPS	ROIC
52 Week Price Range	52 3/16 – 87 1/4	Shares Outs. (mil)	371.87	1999	\$2.83	9.24%
52 Week Return	23.63%	Dividend Yield	1.55%	2000	\$3.11	10.16%
ROE (FY 1999)	17.45%	Beta	1.08	2001E	\$3.42	11.18%

## CONSUMER CYCLICAL

*Analyst: Peter Bystol*

**8.9% of the Active Portfolio**  
**12.24% of the S&P 500 Index**

For the purposes of the Henry Fund the two economic sectors; Consumer Cyclical (7.03% of the S&P 500) and Consumer Services (5.02% of the S&P 500) have been combined to be followed by one analyst. This has been an interesting area to follow, as the U.S. economy remains in the longest economic expansion in history.

One of the key economic indicators to watch when evaluating these firms is Consumer Confidence. Consumer Confidence, fell in March for the second consecutive month. The index now stands at 136.7, down from 140.8 in February. While optimism about current economic conditions continues at high levels, consumers have turned cautious about prospects for the next six months. This could greatly affect company performance within this sector, of course, because a consumer without confidence is a consumer reluctant to spend.

Housing starts, which declined significantly in March, are also an important variable as consumer spending has always been highly correlated with the housing market. Interest rates also affect results, especially in the form of mortgage rates, which were on the rise in January and February, and have remained somewhat flat since.

As of April 14, 2000 the S&P500 was down 4.6% YTD while the Consumer Cyclical sector was down 12.1%. We feel this underperformance is due to factors such as rising interest rates and increased cyclical fears. The good news of this is that we believe that the next recession may already be priced into many of the stocks in this sector. We feel that going forward this sector should be weighted in line with the current S&P500 weights.

12-month performance for the portfolio holdings is as follows: The Walt Disney Co. 16.88%, Target Corporation – 3.72%, Dollar General Corp. –12.13%.

## PORTFOLIO HOLDINGS

### **The Walt Disney Corp. (NYSE:DIS)      3.5% of the Active Portfolio      Maintain Position**

The Walt Disney Company is a diversified entertainment company engaged in film entertainment, theme parks & resorts, broadcasting, consumer products, professional sports, and cruise lines.

A much revitalized and well-publicized turnaround at ABC, benefiting from a combination of a strong advertising market and improved ratings, is projected to drive Media Networks operating income growth going forward over the next 12-18 months. The success of *Who Wants to be a Millionaire* has helped drive a surge in ratings throughout ABC's prime-time schedule, helping the network win both the November and February sweeps. This momentum should continue, returning the broadcast segment to a true profit center.

Reduced capital spending following the opening of California Adventure will greatly impact DCF value and ROIC.

The focus will then shift towards mining the capital already in place for greater returns. California Adventure should provide a significant boost to Disneyland's performance.

Disney's outstanding brands give it an important lead in transitioning to the new economy. The globally exportable nature of these brands elongates Disney's competitive advantage period and the time during which it can generate returns above its cost of capital. Our 12-month target price for Disney is \$48.00 based on DCF analysis, relative EPS multiple comparison, and TEV/EBITDA multiple analysis.

#### *The Walt Disney Corp. (DIS)*

April 30, 2000 Price	\$39.00	Market Cap. (bil)	84,996		EPS	ROIC
52 Week Price Range	23 3/8 – 43 5/8	Shares Outs. (mil)	2,070	1999	\$ .065	15.6%
52 Week Return	29.92%	Dividend Yield	0.52%	2000E	\$ .084	21.3%
ROE (FY 1999)	6.20%	Beta	1	2001E	\$1.02	19.1%

### **Target Corp. (NYSE: TGT)      3.3% of the Active Portfolio      Maintain Position**

Target Corp., the fourth largest U.S. general merchandise retailer, was formed through the merger of two old-line department store companies, Dayton Corp. and J. L. Hudson Co. In 1990, TGT acquired Marshall Field & Co. We see Target as the least mature of the large growth retailers, with the most room to grow.

Primary value drivers for the stock going forward include 15% annual revenue growth over the next 5 years, and increased margin expansion through cost-cutting, operational efficiencies, and increasing economies of scale as the Target chain continues to grow. DCF valuation yields a share price of \$85.00, which represents 30x estimated 2000 EPS of \$2.93 and 25x estimated 2001 EPS of \$3.43. TGT is currently trading at 27x 1999 EPS of \$2.54.

**Target Corp. (TGT)**

April 30, 2000 Price	\$65.75	Market Cap. (bil)	32,380		EPS	ROIC
52 Week Price Range	53 3/4 - 78 3/8	Shares Outs. (mil)	454.5	1999	2.54	10.6%
52 Week Return	1.76%	Dividend Yield	0.59%	2000E	2.93	11%
ROE (FY 1999)	19.52%	Beta	1.1	2001E	3.43	11.2%

**Dollar General Corp. (NYSE: DG) 2.2% of the Active Portfolio Proposed Sale**

The Dollar General Corporation operates retail outlets that sell an assortment of consumable basic merchandise, including health and beauty aids, packaged food products, cleaning supplies, house wares, stationery, seasonal goods, basic apparel and domestics. The company seeks to serve the needs of low, middle and fixed income customers with household income of less than \$25,000 a year (about one-third of U.S. households fall into this category). Some 70% of the stores are in small towns with populations of 25,000 or less.

We are closing out our Dollar General position primarily for valuation reasons as the stock has achieved the current price target. We also believe that DG's margin improvement has achieved a plateau and will show little if any improvement as competition from larger rivals such as Target, WalMart, Costco, Kmart and others intensifies. There are also concerns that the company cannot achieve the growth rates currently expected by many analysts and that the rollout of new distribution systems and infrastructure are progressing slower than originally expected.

**Dollar General Corp. (DG)**

April 30, 2000 Price	\$22.86	Market Cap. (bil)	\$6.806		EPS	ROIC
52 Week Price Range	18 - 32 5/8	Shares Outs. (mil)	269.6	1999	\$0.81	20.06%
52 Week Return		Dividend Yield	0.53%	2000	\$0.99	23.22%
ROE	31.5%	Beta	1	2001E	\$1.16	26.21%

**New York Times Corp. (NYSE: NYT) Proposed Addition**

The New York Times Co. is a diversified newspaper/media company, with four major operating divisions: Newspapers, Television and Radio Stations, Magazines, and Electronic Information and Publishing (New York Times Digital). The newspaper division accounts for approximately 92% of company revenues. We recommend adding the stock of the stock of the New York Times Co. to the Henry Fund portfolio. Our 12-month target price of \$56.00 is derived from DCF analysis, relative P/E valuation, and relative TEV/EBITDA valuation. The primary value drivers for the firm will be continued cost reduction, increased demand for advertising in high quality national newspapers, the upcoming spin-off of New York Times Digital, and steadily increasing circulation for both the national and regional newspapers.

Recent ad numbers are so strong that one has to wonder whether NYT's strategic actions over the last four years have now placed the growth curve on a higher plateau. NYT continues to produce some of the best advertising growth rates in the industry, as 1Q 2000 ad revenues increased 16% over the 1999 number. We see the New York Times as the superior way to play what appears to be a step up in secular growth in national advertising in high quality national newspapers.

**New York Times Corp. (NYT)**

April 30, 2000 Price	\$39 1/16	Market Cap. (bil)	\$7.089		EPS	ROIC
52 Week Price Range	26 1/2 - 49 15/16	Shares Outs. (mil)	175.587	1999	\$1.73	11.16%
52 Week Return	18%	Dividend Yield	0.92%	2000E	\$2.04	13.77%
ROE (FY1999)	21%	Beta	1	2001E	\$2.45	14.47%

**CONSUMER NON-CYCLICAL****7.66% of the Active Portfolio****Analyst: Nan Yang****5.87% of the S&P 500 Index**

The Consumer Non-Cyclical sector encompasses industries such as Food and Beverages, Tobacco, Household and Personal Care Products, Drugstores and Supermarkets, and Agriculture, etc. Like many other highly mature industries, industries in the Consumer Non-Cyclical universe feature sluggish top line growth, shrinking pricing power, intense competition, and frequent mergers and acquisitions. Limited pricing flexibility highlights the significance of volume growth and brand equity in the valuation of consumer non-cyclical companies. Volume growth is intrinsically linked to the trends in the demographics and consumer tastes. Brand equity augments pricing power. The non-cyclical nature, however, bodes well for the performance of companies in this sector when the economy is slowing down and investors fly to safety.

The sector had a difficult year, led by major multinational conglomerates struggling to recover from weak economic conditions in overseas markets. Moreover, the robust domestic economy and modest inflation obscured the importance of the sector as a hedge to economic downturn. The S&P consumer staples index depreciated 11.78% over the last 52 weeks, in contrast to 10.88% appreciation by the S&P 500 index. Sector weights slipped from 9.14% to 5.87% during the same period. The sector is expected to fare better as the global economy goes back on track and inflationary pressure accumulates in the domestic economy.

## PORTFOLIO HOLDINGS

### **PepsiCo Inc. (NYSE: PEP) 5.05% of the Active Portfolio Maintain Position**

The 101-year old company is the only multinational salty snack maker in the world and operates the world's second largest soft drink concentrate business. In 1999, the snack business holds about 60% of the U.S. salty snack food market and 48% share worldwide. The beverage operations command 31.4% of the U.S. soft drink market and about 21% of the worldwide soft drink market. Flagship snack brands include Fritos, Doritos, Lay's and Ruffles. Top beverage names consist of Pepsi, Mountain Dew, Tropicana Pure Premium, and Aquafina.

PepsiCo consummated multi-year restructuring by spinning off its bottling operations in April 1999. Snack food operations replaced beverage business to be the future growth vehicle. Snack business now represents 62% of revenues, 67% of operating profits, and 75% of cash flow. Significant pricing initiatives in the soft drink industry dampened volume growth and induced investor concerns over industry prospects. Unfavorable industry valuation negatively influenced PepsiCo stock, in spite of solid operating performance and positive changes of the company. We expect healthy stock performance going forward.

#### *PepsiCo Inc. (PEP)*

April 30, 2000 Price	36.69	Market Cap. (bil)	52.87		EPS	ROIC
52 Week Price Range	29 11/16 – 41 1/2	Shares Outs. (mil)	1,441	1999	1.24	11.0%
52 Week Return	-0.76%	Dividend Yield	1.44%	2000E	1.38	40.5%
ROE (FY 1999)	30.46%	Beta	0.72	2001E	1.54	36.5%

### **Philip Morris Inc. (NYSE: MO) 2.61% of the Active Portfolio Maintain Position**

Philip Morris Companies Inc. is the world's largest cigarette maker. Its mainstay brand, Marlboro is the world's best selling brand. Other prominent businesses of the company include Kraft Foods, the nation's largest packaged food manufacturer, and Miller Brewing, the second largest beer manufacturer in the nation. Tobacco business contributes about 60% of total operating revenues, followed by the food and beer subsidiaries with 34% and 5.5%, respectively.

The tobacco industry is the fifth worst performing industry over the last 52 weeks, plunging 37.62% in value. The tobacco industry is besieged by unprecedented litigation, including Engle class action suit, DOJ claim and numerous individual and third party payor claims.

As the industry leader, Philip Morris heads the hit-list of the claimants and suffers more litigation risk than peers. The stock slumped 37.59% over the last year, trading at a price level even below what its food subsidiaries would warrant. Current litigation risk and future regulatory risk are believed to be manageable, in light of the exceptional defense record of the industry and its ability to handle large-scale settlements like the \$246 billion MSA with 46 states in 1998.

Given sound operating performance of the company, we believe that market valuation will improve when concerns over Engle class action suit and DOJ claim are alleviated.

***Philip Morris Companies Inc. (MO)***

April 30, 2000 Price	21.88	Market Cap. (bil)	50.63		EPS	ROIC
52 Week Price Range	18 11/16 – 43	Shares Outs. (mil)	2,314.48	1999	3.19	31.2%
52 Week Return	-32.41%	Dividend Yield	8.73%	2000E	3.62	29.7%
ROE (FY 1999)	48.47%	Beta	1	2001E	3.98	27.3%

## PORTFOLIO CHANGES

**The Coca-Cola Company (NYSE: KO)**

**Deletion**

The Coca-Cola Company is the world's largest soft drink concentrate manufacturer and marketer. Its product portfolio covers carbonated products, mixer, juice, sports drinks and bottled water. After taking over from Cadbury Schweppes 30 brands in 155 countries, the company now occupies 51% of the soft drink market worldwide.

The Coca-Cola Company stock has been battered since the unprecedented product recall in Europe in June 1999. Subsequent to a major management overhaul last October, CEO Douglas Ivester on December 6 decided to retire due to investor pressure and surfacing problems in the company's growth strategy. New CEO Douglas Daft on January 26 warned investors of over-optimism about the company's long term growth, paving the path for the declaration of potentially worse news in coming months. Our position was closed last December, because we believe that the future growth of the company in domestic and international markets does not back up the market valuation.

***The Coca-Cola Company (KO)***

April 30, 2000 Price	47.25	Market Cap. (bil)	116.9		EPS	ROIC
52 Week Price Range	42 7/8 – 70 7/8	Shares Outs. (mil)	2,473.29	1999	0.98	85.7%
52 Week Return	-29.98%	Dividend Yield	1.4%	2000E	1.35	56.9%
ROE (FY 1999)	27.04%	Beta	1.04	2001E	1.49	60.3%

**The Robert Mondavi Corporation (NASDAQ: MOND)**

**Proposed Addition**

The Robert Mondavi Corporation is one of the leading wine manufacturers, whose products are marketed under Robert Mondavi Winery, Robert Mondavi Coastal, Woodbridge, Vichon Mediterranean, LaFamiglia di Robert Mondavi, Byron, Opus One, Luce and Caliterra labels. The Company operates five wineries in the Napa Valley, and has joint venture investment in France, Italy, and Chile. Due to surging consumer demand since early 1990s, the company's average EPS growth over the last five years was about 17%.

Mondavi strives to build a product portfolio with sharp focus on volume. The company's geographic diversification through overseas equity investment enables it to reduce fixed leverage, trim business risks, and benefit from the flexibility of luxury offering. As wine products evolve into life style supplies, we anticipate wine volume to accelerate. Mondavi is well positioned to outgrow its competitors and reap the benefit of its volume strategy. We also expect material productivity gain related to the upside of the company's family management.

***The Robert Mondavi Corporation (MOND)***

April 30, 2000 Price	33.19	Market Cap. (bil)	0.516		EPS	ROIC
52 Week Price Range	29 – 42 1/4	Shares Outs. (mil)	15.548	1999	1.94	8.4%
52 Week Return	-11.35%	Dividend Yield	NA	2000E	2.45	9.1%
ROE (FY1999)	13.13%	Beta	0.68	2001E	2.81	9.6%

## ENERGY

**5.10% of the Active Portfolio**

**Analyst: Matthew S. Sladek**

**5.29% of the S&P 500 Index**

The previous year in the energy sector has been a perplexing one for companies within the industry as well as outside investors. For the first time in recent history, OPEC was able to enforce its production quotas among its members, with an outstanding 85% compliance rate. Production volume cuts of 2.1 million barrels per day instigated last April managed to dwindle inventory reserves around the world to record-lows. Prices for crude (based on the West Texas Intermediate index) doubled over the course of the past year, from \$17 per barrel on April 30, 1999 to a record high of \$34.50 on March 7, 2000. Along the way, crude prices remained in the \$28 - \$32 range for the most of the first quarter of 2000. Following intense political pressure to increase production limits, OPEC members elected to boost production by 1.7 million barrels per day. In accordance, non-OPEC members agreed to increase production levels by 300,000 barrels per day. After these announcements, crude prices quickly fell to \$25 per barrel.

The perplexing part of this story is that companies in the oil and energy sector have not seen the value of their shares rise in conjunction with higher oil prices. Sectors have either stagnated, or are available at a discount to the prices they were trading at 52 weeks ago, despite crude oil prices reaching heights that had not been seen since the first month of the Gulf War. The revised production quotas for OPEC, which will pump roughly 27 million barrels per day into the pipeline should keep oil trading in a \$22 - \$28 band. Evidenced by their unusual cohesion in maintaining production quotas through 1999, investors should expect to see a stronger OPEC, able to enforce its own decisions and control its output. Members and non-members alike must cooperate to keep oil prices below the \$30 level. Higher oil prices are more likely to stimulate energy conservation as well as increased research into alternative energy sources, thereby lessening reliance on fossil fuels.

The Henry Fund currently holds two of the strongest players in the oil industry, Exxon Mobil and Halliburton, along with the proposed addition of Anadarko Petroleum. These three companies will provide significant coverage to the oil sector that will reap the rewards of elevated oil prices in the near future.

## PORTFOLIO HOLDINGS

### **Exxon Mobil Corp (XOM)**

**3.30% of the Active Portfolio**

**Maintain Position**

Mobil Corp. underwent a significant identity change at the end of 1999. Immediately following the approval of its merger by the Justice Department on December 1, Mobil immediately joined forces with Exxon, creating the world's largest oil company, Exxon Mobil. The newly formed company had combined revenues of over \$160 billion for 1999, which was enough to place it as the fourth largest company in the United States in terms of sales, behind General Motors, Ford, and Wal-Mart. As an integrated oil company, Exxon Mobil operated in all areas of the oil and energy sector: production, refining, exploration, transportation, and marketing. On a worldwide basis, the company has proven reserves of 21 billion barrels of oil and is expanding into Russia, West Africa and South America.

The merger reunited to former crown jewels of John D. Rockefeller's Standard Oil Company. In order to gain approval by the Justice Department, Exxon Mobil had to agree to sell off 2,400 of its 40,000 service stations, primarily in the eastern United States. In addition, the company had to divest itself of its 128,000 barrel per day refining facility in San Francisco. Despite its sale, the company's refining capacity remains above 5.5 million barrels per day.

#### **Exxon Mobil Corp (XOM)**

April 30, 2000 Price	80 <sup>7</sup> / <sub>8</sub>	Market Cap. (bil)	281,218.78		EPS	ROIC
52 Week Price Range	69 <sup>7</sup> / <sub>8</sub> - 87 <sup>1</sup> / <sub>4</sub>	Shares Outs. (mil)	3,479.89	1999	2.34	8.2%
52 Week Return	11.30%	Dividend Yield	2.18%	2000	3.61	12.6%
ROE (FY 1999)	12.61%	Beta	0.67	2001E	3.90	10.8%

### **Halliburton Co. (HAL)**

**1.80% of the Active Portfolio**

**Maintain Position**

Halliburton is the second largest oilfield services company in the United States, following Schlumberger. The company operates in over 120 countries around the world, with two-thirds of its total revenues being accounted for through international operations. The prior year was a particularly difficult one for the company, as it saw its revenues decrease by 14%, and its earnings per share figure slashed by 60%. These losses of revenue and earnings can be attributed to the depressed oil prices that took place through the first half of 1999. Upstream companies, such as those in the oilfield services sector, experience a 12-month lag behind higher oil prices and capital expenditures by the major oil companies. For that reason, as oil prices rebound in the second half of 1999 and soared in the first quarter of 2000, Halliburton is well-poised to become a market leader in the oilfield services industry.

In addition to its oilfield operations, Halliburton has expanded into e-Commerce. In order to stay on the cutting edge of technology, Halliburton recently announced a joint venture with Science Applications International Corp. to create web-based portals that will facilitate communications between engineers and industry scientists. This undertaking will aid Halliburton in narrowing the gap created by Schlumberger and its e-Commerce dominance.

#### ***Halliburton Co. (HAL)***

April 30, 2000 Price	$40\frac{3}{16}$	Market Cap. (bil)	17,771.04		EPS	ROIC
52 Week Price Range	$32\frac{5}{16} - 51\frac{3}{4}$	Shares Outs. (mil)	443.58	1999	0.67	4.7%
52 Week Return	15.88%	Dividend Yield	1.25%	2000	1.44	8.4%
ROE (FY 1999)	10.49%	Beta	1.07	2001E	1.68	10.2%

#### ***Anadarko Petroleum***

#### ***Proposed Addition***

Anadarko Petroleum is one of the largest independent oil and natural gas exploration and production (E&P) companies in the world, measured by market capitalization. Management at Anadarko has posted strong earnings numbers through internal prowess and cost control as opposed to buying earnings through a merger, the primary tactic used by many of its competitors. Instead of acquiring entire companies and concerning itself with the disposition of non-operating assets, Anadarko selectively purchases individual assets from the major oil companies. These fields are often deemed “unproductive” or lack a sufficient amount of reserves to warrant exploration. Anadarko, on the other hand, has become the industry leader in 3-D seismic technology and is able to locate oil and natural gas reserves much more easily and accurately than its competitors.

With one of the highest cost efficiency programs in place, Anadarko is able to drill oil and natural gas from the ground for significantly less than its competitors. Industry average for producing oil and natural gas is \$6.00 per barrel, while Anadarko is able to remove the fuel from the ground for half that amount. Short-term profitability is driven by its domestic operations, while prospects in Algeria and deepwater Gulf of Mexico will fuel growth going forward. According to Mike Rose, CFO, the company currently has numerous wells that were capped in 1999 due to depressed oil prices. As the price of crude remains in such an elevated trading range, these capped wells will be opened, providing a further source of income.

#### ***Anadarko Petroleum***

April 30, 2000 Price	$36\frac{3}{16}$	Market Cap. (bil)	4,632.55		EPS	ROIC
52 Week Price Range	$26\frac{1}{4} - 42\frac{3}{4}$	Shares Outs. (mil)	128.02	1999	0.25	1.3%
52 Week Return	-9.55%	Dividend Yield	0.55%	2000	1.41	3.5%
ROE (FY 1999)	2.64%	Beta	0.60	2001E	1.93	3.2%

## FINANCIAL SERVICES

**12.12% of the Active Portfolio**

***Analyst: Keith Mitchell***

**15.05% 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. Stocks from this sector held in the Henry Fund focus on retail banking (lending), mutual funds (investment management) and diversified financial services. Consolidation continues to shape the industry, as the “Wall-Martization” of financial services becomes a reality. It remains to be seen, however, whether cross selling will be viable option in the future.

While a thriving domestic economy, low unemployment and low inflation have helped to increase earnings, stock prices in this sector have been held back by rising interest rates. The Fed has raised rates 5 times during the past year, increasing rates from 4.75% to 6.00%. Other forces shaping the sector include globalization and the Internet. Improving economies in Europe and Asia offer new opportunities for overseas expansion. While e-commerce holds much potential, brick-and-mortar branches remain essential for retail banking and investing companies.

## PORTFOLIO HOLDINGS

### **Citigroup (NYSE:C)**

**6.29% of the Active Portfolio**

**Maintain Position**

Citigroup is a broadly diversified financial services giant consisting of the Citibank, The Travelers Group and Salomon Smith Barney. Through these three companies Citigroup competes in the retail banking, insurance and investment banking industries. Additionally, during the past year the company initiated a partnership with State Street called CitiStreet and has an online venture called eCiti.

One key to Citigroup’s strategy is international expansion. Acquisitions and partnerships in the U.K. and Germany have helped the company strengthen its foothold in Europe. As well, strengthening economies in Europe helped the company post 1<sup>st</sup> quarter 2000 earnings 51% above the same quarter in 1999. Another key to the company’s future lies in training tellers to cross sell different products. The success or failure of this venture will dramatically affect the company as a whole.

### ***Citigroup, Inc. (C)***

April 30, 2000 Price	\$59.56	Market Cap. (bil)	209.2		EPS	ROIC
52 Week Price Range	\$41 – 64	Shares Outs. (mil)	3,367	1999	\$2.97	10.3%
52 Week Return	17.26%	Dividend Yield	1.00%	2000E	\$3.18	N/A
ROE (FY 1999)	20.9%	Beta	1.30	2001E	\$3.68	N/A

**State Street Corp. (NYSE: STT) 3.10% of the Active Portfolio Maintain Position**

State Street is the industry leader for back-office functions in the mutual fund industry. The company provides custody services for 42% of registered U.S. mutual funds and calculates 27% of the NAV's published in the *Wall Street Journal*. During the past year the company sold off its commercial banking unit and formed a partnership with Citigroup to sell retirement savings vehicles to institutional clients.

The company's stock has suffered along with other financial institutions during the year due mainly to interest rate concerns. In recent weeks the company's stock has recovered, due mainly too 1<sup>st</sup> quarter earnings for 2000 being up 24% from the same quarter in 1999. Revenue growth comes from the sale of new products to existing customers and the continually expanding universe of mutual funds.

**State Street Corp. (STT)**

April 30, 2000 Price	\$96.88	Market Cap. (bil)	15.6		EPS	ROIC
52 Week Price Range	\$56 – 106	Shares Outs. (mil)	160.0	1999	\$3.84	17.3%
52 Week Return	4.45%	Dividend Yield	0.70%	2000	\$3.13	N/A
ROE (FY 1999)	23.3%	Beta	1	2001E	\$3.84	N/A

**Fifth Third Bancorp. (NASD: FITB) 2.73% of the Active Portfolio Maintain Position**

Fifth Third Bancorp is a regional bank holding company with over 650 branches, 90% of which are located in Ohio, Kentucky and Indiana. The company has a very decentralized structure with a different CEO in charge of each of the 14 separate banks that make up Fifth Third. In addition to traditional retail banking, the company processes all online transactions for Macys.com and Barnsandnoble.com. In terms of number of transactions, Fifth Third is the largest EFT transaction processor in the country.

Interest rate increases have taken their toll on Fifth Third's stock during the past year. Five rate increase in the past twelve months have translated into a 10% drop in share price for the company. Despite investor pessimism, Fifth Third posted a 17% increase in earnings during the 1<sup>st</sup> quarter of 2000 as compared to the same period last year. Growth opportunities for the bank include the Mid West, where the bank has no more than 9% of the deposit business in any one market. Management believes that they can achieve 20–25% with current capacities.

**Fifth Third Bancorp. (FITB)**

April 30, 2000 Price	\$63.13	Market Cap. (bil)	20.11		EPS	ROIC
52 Week Price Range	\$45 – 74	Shares Outs. (mil)	309.4	1999	\$2.16	11.40%
52 Week Return	-10.13%	Dividend Yield	1.50%	2000	\$2.95	N/A
ROE	16.40%	Beta	.90	2001E	\$3.29	N/A

## HEALTHCARE

**3.43% of the Active Portfolio**

**Analyst: Justin Perdue**

**8.44% of the S&P 500 Index**

The health care sector has been under a cloud of uncertainty over the past 12 months due primarily to fear of increased regulation. High drug prices in the pharmaceutical industry have been the focus of recent government attention. While President Clinton did not specifically address this issue in his state of the union address in January 2000, uncertainty still abounds with the upcoming election. Managed care companies were sharply sold in late September and early October as litigation concerns began to arise. High profile lawyers involved in the tobacco lawsuits started mentioning managed care as their next target. It was a standard feeling that people were being charged higher premiums for less care. In general, rising health care costs is a concern of the government due to the increasing number of people entering Medicare age.

The overall outlook for the health care industry is favorable due to strong fundamentals, demographic trends and the under-performance over the last year. The market began showing renewed interest starting in March 2000, as investors started pulling out of technology stocks and turned to "old economy" stocks including health care. One bright spot over the last year was biotech stocks. Investors flocked to this sector looking for the companies who will find the next blockbuster drug. Specifically there have been advancements in cancer research. While there is potential for extraordinary returns in biotech stocks, there is an equal amount of risk. Many of these companies are beginning to partner with major drug companies; therefore, investing in the traditional pharmaceutical companies may be a better alternative for the risk adverse investor.

## PORTFOLIO HOLDINGS

### **United Health Group (NYSE: UNH) 1.61% of the Active Portfolio Maintain Position**

United Health Group provides a range of health care products and services including health maintenance organizations, point-of-service plans, preferred provider organizations and managed fee-for-service programs. UNH also has an agreement with AARP to provide Medicare supplement health insurance for approximately six million people. UNH is in the process of reducing its Medicare exposure due to rising costs. In addition to rising Medicare costs, medical costs in general have been increasing; however, premium rate hikes should outpace rising costs. The premium rate hikes have led to a harsh public eye as mentioned above, causing UNH's stock price to plummet in late September/early October of 1999. It has since rebounded as investors again focused on fundamentals. Due to strong company fundamentals and the company's position within the industry, I maintain a hold recommendation.

#### **United Health Group (UNH)**

April 30, 2000 Price	66 11/16	Market Cap. (bil)	\$10.44		EPS	ROIC
52 Week Price Range	39 3/8 – 70	Shares Outs. (mil)	173.4	1999	3.20	13.02%
52 Week Return	22.38%	Dividend Yield	.05%	2000E	3.71	14.00%
ROE (FY 1999)	14.22%	Beta	1.9	2001E	4.31	14.50%

### **Pharmacia Corporation (NYSE: PHA) 2.33% of the Active Portfolio Maintain Position**

Pharmacia Corporation was formed by the merger of Pharmacia & Upjohn and Monsanto, in March 2000. The global pharmaceutical company engages in the research, development, manufacture and sale of pharmaceutical and related healthcare products, in addition to Monsanto's agriculture products. 68% of 2000 revenues are expected to come from the pharmaceutical group, while the remaining 32% will come from agriculture products. The company has a strong drug pipeline with only 10% of its revenues considered "at risk" due to patent expiration through 2003. In comparison pharmaceutical powerhouses such as Bristol Myers, Pfizer, and Merck currently have "at risk" revenues of roughly 20%, 20%, and 40%, respectively. The company's most notable drug, Celebrex, an arthritis drug, is not due to expire until 2013. Celebrex alone accounted for \$1.5 billion or roughly 11% of total revenues in 1999, and is

expected to reach a maximum of \$3 billion in revenues in any one year. Due to the company's strong pipeline, I recommend holding Pharmacia Corporation in the portfolio.

**Pharmacia Corporation (PHA)**

April 30, 2000 Price	49 15/16	Market Cap. (bil)	\$57.758		EPS	ROIC
52 Week Price Range	32 3/4 - 58 1/8	Shares Outs. (mil)	1,155.2	1999	1.25	11.14%
52 Week Return	10.35%	Dividend Yield	.11%	2000E	1.50	13.00%
ROE (FY 1999)	15.13%	Beta	NA	2001E	1.80	15.00%

**Pfizer, Inc. (NYSE: PFE)**

**Deletion**

Pfizer Inc. is a research-based, global health care company operating in pharmaceutical and animal health businesses. The fund sold its position in December 1999. The value driver in this industry is drugs in the pipeline. Pfizer has traded at a premium over the industry due mainly to historical performance and reputation. However, their current pipeline did not justify this premium with roughly 20% of revenues "at risk" due to patent expiration through 2003. Therefore, a sell recommendation was warranted.

**Pfizer, Inc. (PFE)**

April 30, 2000 Price	42 1/8	Market Cap. (bil)	\$165.30		EPS	ROIC
52 Week Price Range	30 - 44 1/4	Shares Outs. (mil)	3,848.19	1999	.87	28.74%
52 Week Return	11.25%	Dividend Yield	.87%	2000E	NA	NA
ROE (FY 1999)	36.31%	Beta	.89	2001E	NA	NA

**Watson Pharmaceuticals (NYSE: WPI)**

**Proposed Addition**

Watson Pharmaceuticals is a generic drug manufacturer targeting products made by major pharmaceutical companies that are due to come off patent. Watson currently realizes approximately half of total revenues from generic drug products and half from their own branded products. Significant exposure to generic products reduces government regulation risk over drug price controls, while branded products allow them to experience higher margins similar to major pharmaceutical companies. The company's primary off patent product group, hydrocodone/acetaminophen, accounted for approximately 11% of total 1999 revenues. In April 2000, the company achieved a favorable court ruling allowing it to market its generic version of nicotine gum. This product should boost earnings by roughly 5-7% over the next two years. The company also has a variety of off patent products currently in development including products for hormone replacement, urinary incontinence, oral anti-acne, etc. With a significant number of major drugs set to come off patents over the next five years, Watson is primed to grow earnings at 20% over this period.

Branded products include four principal product groups: dermatology, women's health (primarily contraceptives), neurology/psychiatry and primary care. The primary revenue producer of branded products is Dilacor, a hypertension treatment. Dilacor accounted for 7% of total revenues in 1999.

Reduced exposure to price controls, coveted with the company's current pipeline of generic and branded drugs provides tremendous growth opportunities. Therefore, a buy recommendation is warranted.

**Watson Pharmaceuticals (WPI)**

April 30, 2000 Price	44 15/16	Market Cap. (bil)	\$4.359		EPS	ROIC
52 Week Price Range	26 1/2 - 48	Shares Outs. (mil)	95.85	1999	1.68	26.31%
52 Week Return	10.96%	Dividend Yield	0.00%	2000E	2.02	28.07%
ROE (FY 1999)	18.27%	Beta	.7	2001E	2.42	32.43%

## INDUSTRIALS

**4.03% of the Active Portfolio**

**Analyst: Hyun-Sup (Peter) Lim**

**5.11% of the S&P 500 Index**

Industrial companies produce a broad range 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 sub-industries. For the purposes of the Henry Fund two sectors according the BARRA classification have been merged as the Industrial Sector. These are Industrials (2.89% of the S&P 500) and Commercial Services (2.22% of the S&P 500). The sector as a whole includes companies that produce a variety of products and services. It is comprised of seven subgroups, which are Aerospace/Defense, Electrical Equipment, Engineering & Construction, Heavy Trucks & Parts, Machinery-Diversified, Manufacturing-Diversified and Pollution Controls.

Overall the companies in the Industrial Sector compete in highly mature markets. This fact has various impacts on the general market environment. First, as domestic markets become increasingly more aggressive it becomes difficult to enhance margin growth. Consequently, companies in this sector must continue to seek for global growth opportunities in order to remain competitive. Furthermore, solely growing organically becomes increasingly problematic. Therefore, a clear development to consolidation can be seen. It is thus crucial for companies in this sector to find the right mix of acquisitions and mergers in order to find the right strategic partners to remain competitive. Finally, the Industrial sector itself as well as markets that are served by this sector are highly cyclical. The ability to reduce this cyclicity remains key factor in the success or failure of a company in this sector.

## PORTFOLIO HOLDINGS

**Emerson Electric Company (NYSE: EMR)**

**Deletion**

Emerson was incorporated in Missouri in 1890. Originally engaged in the manufacturing and sales of electrical products, Emerson is now engaged principally in the worldwide design, manufacture and sale of a broad range of electrical, electromechanical and electronic products and systems.

Over a two year period Emerson Electric has consistently underperformed the S&P 500 by over 33.3%. Emerson's growth consists for the most part of acquisitions. Organically growth is almost non-existent.

We believe that Emerson Electric does not have the right strategy to enhance its positions in each of its sub-segments it operates in. However, in an increasingly more competitive environment this knowledge is crucial. It seems that the company will continue to rely on acquisitions to enhance its growth. Yet, neither does the company have enough funds for this endeavor nor does it have a clear acquisition strategy.

We therefore disposed our position in Emerson Electric to seek for companies with stronger growth perspective.

**Emerson Electric, Comp. (EMR)**

April 30, 2000 Price	\$54.86	Market Cap. (bil)	\$23.466		EPS	ROIC
52 Week Price Range	\$40.50 – \$71.64	Shares Outs. (mil)	431.07	1999	3.00	12.1
52 Week Return	-20.1%	Dividend Yield	2.63	2000	3.15	12.5
ROE (FY 1999)	22.0	Beta	0.81	2001E	3.30	11.6

**Maytag Company (NYSE: MYG) 4.03% of the Active Portfolio**

**Maintain Position**

Maytag Corp. (MYG) is a leading producer of home and commercial appliances. Its products are sold throughout North America and in select international markets.

We believe that Management has a clear path to achieve goals. This is also shown in the innovative approaches the management takes. In addition, product innovation will remain a key factor of Maytag's success. MYG sees itself briskly evolving into an e-enterprise with a reinforced Intranet and Extranet, a revamped e-procurement system, and a highly integrated e-supply chain system. These E-procurement activities such as vertical markets and buying consortiums could result in \$200-\$400 million of cost savings annually.

The company furthermore announced an exciting program designed to build its dealers web-sites in order to maximize efficiency and drive store sales. Although, these endeavors are not likely to have an impact in the short-run it is crucial for Maytag to invest in these areas, as they will become invaluable assets in the longer-run.

Very promising is that Maytag just announced that it will start selling home appliances in Home Depot stores across the country. This is likely to boost sales, as distribution arms will increase. It is also been positively as it will be a good addition to the existing portfolio of retail stores such as Sears and Circuit City where MYG already sells its products.

In addition to the desire to be innovative as well as to pursue new distribution channels MYG also constantly strives to enhance its operational performance. Maytag is adamant about improving efficiencies and cutting costs. We truly believe that company's desire to cut costs is real and we are confident the execution will be successful.

In our opinion Maytag can achieve sales growth by about 12% over the next years. Maytag is continuously trying to transform itself into a sustainable growth company known for innovative products and services. Therefore, although there might be some instability in the short-term we are confident in Maytag's strength in the long-term. **Our target price is \$40.47 and we therefore propose a HOLD recommendation.**

#### *Maytag, Corp. (MYG)*

April 30, 2000 Price	\$34.42	Market Cap. (bil)	2.74		EPS	ROIC
52 Week Price Range	\$34.00 - \$35.87	Shares Outs. (mil)	79.54	1999	3.66	12.1
52 Week Return	-43.3%	Dividend Yield	2.01	2000	3.05	13.4
ROE (FY 1999)	76.9	Beta	1.43	2001E	1.87	14.1

#### **Ingersoll-Rand Company (NYSE: IR)**

#### **Proposed Addition**

Ingersoll-Rand (IR) is a diversified industrial and components manufacturer of primary non-electrical machinery and equipment serving industrial and commercial markets. Over 40% of IR sales come from overseas. The company manufactures air compressors, construction and mining equipment, bearings and precision components, tools, locks, locks and architectural hardware and industrial machinery, as well as agricultural sprayers, air motors, hydraulic excavators, drills, hoists and electrical security systems.

IR is one of the most truly diverse of the Industrial companies. Both its business and geographic exposure have enabled the company to withstand economic pressure better than more narrowly focused companies. It operates in four segments: Specialty Vehicles, Air and Temperature Control, Hardware and Tools, and Engineered Products.

IR has leading market shares in a number of its product lines, and its brand names are highly recognized around the world. The company's prospects for continued growth are strong, and should be supported by global economic recovery, cost-cutting efforts and acquisitions.

The company will in our opinion be outperforming the market for various reasons. First of all, we believe IR has superior position in its key areas of operations. Furthermore, we trust in the continuation of improvement in operating efficiency. IR also seems to have an excellent acquisition/divestiture strategy for the near term future, that will enable the company boost its earnings. In addition, the company recently announced a restructuring effort that we believe will be groundbreaking for other Industrial companies as it changes the organizational focus from individual products to a focus on the markets the company serves and providing solutions to customers within those markets. A global e-business strategy is also in the pipeline helping these restructuring efforts to be successful. Here the company will capitalize on the opportunities for integrating e-business initiatives throughout the four global growth sectors. IR is already involved in several programs to increase its e-business presence in the four market sectors. Although, some of the macroeconomic developments seemed to look unfavorable we believe IR to be a **"BUY"** At current levels. **Our target price for IR is \$55.74.**

#### *Ingersoll-Rand, Comp. (IR)*

April 30, 2000 Price	\$46.94	Market Cap. (bil)	\$7.522		EPS	ROIC
52 Week Price Range	\$34 1/8 - \$70.68	Shares Outs. (mil)	162.21	1999	3.58	13.5
52 Week Return	-43.6%	Dividend Yield	1.47	2000	3.95	14.1
ROE (FY 1999)	19.24	Beta	1.49	2001E	4.51	14.4

## TECHNOLOGY

**32.01% of the Active Portfolio**

**Analyst: Savinay Dangri**

**34.28% of the S&P 500 Index**

During 1999, electronic commerce, the biggest contribution of the Internet Economy entered the 'business to business' (b2b) marketplace. The volume, potential savings and efficiency from e-commerce in the b2b marketplace exceeds the 'business to consumer' marketplace by multiple times. The value creation from Internet will be visible across all industries due to b2b e-commerce. The technology sector comprises more than one-third of the economy, which explains the significance of this sector in the new economy. The momentum and over-optimism led to abnormal price rise for all technology companies during the year. Although, market efficiency corrected this over-valuation by a sharp correction in the price of unstable, over-priced technology stocks during April 2000. The fundamentally strong technology stock will continue to grow and lead the market at least for the next three years. The Y2K problem was dealt in an efficient manner without causing any damage to the economy.

## PORTFOLIO HOLDINGS

**Intel Corporation (NASD: INTC) 10.24% of the Active Portfolio Maintain Position**

Intel is the world's top semi-conductor maker and a bellwether among high-tech companies. It has an eighty- percent market share of the microprocessor market. In keeping pace with the market dynamics, Intel has shifted its focus from being a PC-centric company to company focused on communications industry. Intel's new mission is to become the preeminent building block supplier to the Internet economy. It will focus on developing re-programmable chips for network infrastructure and equipment.

For the financial year ending on 12/25/99, the revenues rose by 12% to \$29.39 billion and the net income increased by 21% to \$7.31 billion. The consumerization of PCs has led to a change in strategy for Intel. It has to focus on maintaining presence in a high volume, price competitive PC chips market, while leveraging its core capabilities in design and manufacturing to enter the high growth markets. The clearest opportunity for Intel lies in the server market. The major driver of sales growth is the Internet, which is creating explosive demand for file servers. Intel's Xeon processor and Profusion chip set was developed to address these market needs. The potential for future growth is tremendous as the computer market continues to grow internationally and the exponential growth of the communications industry. With its current market position and strategic shifts initiated by ability to foresee future, Intel continues to be a very attractive long-term investment.

### *Intel Corporation (INTC)*

April 30, 2000 Price	126 <sup>13/16</sup>	Market Cap. (mil)	423,807		EPS	ROIC
52 Week Price Range	50 <sup>1/8</sup> ~ 145 <sup>3/8</sup>	Shares Outs. (mil)	3,342	1999	2.25	29.55%
52 Week Return	108%	Dividend Yield	0.11%	2000E	2.95	24.46%
ROE (FY 1999)	27%	Beta	1.04	2001E	3.45	27.75%

**Cisco Systems (NASD: CSCO) 11.58% of the Active Portfolio Maintain Position**

Cisco is the leading supplier of data networking equipment. It has leveraged its dominant position in the high-end, high-capacity router market to become one of the leading vendors of Internet infrastructure equipment. The main reason for Cisco's success is its ability to reinvent itself to address and capitalize on new opportunities in the fast paced, dynamic communications infrastructure industry.

For the half-year ended on 1/29/00, the revenues rose by 52% to \$8.26 billion and the net income increased to \$1.25 billion from \$791 million. Cisco will continue to grow its traditional data networking market by leveraging the massive installed customer base of the data networking industry, ability to serve as a one-stop shop and its proprietary inter-network operating system software. Cisco is extremely successful in pursuing an aggressive acquisition strategy to grow rapidly. Cisco plays a key role in empowering the Internet generation. Hence, we believe that Cisco is a very attractive long-term investment.

**Cisco Systems (CSCO)**

April 30, 2000 Price	69 <sup>5/16</sup>	Market Cap. (mil)	480,999		EPS	ROIC
52 Week Price Range	24 <sup>13/16</sup> ~ 82	Shares Outs. (mil)	6,938	1999	0.36	44.53%
52 Week Return	143%	Dividend Yield	0.00%	2000	0.52	20.07%
ROE (FY 1999)	21%	Beta	1.34	2001E	0.66	21.00%

**EMC Corporation (NYSE: EMC) 10.19% of the Active Portfolio Maintain Position**

EMC is the leading manufacturer of storage solutions for mainframe and open system computers. It is a leader in the enterprise storage systems with 38% market share. The growth drivers for the enterprise storage market are e-commerce, ERP deployments, data warehousing, enterprise-wide storage consolidation, and Internet growth.

During 1999, EMC's revenues rose by 24% to \$6.72 billion and the net income rose by 54% to \$1.01 billion. The results reflected a strong demand for the Company's Symmetrix series of products and higher margins due to higher software revenues. The addition of Data General has filled up the gap of mid-range data storage for the company. EMC's goals for the year 2000 is to take advantage of e-initiative of Global 2000, introduce more software and newer products, focus on international expansion and offer a complete storage landscape. So, EMC has the opportunity and capacity to dominate a high-growth market and is a very attractive long-term investment. Hence, we believe that EMC is a very attractive long-term investment.

**EMC Corp (EMC)**

April 30, 2000 Price	138 <sup>13/16</sup>	Market Cap. (mil)	144,504		EPS	ROIC
52 Week Price Range	46 <sup>15/16</sup> ~ 145 <sup>7/16</sup>	Shares Outs. (mil)	1,041	1999	1.07	27.45%
52 Week Return	156%	Dividend Yield	0.00%	2000E	1.44	21.22%
ROE (FY 1999)	25%	Beta	1.30	2001E	1.91	21.50%

**Aspect Development (NYSE: ASDV)****Proposed Addition**

ASDV is the leading provider of collaborative solutions for b2B e-commerce and inbound supply management. These solutions help the companies completely restructure their supply chain into trading networks to take full advantage of the Internet. The recent announcement of the merger of ASDV and ITWO will create a b2b powerhouse fueled by the power of supply chain management and content management. This merger has brought the two best players in b2b solutions together to complete the value chain.

ASDV's core competency lies in inbound supply chain management and content management. Their inbound supply chain solutions are being used by 180 of the world's largest companies. The solutions have a payback period of less than six months through cost-savings. ASDV's control over content creates strong barrier to entry. The partnerships with CommerceOne and Ariba and the recent merger with ITWO has made it a very well positioned, top-notch, b2b infrastructure player. The b2b e-commerce is projected to grow at a CAGR of 99% for the next five years and ASDV along with ITWO is in the best position to benefit from it. In case of consolidation of the b2b marketplace, ASDV will not just be a survivor, but emerge as a winner. Given these trends, we believe that ASDV is an attractive long-term addition to our portfolio.

**Aspect Development (ASDV)**

April 30, 2000 Price	69 <sup>1/8</sup>	Market Cap. (mil)	4,216		EPS	ROIC
52 Week Price Range	3 <sup>1/8</sup> ~ 100	Shares Outs. (mil)	61	1999	0.25	9.10%
52 Week Return	1274%	Dividend Yield	0.00%	2000E	0.61	25.50%
ROE	9.10%	Beta	1.01	2001E	0.83	23.50%

## TRANSPORTATION

**2.09% of the Active Portfolio**

*Analyst: Kei Tsuboi*

**0.57% of the S&P 500 Index**

In 1999, the **trucking industry** enjoyed continued revenue growth as a result of higher rates and growing volumes. Earnings were hurt by both higher diesel fuel costs and driver pay that continued to increase at a rate higher than that of overall wage growth in the U.S. However, most carriers were able to partially pass through the increased costs to customers. With cargo moving from rails to trucks, and businesses advancing supply-chain management, the industry is positioned to see another year of substantial growth in 2000. Driver retention remains the largest hindrance to growth for the industry, and diesel fuel price still remains the biggest risk to earnings.

The **airlines industry** suffered higher jet fuel costs throughout 1999. However, with capacity rationalization and improved asset utilization, many airlines managed to produce decent earnings. In March 2000, airlines stocks rebounded on news of relaxing oil production restraints, and the Dow Jones Airlines index was up more than 30 % in one month between mid-March and mid-April. The regional airlines continue to expect substantial growth, mainly in the markets passed over by their code-sharing major partners. Regional airlines are expected to grow at a 15% compounded annual rate on average for the next several years.

## PORTFOLIO HOLDINGS

**CNF Inc. (NYSE: CNF)**

**1.57% of the Active Portfolio**

**Maintain Position**

CNF Inc. (formerly CNF Transportation, Inc.) is a diversified freight transportation company that operates three principal business units: regional less-than-truckload services, domestic and international air freight shipping, and logistics management.

CNF enjoys a leading market in each of its principal operating segments. These three business units allow CNF to provide comprehensive supply-chain transportation services to manufacturing, distributing, and marketing enterprises in a broad range of industries.

CNF's overall fundamentals are particularly favorable. It has enjoyed three consecutive years of solid operating results with the cash operating margin (as measured by EBITDA over revenues) consistently above 9%. The company also enjoys significant growth opportunities that do not require substantial incremental capital investment.

In April 1997, CNF was awarded a \$1.7 billion contract to handle the U.S. Postal Service's Priority Mail, which is seen as a direct beneficiary of the e-commerce boom. However, the price dispute with U.S. Postal Service, unsolved since early 1999, has been dragging CNF's share price down.

**CNF Inc. (CNF)**

April 30, 2000 Price	27 <sup>15</sup> / <sub>16</sub>	Market Cap. (mil)	\$1,470		EPS	ROIC
52 Week Price Range	25 <sup>3</sup> / <sub>4</sub> -45 <sup>7</sup> / <sub>8</sub>	Shares Outs. (mil)	48.5	1999	\$3.35	13.4%
52 Week Return	-27.4%	Dividend Yield	1.3%	2000E	\$3.40	13.1%
ROE (FY 1999)	20.2%	Beta	0.6	2001E	\$3.11	10.8%

**Frontier Airlines, Inc. (NASDAQ: FRNT) 0.52% of the Active Portfolio Maintain Position**

Frontier Airlines, Inc. is a low-fare regional airline based in Denver. With a fleet of 20 Boeing 737s and its competitive low-fare strategy that charges fares as low as 60% of competing majors', Frontier competes with major airlines on high-volume routes to 21 U.S. cities such as Atlanta, Boston, Chicago, Dallas, Los Angeles and New York.

Operating since 1994, Frontier has taken off with a strong growth momentum. Supported by a new high-capacity airport opened in March 1995 and the sound Colorado economy with both business and leisure demands, the airline's annual revenues grew by 26% in 1998 and 50% in 1999. The quarter ended December 1999 was its seventh consecutive profitable quarter.

Recent developments also indicate the management's confidence in Frontier's growth outlook. In 1999, Frontier succeeded in expanding its gate usage at Denver International Airport from 5 gates to 9 gates. It has also agreed to purchase 11 new Airbus aircraft with an option to purchase 9 more.

***Frontier Airlines, Inc. (FRNT)***

April 30, 2000 Price	15 <sup>1</sup> / <sub>4</sub>	Market Cap. (mil)	\$248		EPS	ROIC
52 Week Price Range	8 <sup>1</sup> / <sub>4</sub> -18 <sup>5</sup> / <sub>8</sub>	Shares Outs. (mil)	17.7	1999	\$1.98	52.0%
52 Week Return	19.8%	Dividend Yield	0.0%	2000E	\$1.96	45.1%
ROE (FY 1999)	52.3%	Beta	1.4	2001E	\$2.19	53.3%

## UTILITIES SECTOR

**13.62% of the Active Portfolio**

***Analyst: Marty Nevshemal***

**8.83% of the S&P 500 Index**

The Utilities Sector is divided into two distinct industries, utilities that provide energy and utility services like electricity, gas and water and telecommunications services providers that provide local, long distance, wireless and Internet services. Although there are distinct differences among the industries one primary theme is prevalent: deregulation. Deregulation has created tremendous opportunities for innovative companies. These companies will be able capture significant market share relatively quickly. However, the future success of companies in both industries will reside in their ability to improve operating efficiencies and to be able to offer the desired bundled services to their customers.

Overall, the transformation of the telecommunications services industry is and will continue at a torrid pace. Before the deregulation initiatives enacted through the passing of the Telecom Act of 1996, the industry was traditionally a regulated environment absent competition. Further, the industry was distinctly divided into two distinct segments, long distance and local service providers. These two segments operated on a distinctly different set of business models. Today the industry is characterized as being highly competitive, dynamic and innovative and the distinction between long distance and local providers is blurring.

To be successful in this industry requires a company that can capitalize upon several macro level influences and trends. Today the macro level forces that are shaping the industry are deregulation legislation, commodity pricing of services and significant technological advances. As a result of these forces, there are three primary trends that affect a company, global competition, consolidation & bundling and wireless access to telephony and Internet services. Despite all the change occurring in the industry, there are several key value drivers that can be used as a metric for analyzing how they are operating within this competitive environment. There are three main drivers of firm value: continued growth in the core subscriber base, convergence or the ability to bundle desired services into one product offering, and finally improving access to the 'Last Mile.' Using these three metrics in analyzing telecommunications service providers will be key in determining whether the company is improving or lagging behind its competitors.

The utilities industry, although distinctly different in some ways from the telecommunications service providers, still shows some remarkable similarities. First, landmark deregulation legislation in the form of the Energy Policy Act of 1992 (EPACT) has forced utility companies to begin to operate using a competitive business model. Although the east coast, specifically the Mid-Atlantic states, are furthest along in enacting state deregulation legislation, virtually every state in the union is working on plans to deregulate their respective states.

Second in similarities to the telecommunications services industry is a move to bundle services. This is one of the great growth stories in the utility industry because utilities have unfettered access to that 'Last Mile' to the consumer through billing of utility services. Utilities can leverage this access by bundling services, which includes telephony services, to create an extremely strong bond with consumers. Additionally, initiatives like those at Enron where they buy and sell energy and bandwidth wholesale is another area where the traditionally 'stodgy' utility companies can achieve significant returns to shareholders.

There are several macro level influences that are shaping the industry to include deregulation/consumer choice, fuel prices and interest rates. These forces have led to several trends forcing utilities to bundle services to keep their subscriber base and consolidation to achieve economies of scale necessary to offer low price bundled services that again maintain their subscriber base. As with the telecommunications service provider industry, there are also several key metrics that can be followed that will determine the competitive position of companies in the utilities sector. These firm value drivers are continued growth and stability in subscribers to core services like electricity, gas and telephony service, the ability to bundle desired services and third, the ability to control costs and thus improve operating margins and operating efficiencies.

## PORTFOLIO HOLDINGS

Currently there are two holdings within the Utilities Sector: Enron (ENE) and MCI Worldcom (WCOM). Both companies are well-positioned leaders within their respective industries.

### **Enron Corp. (NYSE: ENE) 7.99% of the Active Portfolio Trim Position**

Enron is one of the premier innovative companies in the utility industry. They have aggressively embraced deregulation and have sought to position their company as a market leader. Early in January of 2000 they announced the formation of their Enron Broadband Services (EBS) unit. The goal of this unit is to be the world's largest buyer and seller of bandwidth and the largest provider of premium broadband delivery services. The creation of this unit by teaming up with both Sun Microsystems (SUNW) and Lucent Technologies (LU) has created possibly one of the most innovative business units in the entire utility universe.

With Enron's significant experience buying and selling electricity and gas on the wholesale level, their foray into broadband was a natural progression. Enron quickly leveraged their infrastructure and used it to being selling bandwidth and consequently the EBS broke even on a cash flow basis within three months of formation. To understand the significance of this endeavor, DLJ predicts that by 2004 the market for 'open' bandwidth will be \$32 billion of which Enron will own 20%. Therefore, by 2004 Enron will realize a gross margin improvement of over \$500 million.

Since January of 2000, Enron's shares have appreciated almost 56%. Despite this, we feel that they still have room to appreciate further. Our 12-month target price on ENE is \$90 which represents significant upside potential from current prices.

#### **Enron Corp. (ENE)**

April 30, 2000 Price	\$69.69	Market Cap. (bil)	\$50.54		EPS	ROIC
52 Week Price Range	\$32.81 - \$78.06	Shares Outs. (mil)	769.0	1999	\$1.10	10.8%
52 Week Return	104.6%	Dividend Yield	0.68%	2000E	\$1.42	12.4%
ROE (FY 1999)	10.2%	Beta	0.85	2001E	\$1.71	11.4%

### **MCI Worldcom (NASDAQ: WCOM) 5.63% of the Active Portfolio Maintain Position**

MCI Worldcom continues to be a company that everyone likes, has outstanding results, yet the stock price has gone nowhere. We feel that this is predominantly due to the uncertainty surrounding the pending merger with Sprint (FON). WCOM has pinned much of their future success on the assumption that the merger will pass the review by the Department of Justice (DOJ). One *large* reason WCOM wants the merger to go through is that FON, through their PCS division, has the one critical piece WCOM is missing: wireless. As stated before, one of the key trends in the industry is wireless. To be able to effectively bundle telephony services and access the 'Last Mile' to the consumer requires wireless.

Overall, we believe that the merger will be approved by the 3<sup>rd</sup> quarter of this year and the combined company called Worldcom will have to divest Sprint's Internet backbone to appease regulators. Once this approval is granted, Worldcom will be the premier telecommunications service provider with the capability to operate globally and the products to offer extremely effective bundled services. WCOM should then quickly appreciate to \$60 per share, which represents a conservative 36% upside potential from current prices.

#### **MCI Worldcom (WCOM)**

April 30, 2000 Price	\$45.44	Market Cap. (bil)	\$121.5		EPS	ROIC
52 Week Price Range	\$37.75 - \$64.50	Shares Outs. (mil)	2,925	1999	\$1.32	5.4%
52 Week Return	-22.5%	Dividend Yield	0.0%	2000E	\$2.01	12.8%
ROE (FY 1999)	4.2%	Beta	1.05	2001E	\$2.48	13.5%

## STATEMENT OF SECURITY HOLDINGS

**April 30, 2000**

**Active Portfolio (at market):**

AK Steel Holding Corp.	\$5,531
Cisco Systems Inc.	\$50,471
Citigroup	\$26,803
CNF Transportation Inc.	\$2,235
Dollar General Corp.	\$9,493
EMC Corp.	\$44,420
Enron Corp.	\$34,844
Exxon-Mobil Corp.	\$13,906
Fifth Third Bancorp	\$11,615
Frontier Airlines	\$6,863
Halliburton Co.	\$8,838
Intel Corp.	\$44,638
Ispat International	\$5,844
Maytag Corp.	\$16,530
MCI WorldCom	\$24,536
Pepsico Inc.	\$22,013
Pharmacia & Upjohn Inc.	\$8,290
Philip Morris Cos. Inc.	\$11,375
State Street Corp.	\$13,563
Target Dayton Hudson Corp.	\$13,313
United Healthcare Corp.	\$6,669
Walt Disney Holding Co.	\$15,593

**Total Active Portfolio** **\$397,380**

Vanguard Index Trust \$14,699

Money Market \$889

Cash Balance \$58

S&P 500 Depository Receipts \$22,635

**Total Fund Assets** **\$435,661**

Scholarship Appropriation (\$4,000)

**Net Fund Assets** **\$431,661**

**April 30, 1999**

**Active Portfolio (at market):**

Ameritech Corporation	\$19,163
Bemis Inc.	\$8,640
Caterpillar Inc.	\$10,300
Cisco Sys Inc.	\$43,572
Citigroup Inc.	\$22,463
The Coca-Cola Company	\$11,367
Comair Holdings	\$3,464
Disney Walt	\$11,430
Dollar General Corporation	\$11,641
Emerson Electric Corporation	\$6,450
Enron Corporation	\$18,813
Fifth Third Bancorp.	\$13,191
Halliburton Co.	\$8,525
Heartland Express Inc.	\$1,463
Hilton Hotels Corp.	\$2,656
Intel Corporation	\$21,538
Mobil Corporation	\$14,246
Park Place Entertainment	\$1,838
PepsiCo Inc.	\$11,081
Pfizer Inc.	\$25,314
Philip Morris Companies	\$9,116
State Street Corporation	\$12,250
United HealthCare Corporation	\$5,613

**Total Active Portfolio** **\$294,131**

Vanguard Index Trust \$48,397

Money Market \$828

Cash Balance \$0.35

**Total Fund Assets** **\$343,356**

Scholarship Appropriation (\$4,000)

**Net Fund Assets** **\$339,356**

## INCOME STATEMENT

<u>April 30, 2000</u>		<u>April 30, 1999</u>	
<b>Beginning Fund Balance</b>	<b>\$339,356</b>	<b>Beginning Fund Balance</b>	<b>\$278,678</b>
Cash Added	\$328	Cash Added	\$6,212
Income		Income	
Dividend Income - Active	\$3,582	Dividend Income - Active	\$2,992
Dividend Income - Index	\$152	Dividend Income - Index	\$452
Interest Income	\$56	Interest Income	\$75
<b>Total Income</b>	<b>\$3,790</b>	<b>Total Income</b>	<b>\$3,519</b>
Capital Gains		Capital Gains	
Realized – Active	\$16,865	Realized – Active	\$526
Realized – Index	\$57	Realized – Index	\$366
Unrealized – Active	\$111,004	Unrealized – Active	\$67,244
Unrealized – Index	\$2,129	Unrealized – Index	\$5,106
<b>Total Capital Gains</b>	<b>\$130,055</b>	<b>Total Capital Gains</b>	<b>\$73,242</b>
Capital Losses		Capital Losses	
Realized – Active	(\$4,894)	Realized – Active	(\$187)
Unrealized – Active	(\$32,274)	Unrealized – Active	(\$1,808)
<b>Total Capital Losses</b>	<b>(\$37,169)</b>	<b>Total Capital Losses</b>	<b>(\$18,295)</b>
Taxes and Fees	\$0	Taxes and Fees	\$0
Scholarship Appropriation	(\$4,000)	Scholarship Appropriation	(\$4,000)
Miscellaneous	(\$700)	Miscellaneous	\$0
<b>Ending Fund Balance</b>	<b>\$431,661</b>	<b>Ending Fund Balance</b>	<b>\$339,356</b>

*A special thanks all Henry Fund Managers for their dedication and commitment to the 2000 Annual Report.*

This report is based on data obtained from sources considered to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This information is intended to assist in the stock selection decisions for The Henry Fund, and is not intended to be used as the primary basis of investment decisions. Opinions expressed herein are subject to change without notice. This Fund or persons associated with it may own or have a position in any securities or investments mentioned in this study, which position may change at any time, and may, from time to time, sell or buy such securities or investments.