

THE HENRY FUND

THE UNIVERSITY OF IOWA

TIPPIE

HENRY B. TIPPIE
SCHOOL OF MANAGEMENT

2002 Annual Report

November 30, 2002

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LETTER FROM THE INVESTMENT TEAM

DEAR STAKEHOLDERS,

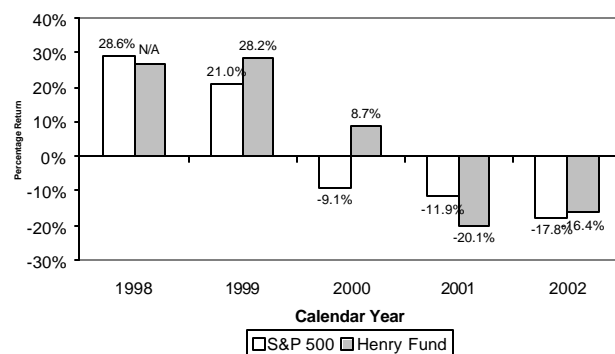
The past year was a difficult one for financial markets. As the economy struggled to recover from a recession, negative sentiment and lack of trust from investors were the main reasons behind the highly volatile market. In addition to this challenging economic environment, corporate scandals during the summer worsened our outlook. Still, we tried to focus on companies that would provide earnings potential and diversification to mitigate these adverse conditions.

The current Henry Fund class could not have anticipated any of the devastating economic events that shaped the market last year. The S&P 500 dipped to its 5 year low and interest rates are at all time low. Our Fund's performance was significantly affected by the poor performance of the telecommunication and technology sector. WorldCom which was a significant holding in our portfolio filed the largest bankruptcy in U.S. history. This was one of the major contributors to the fund's under performance.

At the end of the fall semester, we decided to sell our positions in JDS Uniphase as well as Sprint PCS given the size of their position and lack of any upside potential.

As of November 30, 2002, our year-to-date performance was better than the S&P 500 by just 1.4%. For the year, The Henry Fund portfolio was down -16.4% compared to the -17.8% return of the S&P 500. As a class, we take comfort in the fact that we managed to contribute to the tradition of out performing our benchmark.

Calendar Year Performance of the Henry Fund vs. the S&P 500 Index



Recognizing the need for diversification and additional coverage, two analysts were appointed to the Financial Services as well as Technology sectors. We are certain this strategy proved beneficial as new picks arose from the additional coverage capabilities.

We would also like to express our gratitude to all the guest speakers who presented for us during the course of the year. Their thoughts and contributions were invaluable to us. They were:

Dirk Laschankzy – Principal Global Investors
 Jerry Dittmer – CFO Hon Industries
 Lynn Turner – Former Chief Accountant SEC
 Keith Mitchell – Sprint
 Dan Roberts – Pareto Partners
 Kevin Laub – American Century
 Kent Green – Boston American Asset Management
 Kreg Jackson – Houlihan, Lokey, Howard & Zukin

We believe we have cleared the portfolio of distressed holdings and recommended additions that we believe will be profitable in the future. With these actions taken, we are confident the incoming Henry Fund class will continue to add value to the portfolio, the program, and their personal academic development.

Finally, we thank Professor Todd Houge, our academic advisor, for valuable guidance and advice throughout the year. We are also obliged to the members of our Investment Advisory Committee, Henry Fund donors, and fund alumni. We wish the incoming Henry Fund team the best of luck and success.

Very best regards,

THE HENRY FUND CLASS 2002

Rahul Bohra	Basic Materials
Drew Mattison	Consumer Cyclical
Caroline Zhang	Consumer Services
Jennifer Moore	Consumer Non-Cyclical
Mark Wall	Technology
Kevin Bakker	Technology
Hogyu He	Financial Services
Jorge Anaya	Financial Services
Daniel Fischer	Energy & Utilities
Rob Van Auken	Telecommunications
Katrin Deutschmann	Health Care
Rajesh Narayanan	Industrial &Transportation

FUND OVERVIEW

The Henry Fund, named for its two founding benefactors, was established in the spring of 1994 to provide University of Iowa MBA students with a forum to blend academic rigor with real-world portfolio management experience. Henry Royer, Henry Tippie, and the University of Iowa Foundation contributed the initial \$50,000 investment that established the Henry Fund.

The Henry Fund is an equity portfolio 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 these requirements, managers of the Henry Fund seek to achieve 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 the fund to economic or industry risks.

The Fund is divided into three separate accounts: active, passive, and cash. The active account, comprising approximately 96% percent of the Fund's assets, currently consists of equity positions in 32 companies. This account represents the primary measurement of the manager's stock selection ability. The passive account consists of holdings in the Vanguard 500 Index Fund. This account is maintained to provide liquidity and minimize cash holdings until a suitable investment can be found. Historically, this account represents approximately 3-4% of the Fund assets. The Henry Fund scholarship payments necessitate that 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 expenses incurred during the year.

The managers of The Henry Fund are students in the Applied Securities Management course (6F: 221 and 6F: 222) at The University of Iowa, Henry B. Tippie College of Business. The two-semester course is limited to twelve students. Students are selected by blind review based on a research report application at the end of the fall semester of the first year of the MBA program. The 12 analysts are assigned to one

of 10 economic sectors: basic materials; communications; consumer cyclicals; consumer non-cyclicals; consumer and commercial services; energy and utilities; financial services; healthcare; industrials and transportation; and technology. Because of the growing importance of financial services and technology, two analysts are assigned to each of these areas to promote expanded coverage and wider diversification of our holdings.

Each manager develops a fully-integrated investment review, based on a top-down approach that incorporates an extensive economic, industry, and company-specific analysis. Once the analyst evaluates the value drivers of each industry, he or she researches specific companies for potential investment. Each security is modeled using a variety of valuation techniques including: discounted cash flow analysis (DCF), economic value added (EVA), fundamental multiple analysis, and relative multiple valuation.

Fund managers are expected to act as both sector analysts and portfolio managers, providing basic industry research, proposing investment ideas and evaluating the ideas of the other managers. Investment recommendations are presented to the Investment Advisory Committee for review and then voted on by The Henry Fund managers. 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 Henry Fund dividend income supports annual scholarships to MBA students, the recipient of which is called The Henry Scholar. It is approximately \$1000 per \$100,000 of the value of the portfolio. The scholarship is renewable for a second year based on the student's academic performance. Thus, \$2,000 in scholarship money is transferred annually to the university cash account designated for Henry Scholars. The goals of The Henry Scholar Program are to encourage and prepare students for careers in investments as well as to attract outstanding Henry Fund candidates.

ACKNOWLEDGMENTS

FOUNDERS

Henry Royer
Henry B. Tippie

Henry Royer attended Colorado College, where he received a BA in 1953. Following college graduation, he became a grain merchandiser with Pillsbury Mills. 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 Merchants National Bank of Cedar Rapids (Firststar), where he served as chairman and president until August 1994. He subsequently served as president and CEO of River City Bank in Sacramento, California. He is now executive vice president of Berthel Fisher & Company Planning, Inc., Cedar Rapids, Iowa.

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 Growth & Investment Trust, River City Bank, Families First, Inc., United Way, the Sacramento Symphony, the Sacramento Tree Foundation and the Sacramento Commerce and Trade Organization.

ACADEMIC ADVISOR

Prof. Todd Houge, CFA

BROKERAGE SERVICES

SCI Financial Group
A Division of Wells Fargo Investments, LLC

2002 DONORS AND CONTRIBUTORS

Sharon E. Scheib,
Tippie College of Business
Andrew Temte, CFA
Schweser Study Program

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-nine year professional involvement with Rollins in 1953, starting by balancing the small firm's checkbook. Today, four Rollins companies trade on the NYSE and one on the Amex. In addition, Tippie is still involved with Rollins enterprises, and he 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 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, Patricia. 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 nationally prestigious Horatio Alger Award. In February 1999, Tippie made a major commitment to the College of Business to support its students and faculty. In recognition of his past, present, and future support that will exceed \$30 million, the college was named the *Henry B. Tippie College of Business*.

INVESTMENT ADVISORY COMMITTEE

Scott Hassenstab, CFA
AEGON USA Investment Management, Inc.
Dirk Laschanzky, CFA
Principal Global Investors
Keith Mitchell, CFA
Sprint Corp.
Marty Nevshemal
Sprint Corp.
Beth Whited
Union Pacific Corp.
David Kaplan, CFA
VMF Capital

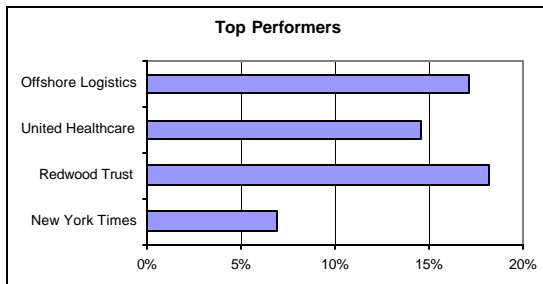
UNIV. OF IOWA FOUNDATION LIAISON

Tiffani Shaw
CFO and Treasurer

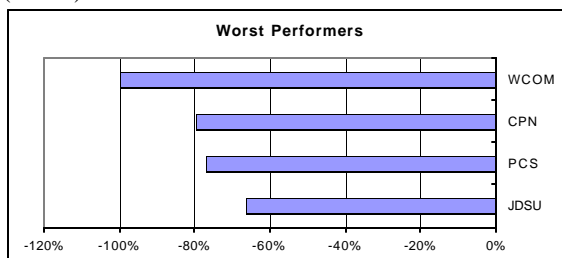
FUND PERFORMANCE

The past year has been unparalleled in the history of The United States equity markets. The S&P 500 dipped below its 5 year low, into the 760 range, while interest rates are at all time lows. The fed funds rate is at 1.25% and 10-year U.S. treasury bonds are yielding approximately 4%. Also, the largest bankruptcy in U.S. history was filed after WorldCom disclosed information about their accounting fraud. Other significant bankruptcies were filed by United Airlines and Global Crossing. With all of this negative information, unemployment has only crept up to 6% and GDP has grown at an annualized rate of 3% with productivity growing even faster. It seems as though economic conditions are stabilizing, but the equity markets still have a hangover from the bubble year of 2000.

The Henry Fund has slightly beaten its index, The S&P 500, as of fiscal year 2002's end. The portfolio has had a negative return of 18.31% matched against the S&P 500 which lost 19.75% of its value over the same time period. The best performance of the year came from The New York Times at 7%, Redwood Trust at 18%, UnitedHealthcare at 15%, and Offshore Logistics at 17%. Of the 33 stocks in the fund, 6 generated positive returns over the year.



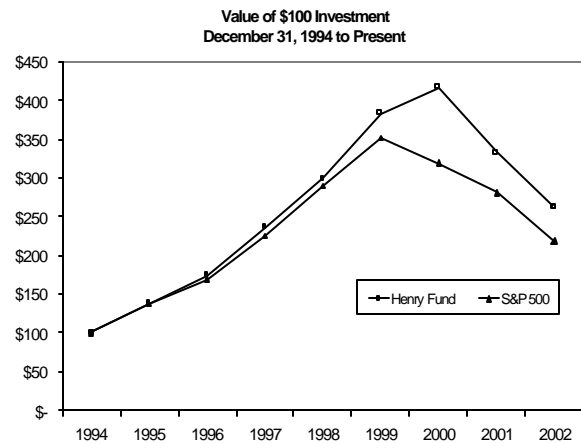
The fund's performance was significantly reduced due to exposure to 4 equities that lost over half of their value over the course of the year. WorldCom was a significant holding followed by losses in Sprint PCS (76.9%), Calpine (79.5%), and JDS Uniphase (66.2%).



In regard to deviation of returns from the S&P 500 index, most of the negative performance was due to poor performance in the telecom and basic materials sectors while the positive returns were generated by the industrials and consumer cyclicals.

Sector	Fund Performance	Benchmark	Difference
Industrials	3.5%	-21.8%	25.3%
Cons Cyclical	-3.3%	-17.0%	13.7%
Transportation	-0.6%	-10.6%	10.0%
Healthcare	-14.8%	-17.9%	3.1%
Cons Non Cyclical	-4.2%	-4.5%	0.3%
Financials	-9.5%	-7.7%	-1.8%
Energy / Utilities	-22.3%	-13.9%	-8.4%
Technology	-38.6%	-28.2%	-10.4%
Basic Materials	-15.7%	-3.9%	-11.8%
Telecom	-88.5%	-29.4%	-59.1%

Since the inception of The Henry Fund in 1994, its historical performance is still superior to that of its benchmark. The value of a \$100 investment in The Henry Fund would be worth \$262 while the S&P



would generate \$218.

Basic Materials:

The Basic Materials segment declined approximately 4% YTD, as measured by the Dow Jones US Basic Materials Index. YTD the fund's two basic materials companies, Alcoa and International Paper, are down 35% and 21% respectively. Alcoa suffered as a result

of lower earnings, decreases in aluminum demand, and financial problems including higher pension expense and a rising debt ratios. The gloomy outlook for aluminum going forward has led us to propose selling Alcoa. We will continue to hold International Paper and propose adding Praxair.

Consumer Cyclical:

The consumer cyclical sector has declined approximately 17% YTD, as measured by the Dow Jones Consumer Cyclical Index. The fund's current holdings, Maytag, Harley Davidson, and Target, are down 10%, 11%, and 25% YTD. Despite strong consumer spending, the sector has been driven down by low consumer confidence and concerns about economic conditions and consumer spending going forward. We recommend selling Maytag due to the challenging business conditions facing the company, high levels of competition, and increased debt level. We recommend increasing the weighting in both Harley Davidson and Target to keep our market weighting in consumer cyclical.

Consumer Non-Cyclical:

The consumer non-cyclical sector decreased approximately 5% YTD, as measured by the Dow Jones Consumer Non-Cyclical Index. The fund's current holdings, Pepsi and Phillip Morris are down 14% and 11%, while Proctor and Gamble is up almost 6%. We do not recommend making any changes to this sector.

Energy/Utilities:

The energy and utilities sectors are down approximately 14% and 24% respectively year to date. Within our energy portfolio, Exxon-Mobil is down 11%, but Devon Energy is up almost 20%. Devon Energy's strong performance is mainly due to the successful integration of its two major acquisitions, Mitchell Energy and Anderson exploration, making the company the second largest independent E&P company in the US. For utilities, Calpine lost almost 80% of its value due to its exposure to energy trading and financial distress. Going forward, we propose to sell Calpine and purchase Atmos Energy, a conservative gas utility that receives 90% of revenues from regulated business and pays a 5.5% dividend. We propose no changes in the energy sector.

Financial:

YTD the financial services sector is down approximately 8%. The fund's holdings have performed as follows: Citigroup (-29%), Morgan Stanley (-22%), Ambac Financial (+1%), and Redwood

Trust (+12%). Overall, large banks and investment banks have had a bad year. Banks have seen high levels of loan write-offs, a sharp decline in capital market activity, and low trading volume as a result of the bear market. In addition to the difficult business environment, negative publicity following questionable analyst activity has hurt large investment banks and conglomerates like Citigroup. Given the large weighting of financial services in the S&P 500, we propose adding Charter One to our current holdings. Charter One will give us exposure to a regional bank, which specializes in low-cost, low-risk operations. We will continue to hold our existing securities.

Healthcare:

The Healthcare sector decreased almost 18% YTD as measured by the Dow Jones US Healthcare Index. The fund's holdings, Pharmacia, IDEC Pharmaceuticals, and Guidant decreased by 3%, 52%, and 39% respectively. UnitedHealthcare is up almost 16% YTD. Pharmacia is currently in the process of being acquired by Pfizer. Given our current heavy weighting in Pharmacia (6.3%) we have decided to rebalance our position, reducing our exposure to Pharmacia to around 4%, and investing the additional capital in UnitedHealthcare.

Industrials:

The Dow Jones Industrials index declined by almost 22% during the first eleven months of 2002. Our only current holding, Ingersoll-Rand has performed well, declining only 1%. We believe that the ongoing restructuring plans and strong order position of their Security and Safety division should be able to offset the soft demands in the Industrial sector. We recommend no changes at this time.

Consumer/Commercial Services:

The New York Times has had a good year to date, rising by over 5%, despite a difficult advertising environment. Their strong performance can largely be attributed to its diversified advertising categories and top position in those categories. Our other two holding did not perform well. Walt Disney was down by approximately 20%, and CSG systems fell 66%.

Technology:

The technology sector declined again in 2002 by approximately 28% YTD. Cisco declined 26%, despite hitting earnings estimates and generating significant cash flows in a challenging market with declining revenue. Intel lost 44% of its value YTD, primarily from concern about its continued reliance on the PC

market. We chose to add two stocks to the portfolio. We recommend purchasing Autodesk, a manufacturing and design software producer, and Drexler Technologies, a small security vendor. These stocks should add small cap exposure to our technology holdings, something we have not pursued in recent years.

Transportation:

The Dow Jones Transportation Index declined 11% year to date. Offshore Logistics had another good year, increasing over 23%. Southwest Airlines has declined by 8% YTD, but its low cost structure has allowed it to perform much better than all of its competitors. Southwest Airlines declared 105th consecutive quarterly dividend to shareholders. Looking forward we feel that Southwest Airlines is in good position to take advantage of any upturn in the economy as their main competitors are struggling to

come out of bankruptcy. We recommend no changes at this time.

Telecom:

The Dow Jones Telecommunications Index declined almost 30% YTD. The decline has been driven by huge bankruptcies and brutal price competition within the industry. Worldcom filed for Chapter 11 in July, in the largest bankruptcy filing in US history. We lost our entire \$7500 position in WCOM. Sprint PCS has also under performed the broader segment, falling almost 80% YTD. High debt levels, lack of profitability, and a decline in subscribers has led us to recommend selling our remaining position in PCS. We recommend purchasing Alltel, a regional telecom that has been profitable, has solid cash flows, and pays a dividend of over 2%.

SUMMARY OF TRANSACTIONS

	Portfolio As of (# of Shares)		Proposed Action (# of Shares)	
	November 30,	November 30,	Addition	Deletion
Basic Materials				
AK Steel Holding Corporation	500	-		
Alcoa Inc.	200	200		200
Ispat International NV	500	-		
International Paper	-	140		
Praxair	-	-	75	
Monsanto Co.	-	68		68
Commercial Services				
CSG Systems	-	275		
Consumer Cyclical				
The New York Times Company	250	180		
Target Corporation	400	300	100	
The Walt Disney Company ¹	360	360		
Harley Davidson	-	125	60	
International Speedway	-	-	100	
Consumer Non-Cyclical				
PepsiCo, Inc.	530	255		
Philip Morris Companies Inc.	445	245		
The Robert Mondavi Corporation ¹	180	-		
Procter & Gamble	-	75		
Smucker JM Co.	-	1		
Energy				
Anadarko Petroleum Corporation	150	-		
Exxon Mobil Corporation ¹	240	240		
Devon Energy	-	250		
Financial				
Citigroup, Inc.	600	400		
Travelers Property & Casualty – Class A	-	17		
Travelers Property & Casualty – Class B	-	35		
Morgan Stanley	-	380		80
Lehman Brothers	300	-		
Ambac Financial	-	225		45
Redwood Trust	-	500		
Charter One Financial	-	-	175	
Healthcare				
Pharmacia Corporation	166	400		100
UnitedHealthcare Corporation ¹	200	100	50	
IDEC Pharmaceuticals	-	125		
Watson Pharmaceuticals, Inc	480	-		
Guidant	-	350		
Industrials				
Ingersoll-Rand Company	375	225		
Maytag Corporation	480	265		265
Technology				
Cisco Systems, Inc.	728	728		
EMC Corporation	440	-		
Intel Corporation	704	704		
JDS Uniphase	325	325		325
McData ¹	16	-		
Technology Sector Select SPDR	-	700		700
Drexler Technologies Corporation	-	-	350	
Autodesk, Inc.	-	-	475	

	Portfolio As of (# of Shares)		Proposed Action (# of Shares)	
	November 30,	November 30,	Addition	Deletion
Transportation				
CNF Inc.	80	-		
Frontier Airlines, Inc.	675	-		
Offshore Logistics	-	200		
Southwest Airline	-	170		
Utilities				
Enron Corporation	300	-		
Calpine Corporation	-	450		450
Dow Jones Utilities Index	-	65		65
Atmos Energy	-	-	250	
Telecommunications				
Worldcom	540	540		
Worldcom – MCI Group ¹	21	-		
Sprint PCS	-	350		350
Alltel	-	-	150	

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

BASIC MATERIAL

4.42% of the Active Portfolio

Analyst: Rahul Bohra

3.80% of the S&P 500 Index

The basic materials sector primarily comprise of four industries: metal and mining, chemicals, forestry and paper products, gold and silver. The sector encompasses a wide variety of products from commodities to manufactured finished products. Equities in the industry are generally low-risk with moderate volatility, often serving as a hedge to other investments.

Basic materials stocks have outperformed the S&P 500 by large margin over the past year. However, the lackluster performance of economy worldwide has seriously dampened the demand and lowered the price, a misfortune being compounded by the long and agonizing issue of the sector: over capacity.

The basic material sector will recover gradually next year based on our expectation for a modest growth in GDP of U.S. in 2003 and significant improvement in the margins as a result of substantial restructuring efforts of major players. But, we have a negative outlook for steel and aluminum industry. There is excess capacity, domestically and globally. Further, with the growing labor cost and strengthening dollar, the U.S. companies are unable to face global competition. The current holdings in the basic material sector as of November 30, 2002 are Alcoa and International Paper. There is currently a sell recommendation for Alcoa and a buy recommendation for Praxair. Therefore, future holdings of the sector will be International Paper and Praxair. We feel these companies are in areas where most of the future growth in basic material sector will occur.

PORTFOLIO HOLDINGS

Alcoa Inc. (AA)

1.92 % of the Active Portfolio

Proposed Sale

Alcoa has been a component of the Dow Jones Industrial Average since 1959. Alcoa is the world's largest aluminum company. It is a leading producer of primary aluminum, fabricated aluminum and alumina, and is active in all major aspects of the industry: technology, mining, refining, smelting, fabricating and recycling. Alcoa also markets consumer brands including Reynold Wraps, Alcoa wheels, and Baco household wraps.

The primary reason for the sell recommendation is the deteriorating condition of the industry. Last year global demand decreased by 4%, which was a major decline after 1993. Further, the production capacity increased globally by 3.9%. There are also possibilities of production restarts. Daily production increased by 5.8% from 55000 tons to 58200 tons. This has resulted in high inventory levels and low aluminum prices. LME has drop to \$0.58/lb from an average of \$0.66/lb last year. The prices will take considerable time to recover.

We feel that the industry is going to face harsh competition in next few years. Though Alcoa has done lot of restructuring in last couple of years, we feel it won't be able to face the challenge. It has high labor cost related to more than 129,000 employees. Due to decrease in the equity markets and interest rates, Alcoa's pension liability is expected to increase by 43% to \$1 billion. Moreover, the debt-equity ratio of the company has risen from 0.60(9/01) to 0.74(9/02). Compared to industry average of 0.52, we find the interest costs high and financial leverage to be very risky. Further, due to the terrorist attacks on September 2001, demand from the aviation industry, the premium market of aluminum industry and an important market for Alcoa, has declined and is not expected to rise soon.

Alcoa (AA)

Nov. 30, 2002 Price	25.55	Market Cap. (bil)	21.57		EPS	ROIC
52 Week Price Range	17.51– 39.65	Shares Outs. (mil)	844.3	2001	1.06	5.61%
52 Week Return	-27.12%	Dividend Yield	2.43%	2002E	1.03	6.26%
ROE	4.35%	Beta	1.34	2003E	1.54	7.64%

AK Steel Holding (AKS)**2.03 % of the Active Portfolio****Sold**

AK Steel Holding Corporation, through its wholly owned subsidiary, AK Steel Corporation, is a fully integrated producer of flat-rolled carbon, stainless and electrical steels. It is a Fortune 500 company and is the sixth largest integrated steel maker in U.S. in terms of production. Compared to other integrated companies, A.K. Steel, because of its concentration in the higher value-added part of the flat rolled spectrum, is somewhat insulated from the capacity expansions in the hot-rolled end of the market. Value-added shipments for the year were a record 93%, with hot-rolled shipments representing a scant 2% of total shipments.

Though the premium nature of AK Steel's products put it in a better position than its competitors, we feel that the deteriorating nature of the industry will make it difficult for it to derive returns greater than its cost of servicing its capital and will further erode its asset value. The U.S. steel industry is slowly bleeding to death. With excess capacity, increase of imports, escalation in the energy cost and lower demand, the prospects of the industry have declined. We expect a decline in the growth of the industry in terms of revenue and profitability in the coming years. The relation between the labor union and the management of AK Steel has continued to worsen. We fear that a big labor dispute might occur in future and this is also a cause for concern.

Based on the chances of labor dispute, litigation risk, the deteriorating condition of the industry due to overcapacity, higher imports and low demand and the return on investment being less than the cost of servicing capital we sold the stock in Spring.

AK Steel. (AKS)

November 30, 2002 Price	8.1	Market Cap. (bil)	0.87		EPS	ROIC
52 Week Price Range	6.45-14.85	Shares Outs. (mil)	107.9	2001	-0.87	2.53%
52 Week Return	-21.74%	Dividend Yield	3.09%	2002E	0.77	4.27%
ROE	-7.52%	Beta	1.46	2003E	1.17	5.33%

International Paper (IP)**2.06 % of the Active Portfolio****Added**

International Paper is the world's largest paper, paperboard and packaging manufacturer. Further, IP is one of the largest manufacturers of forest products. IP also has extensive distribution business, Xpdex.

Unlike the companies in steel and aluminum industry where every company wishes of downfall of another company for capacity reduction, the companies in paper and wood product industry have stressed consolidation, capacity restraint and the use of downtime to bring supply in line with demand. In addition, most companies have become active in undertaking temporary shutdowns. We feel this strategy will lead to faster revival of the paper industry and bring stability in prices

International Paper is undergoing a massive restructuring program which includes the sale of non-core assets worth \$5 billion. It has identified Paper, Packaging and Forest Products as its core sectors. We feel that this continuous focus on three core businesses will lead to leadership as well profitability in future. The management of International Paper has stressed on cost saving and financial discipline. We feel that with the cash flow generated by sale of assets, the company will be able to reduce its debt significantly.

With the focus on customer increasing for the success of the company, IP has taken positive steps in meet the needs of its retail customers. It restructured part of its paper business to form the home and office papers group. We feel this focus on retail customers will give IP a competitive edge and increase its market share in future. Further, we anticipate a very good growth of Xpedx division, the distribution business of the Company because of its service nature and aversion from cyclic effects of any particular industry.

International Paper

November 30, 2002 Price	39.25	Market Cap. (bil)	18.82		EPS	ROIC
52 Week Price Range	31.13-45.31	Shares Outs. (mil)	479.7	2001	-2.37	-1.42%
52 Week Return	1.04%	Dividend Yield	2.89%	2002E	1.52	5.88%

ROE	-1.41%	Beta	0.87	2003E	1.71	6.52%
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Praxair (PX)	1.57 % of the Active Portfolio	Proposed Addition
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Praxair is a Fortune 500 company with around 23,500 employees and operations in 40 countries. It is the largest industrial gases company in North and South America and the third largest worldwide. The Company is also the world's largest supplier of carbon dioxide. It is a producer of atmospheric gases (oxygen, nitrogen, argon and rare gases) and process and specialty gases (carbon dioxide, helium, hydrogen, and acetylene). It also manufactures high-performance coatings. The company has very diverse customer base and is not dependent on one industry.

The company has good track record. It has a very efficient management which has managed its working capital very well and controlled the capital spending. The management has taken various growth initiatives. Praxair has patented a technology called Cojet for blast oxygen furnaces which has a huge potential. Further, it is expanding its hydrogen production capacity for the market growing at more than 15%. Praxair recently bagged very good contracts. In healthcare, Praxair is building on their strong, hospital-based institutional presence and their existing packaged gases distribution networks to expand their home care business, which is a fast growing segment of the overall healthcare market. It made four small acquisitions in 2001. Praxair is a leading global helium supplier in the fiber-optics market. Praxair plans to launch a technology-licensing initiative in 2002 based on Praxair's patented helium-recovery technology that promises to generate substantial cost savings for fiber-optics customers as well as additional licensing revenues for Praxair.

Considering the various growth initiatives taken by the Company, the past good track record of the company, the expected growth of the global growth of industry and valuation of the stock of the company by us, we feel Praxair will be a good addition to our portfolio.

Praxair

November 30, 2002 Price	58.81	Market Cap. (bil)	9.51		EPS	ROIC
52 Week Price Range	44.25-60.48	Shares Outs. (mil)	161.7	2001	2.68	5.84%
52 Week Return	16.26%	Dividend Yield	1.30%	2002E	3.66	9.44%
ROE	22.14%	Beta	1.05	2003E	3.79	9.33%

COMMERCIAL SERVICES

1.49% of the Active Portfolio

Analyst: Fang “Caroline” Zhang

2.46% of Barra weight

As of November 30, 2002, we keep consumer service sector under weighted with one stock for the current holding – CSG system. The stock value dropped by more than 53% during the last year. The segment is 1.97 underweight compared with Barra weight.

Consumer Service sector comprise two industries: information service and industry service.

CSG Systems Int'l (NASDAQ: CSGS) 1.49% of the Active Portfolio Maintain Position

CSG Systems International, based out of Englewood, Colorado, is a leader in next-generation billing and customer care solutions for the cable television, direct broadcast satellite, advanced IP services, next generation mobile, and fixed wire line markets. CSG aims to enable its clients to focus on their core businesses, improve customer service, enter new markets, and operate more efficiently. The company successfully developed strategic relationships with major participants in the cable television and DBS industries in the past few years.

In March 2002, AT&T, one of the big contractors with CSG Systems International, initiated arbitration against CSG System relating to a Master Subscriber Management System Agreement that the two companies entered into in 1997. Two companies began their lawsuit war. In November, after the merge of Comcast and AT&T Broadband, the Comcast declare its right to terminate the Master Subscriber Agreement by transferring all AT&T Broadband subscribers CSG services. Comcast seek to have all of these issues decided by the U.S. District Court, not in the pending arbitration initiated by AT&T Broadband against CSG.

Should Comcast be successful in its claims, or in terminating the contract in whole or in part, it would have a material adverse effect on the financial condition of CSG and its overall future operations. The company will face several risks : 1) CSG's ability to successfully integrate the recently-acquired Kenan Business; 2) CSG's ability to enhance current products and develop new technology that will retain existing clients and capture new market share; 3) significant forays into new markets, which may prove costly and unprofitable. The pending lawsuit put this stock in risk. Further investigation is needed.

CSG Systems International (CSGS)

November 30, 2002 Price	14.10	Market Cap. (mil)	\$707.7		EPS	ROIC
52 Week Price Range	8.77- 42.83	Shares Outs. (mil)	51.7	2001	2.19	5.20%
52 Week Return	-53.25%	Dividend Yield	N/A	2002E	1.48	4.20%
ROE (FY 2000)	21.29%	Beta	1.38	2003E	1.57	4.50%

International Speedway Corp. (ISCA) 1.43% of Active Portfolio Proposed Addition

International Speedway is the top motorsports operator in the US with 12 racetracks that host more than 100 auto racing events annually. Among the tracks it owns are Daytona International Speedway (home of the Daytona 500), Talladega Superspeedway, and Michigan International Speedway. In addition to ticket sales, the company also derives money from broadcasting rights, sponsorships, concessions, and merchandise. Chairman and CEO Bill France Jr. and his family control more than 60% of the company. The France family also controls NASCAR.

For International Speedway, revenues have grown ten-fold between 1992 and 2001, enjoying an average revenue growth rate of 23% over the past five years. The growing popularity of NASCAR along with the increasing media exposure the sport is receiving and the growth in corporate sponsorships give the Company a strong growth

potential into the future. Also very promising are International Speedway's plans to expand into bigger and more mainstream markets such as New York and Denver next year, extremely profitable ventures given the increased scale of the events.

International Speedway Corp. (ISCA)

November 30, 2002 Price	38.26	Market Cap. (bil)	2.1		EPS	ROIC
52 Week Price Range	31.53-45.98	Shares Outs. (mil)	53.2	2001	1.65	12.0%
52 Week Return	-9.4%	Dividend Yield	0%	2002E	2.04	13.5%
ROE (FY 2001)	13.30%	Beta	0.58	2003E	2.17	13.3%

With 2002 GDP expected to grow between 2.5% and 3.0%, the discount retail segment has excellent opportunities for expansion. This economic environment will cause consumers to lead the recovery by spending their money while demanding increasing value. The discount retail segment will continue its recent high level of performance by growing market share at the expense of its full-priced competitors. Target Corp. has carved out an excellent competitive position within the discount retailer segment. With major competitors Wal-Mart, Kmart, and Costco, Target has successfully positioned itself as the only premium discounter. Because of this, it has enjoyed substantially higher profit margins than its competitors.

Growth opportunities are abundant for Target Corp. They currently possess 10% of the discount retailer market share. Future growth is expected both in terms of increasing same store sales as well as by adding new locations. Kmart's expected demise represents a market void that needs to be filled. Also, TGT growth is expected by increasing its presence in the under-penetrated markets such as that of the East Coast.

Target Corporation (TGT)

November 30, 2002 Price	\$34.78	Market Cap. (bil)	\$28.1		EPS	ROIC
52 Week Price Range	\$46.45 – 24.90	Shares Outs. (mil)	909	2000	\$1.32	14.76%
52 Week Return	-6.6%	Dividend Yield	0.75%	2001	\$1.40	13.84%
ROE (ttm)	20.13%	Beta	1.13	2002E	\$1.52	12.87%

Maytag Corporation (MYG)

3.45% of the Active Portfolio

Proposed Sale

Maytag Corporation (MYG) has been in the home and commercial appliance business for over seventy-five years. A full line of products are offered including washers, dryers, dishwashers, refrigerators and ranges. A majority of the sales (95%) are generated by the home appliance division.

While Maytag still has strong brand recognition, several developments over the past year have caused us to eliminate this holding moving forward. The appliance industry has become commoditized. According to the American Customer Satisfaction Index, Maytag has lost its premium image in the eyes of the consumer. Also, the Amana acquisition has substantially increased their debt burden which is evidenced by a reduction in the debt rating. Another factor causing us to sell our position in Maytag is the instability of the management team in the recent past.

Several of these negative factors account for Maytag's poor equity performance over the past year. Since its high of \$47 in April 2002, its value has dropped to \$30 because the market has begun to uncover some of these factors as well.

Maytag Corporation (MYG)

November 30, 2002 Price	\$30.96	Market Cap. (bil)	\$2.2		EPS	ROIC
52 Week Price Range	\$47.94 – 18.84	Shares Outs. (mil)	78	2000	\$2.64	17.4%
52 Week Return	9.5%	Dividend Yield	2.59%	2001	\$0.62	2.7%
ROE (ttm)	148.34%	Beta	1.52	2002E	\$3.19	19.5%

CONSUMER SERVICE

5.59% of the Active Portfolio

Analyst: Fang “Caroline” Zhang

5.18% of Barra weight

As of November 30, 2001, we keep current holdings in consumer service sector remain unchanged. Consumer service sector holdings, which consist of New York Times and the Walt Disney Company, account for 5.51% of fund, a 0.36% overweight than Barra sector weight. This year we propose to add International Speedway to the sector. The post-trading weight for the sector is 6.78% of the fund, a 1.06% overweight than the Barra sector weight. Our decision was based on our higher expectation for the corporate spending next year.

Consumer Service sector covers several industries: Media, Entertainment, Restaurant, Hotel and Leisure etc. This sector is highly sensitive to the nation’s economy. Key ratios to monitor are corporate spending, consumer confidence, unemployment rate and personal disposable income.

Weak economy in 2002 left the consumer confidence at its historical low and the corporate spending stagnant. When looking forward, we project 5% increase in corporate advertising spending next year. Two of our current holdings will benefit from this increase as both of them have significant presence in Media industry.

PORTFOLIO HOLDINGS

The Walt Disney Company (DIS) 2.24% of the Active Portfolio Maintain Position

The Walt Disney Company is a diversified worldwide entertainment company with operations in four business segments: media networks, studio entertainment, parks & resorts and consumer products. The company sold out its Internet section during the year. In fiscal year 2002, the Company generated \$25.3 billion in revenues, a par with last year. Except studio entertainment sector, most sectors reported revenue decreases in the last fiscal year. During the middle of August, Unfavorable business environments, pending lawsuits against Winnie-the-Pooh royalties and the corporate governance issues pushed the stock price to \$13.48, a seven-year low in August. Now the stock bounced back gradually. As of November 30, 2002, DIS was trade at \$19.82.

Homeland security concerns and weak consumer confidence deteriorated the attendance of Theme Parks. The revenue from Park and Resorts segment decreased by more than 7% in 2002. As long as the overall economy is struggling and consumer confidence keeps low, this trend at Disney’s second most important division will not change soon. We expect that Year 2004 will be a turn over year for Disney Park and Resorts segment.

Media networks, the largest division in terms of sales, reported a slight sale increase in year 2002. But the recent downgrade in viewer ship rank for ABC channel cast clouds on the segment future. Managements are now trying to regain its former ranks by increasing the programming funding and outsourcing programs. Early signs of increased viewer ship showed the company’s strength in getting back its market and attracting advertisers. But regaining its market will take some time.

Studio Entertainment segment is the only segments stand out in 2002 and we expect it will keep performs very well in the future. While consumer products segment expanded its global business aggressively by introducing a broad range of consumer electronics that combine a Disney design language with new technology.

We see great growth potential in Disney stock since all the negatives are now reflected in current price and the stock is now bouncing back gradually. Our projected target price is \$25.

The Walt Disney Company (DIS)

November 30, 2002 Price	19.82	Market Cap. (bil)	\$30.28		EPS	ROIC
52 Week Price Range	13.48 – 25.17	Shares Outs. (bil)	2.04	2001	-0.08	6.5%

52 Week Return	-2.17%	Dividend Yield	1.23%	2002	0.61	13.6%
ROE (FY 2002)	5.05%	Beta	1.1	2003E	0.65	14.1%

The New York Times (NYT) 3.17% of the Active Portfolio Maintain Position

The New York Times Company (NYT) is a diversified media company comprised of the Newspaper Group, Broadcast Group, and New York Times Digital. The Newspaper Group generated more than 90% of total revenues in 2001, thus being the most important segment of NYT. Furthermore, the Company holds interests in one newsprint mill, one super calendar paper mill, and the International Herald Tribune S.A.S. The Company's declared core purpose is to enhance society by creating, collecting, and distributing high-quality news, information, and entertainment.

The New York Times Company is very sensitive to the advertising market. But its quality news columnists, diversified advertising categories let it suffer less from an advertising recession and benefit disproportionately from an advertising recovery. Year 2002 saw a 2.6% increase in advertising spending than year 2001. In year 2003, we project a further 5% increase. Though the industry future looks rosy, the favorable news did not reflect on the stock prices until now. We expected better performance from NYT next year.

The New York Times Company(NYT)

November 30, 2002 Price	48.04	Market Cap. (bil)	\$6.86		EPS	ROIC
52 Week Price Range	38.60 – 53.00	Shares Outs. (mil)	151.5	2000	2.83	8.26%
52 Week Return	5.70%	Dividend Yield	1.19%	2001	1.95	11.55%
ROE (FY 2002)	22.18%	Beta	0.70	2002E	2.21	12.89%

ENERGY AND UTILITIES

10.03% of the Active Portfolio
8.42% of the S&P 500 Index

Analyst: Daniel Fischer

For the energy and utilities sectors, the previous year has been an extremely turbulent one. Due to reduced OPEC production quotas, energy prices have stayed on very high levels during 2002. Prices for crude oil (based on the West Texas Intermediate index) rose by \$9 over the course of the year and attained \$27 at the end of November. Driven by high oil prices, natural gas prices soared from \$1.60 to almost \$4.50 over the same period. A main driver for those energy price movements, besides reduced OPEC quotas, is a potential war in Iraq. Analysts estimate that current oil prices figure in a war premium of \$3 - \$5.

Historically, the utility sector has been characterized by companies with little to no growth, very little risk, and very little innovation. With the continuing deregulation of the industry this is now changing. Many traditional utilities have separated their operations into a distribution unit and a power production unit in order to take advantage of unregulated business ventures. Unfortunately, that diversification has not been without peril as the recent and incredibly swift collapse of Enron has proven. The company's collapse has shaken the entire energy and utility sectors.

The Henry Fund currently holds two of the strongest players in the oil industry, Exxon Mobil and Devon Energy. The addition of Atmos Energy Corp. will provide the portfolio with exposure in the utility industry. These three companies will provide significant coverage to the energy and utility sector, and will reap the rewards of any future energy price increases.

PORTFOLIO HOLDINGS

ExxonMobil Corp (XOM) 3.17% of the Active Portfolio Maintain Position

ExxonMobil is the combined entity of the former Exxon and Mobil corporations. Exxon is the largest integrated oil company in the world. The company operates in over 200 countries worldwide. The exploration and production activities of ExxonMobil, are also referred to as the "upstream" portion of the business. This business unit focuses on exploration, development, production, and gas marketing activities. Production operations can be found on every continent except Antarctica. The "downstream" operations are comprised of refining and supply, fuels marketing, lubricants and technology. ExxonMobil operates 46 refineries existing in 26 countries. Additional company operations include service stations, lubricant production, petrochemical production and mining.

The tremendous volatility of energy prices and reduced OPEC quotas hurt Exxon Mobil's operating performance. For the nine-month period ending September 30, 2001, Exxon Mobil earned \$7.37 billion. Although revenues fell by ten percent, net income declined by almost 42 percent. This negative performance was mainly due to a decline in the company's downstream margins triggered by high oil prices. As a result, Exxon Mobil's EBITDA margin declined to 11.13% in comparison to 15.38% in 2001. However, in comparison to its peers, Exxon Mobil performed well.

The company has the highest annual oil and gas production in the world, as well as the largest quantity of proved reserves of any other company in the energy industry. As a result, the company is generally the leader in most major projects in which they participate. Exxon Mobil continues to be a bellwether for the entire energy sector. Its tremendous size and all encompassing operations allow the company to participate in every aspect of the energy industry.

ExxonMobil Corp (XOM)

November 30, 2002 Price	\$34.80	Market Cap. (bil)	235.8		EPS	ROIC
52 Week Price Range	29.75 – 44.57	Shares Outs. (mil)	7,630	2001	2.36	14.47%
52 Week Return	-4.9%	Dividend Yield	2.63%	2002E	1.62	10.92%
ROE (FY 2001)	13.61%	Beta	0.41	2003E	1.93	12.37%

Devon Energy **4.43% of the Active Portfolio** **Maintain Position**

Devon Energy is the second largest independent oil and natural gas exploration and production (E&P) company in the US, measured by proved reserves.

On August 13, 2001, Devon announced to merge with Mitchell Energy & Development Corp. Although the merger agreement was signed in August 2001, the transaction did not close until January 24, 2002. Consequently, the merger did not affect Devon's 2001 earnings. Following the Mitchell Acquisition, Devon acquired Anderson Exploration Ltd, an independent E&P company in Canada. This transaction was closed on October 15, 2001. As a result of the successful integration of the two mergers, Devon posted a y-o-y sales growth of over 40 percent in the first three quarters of 2002.

With the acquisition of Mitchell Energy and Anderson Exploration, Devon has become a major supplier of the North American natural gas. In the last year many independent power producers have announced their intentions to construct a significant amount of natural gas fired electricity generation facilities. Announced additions for the industry total over four hundred megawatts of generating capacity. Devon is uniquely poised to benefit from this trend in the power industry.

Devon Energy (DVN)

November 30, 2002 Price	\$45.79	Market Cap. (mil)	7,370		EPS	ROIC
52 Week Price Range	33.00 – 47.02	Shares Outs. (mil)	156.7	2001	0.74	2.65%
52 Week Return	+38.6%	Dividend Yield	0.42%	2002E	1.69	7.11%
ROE (FY 2001)	-1.26%	Beta	0.65	2003E	2.79	8.15%

Atmos Energy Corp. (ATO) **2.44% of the Active Portfolio** **Proposed Addition**

While Atmos Energy has not been in the portfolio over the past year, we anticipate that it will be our core utility holding going forward due to its excellent positioning in the industry. Atmos Energy Corporation is a local natural gas distribution company. It has operations across the Midwest and Southern United States and receives 90% of its revenues from the regulated sale and distribution of natural gas. The stock has a dividend yield of 5.5% and is undervalued by most metrics. Given the overall weak economy and low interest rate environment, we believe the utility industry will continue to perform well in the next year. We believe Atmos Energy's solid regulated business will allow the company to post strong earnings in the next year and outperform the market.

The main driver behind the buy recommendation for Atmos Energy is its strong dividend yield. During times of market instability, the reliability of earnings and dividends by a traditional utility company is a fairly safe harbor. Also, Atmos has positioned itself well to take advantage growth opportunities in its non-regulated portions of its business. The risks we see going forward with a position in Atmos are deregulation of the utilities and rising interest rates.

Atmos Energy Corp. (ATO)

November 30, 2002 Price	\$22.30	Market Cap. (mil)	\$951		EPS	ROIC
52 Week Price Range	17.56 – 24.55	Shares Outs. (mil)	41.7	2000	1.14	6.3%
52 Week Return	19.3%	Dividend Yield	5.5%	2001	1.47	7.3%
ROE (ttm)	9.9%	Beta	0.02	2002E	1.48	6.4%

FINANCIAL SERVICES

21.65% of the Active Portfolio

Analysts: Jorge Anaya & Hongyu He

The Financial Services sector was one of the most affected sectors in the market throughout 2002. Among the major factors that contributed to the underperformance of the sector were: low interest rate environment, increase of credit quality deterioration, an extremely weak equity market and financial and corporate scandals driving investors into safer investment alternatives. As of November 30th, the Financials Services sector is down 8% compared with a negative return of 21% recorded by S&P Index.

As a result of the adverse conditions the industry faced, areas within the financial services sector performed differently during 2002. Brokerage and investment services across the board saw the biggest drop in their earnings, given the current market conditions and slow down in M&A activity. Banks have demonstrated remarkable toughness in their reported earnings given the challenging economic conditions, despite accelerated credit deterioration. In contrast, credit card activity surprisingly enjoyed continuing growth as consumers are still spending at favorable levels. Insurance firms are still

There are currently four active financial stocks in the Henry Fund portfolio, including Citigroup and Morgan Stanley. The YTD return for these two stocks is -29% and -21% respectively, while Ambac and Redwood Trust have posted positive returns of 1% and 12% respectively. The fund also decided to add Charter One Bank to the portfolio given the regional banking exposure it provides. To make the buy possible, we sold small portions of Ambac and Morgan Stanley, thus achieving the required portfolio weight.

PORTFOLIO HOLDINGS

Citigroup, Inc.(C)

5.88% of the Active Portfolio

Maintain Position

Citigroup Inc. is a diversified financial holding company with \$902 billion in total assets. The company provides a wide range of financial products and services to both consumers and corporate customers in more than 100 countries and territories. It is the largest financial services company in the United States and one of the largest in the world.

Citigroup's breadth of products in consumer finance, cards, banking, currencies and brokerage, gives the company many levers to pull in a tough environment. It is also reaping the benefits of its global brand, multi-channel distribution and cross-marketing success. Over the past four years, its flagship consumer business has grown profits at a 25% compound annual rate with organic growth in the 13-16% range each year. Salomon Smith Barney continues to gain market share in a wide category capital markets business lines. In addition, Citigroup has also demonstrated great pricing discipline and strong integration capabilities in its previous acquisitions.

On December 19, 2001, Citigroup announced the spin-off of Travelers Property & Casualty. The deal was completed in August 2002 with the distribution of Citigroup's 219,050,000 shares of Travelers class A common stock and 450,050,000 shares of Travelers class B common stock. We view this transaction as extremely positive for Citigroup shareholders. It reflects management's decision to maintain a strategic shift of its business allocation.

Despite long-term optimism, we sense Citigroup is likely to face some near-term challenges. Consumer spending and bankruptcies have been deteriorating generally since July, placing pressure on mounting credit losses. In addition to facing those challenges, Citigroup's management will have to tightly manage costs and credit risk to offset probable weak revenues in most key businesses.

Citigroup, Inc. (C)

November 30, 2002 Price	38.88	Market Cap. (bil)	187.9		EPS	P/E
52 Week Price Range	24.48-52.20	Shares Outs. (bil)	5.06	2001	2.73	14.1
52 Week Return	-18%	Dividend Yield	1.94%	2002E	3.38	11.5

ROE (FY 2001)	18.40%	Beta	1.37	2003E	3.86	10.1
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Redwood Trust (RWT)	5.39% of the Active Portfolio	Maintain Position
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Redwood Trust is a real estate investment trust (REIT) that specializes in owning and credit-enhancing high-quality jumbo residential mortgage loans. The company's real estate assets are in four broad categories: jumbo residential mortgage loans, residential credit-enhancement securities, commercial mortgage loans, and mortgage-backed securities.

Redwood Trust is fundamentally different from other mortgage REITs in the mortgage market because it specializes in credit-enhancing mortgages. Equally as important, it does not compete directly with Fannie Mae and Freddie Mac, which are restricted to purchasing/guaranteeing mortgage loans under \$300,700.

Redwood has a low-cost operating structure and tax advantages that enable it to own high-quality jumbo mortgage assets and generate attractive returns for shareholders. Since the company's initial public offering in August 1995, cumulative shareholder wealth has grown at a compound annual rate of 13.7%, assuming reinvested dividends. In addition, credit quality, the key determinant to future shareholder value, remains exceptionally strong as evidenced by low delinquencies and minimal net charge-offs.

Interest rate risk is the biggest risk for Redwood's shareholders. A rapid increase in short-term interest rates or a disruption in the repurchase market could cause a margin or liability squeeze. Credit risk also remains a concern as adverse economic conditions in the United States could have a negative impact on Redwood's portfolio.

Redwood Trust (RWT)

November 30, 2002 Price	27.18	Market Cap. (mil)	435		EPS	P/E
52 Week Price Range	23–31.5	Shares Outs. (mil)	16.1	2001	2.97	9.2
52 Week Return	9%	Dividend Yield	9.32%	2002E	3.45	7.8
ROE (FY 2001)	14.34%	Beta	0.6	2003E	3.7	7.4

Charter One Financial (CF)	Proposed Addition
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Charter One Financial is a high performing thrift that adopted a bank charter in the second quarter of 2002 and is now the nation's 22nd largest bank. It is principally involved in attracting deposits and originating conventional first mortgages on residences located in its market area. The bank's product set also includes consumer banking, indirect auto finance, commercial leasing, business lending and retail investment products. Charter One has operations throughout the northern and eastern United States.

Charter One has a successful retail banking strategy, differentiated by both price and service, that is producing robust core deposit growth. Superior sales execution together with excessive focus on efficiency enables the bank to deliver favorable returns and demonstrate exceptional stability. Charter One is also a prudent manager of credit and capital. Most of Charter One's credit quality ratios are superior to mid-cap bank median levels and the bank has been building its loan loss reserve to a more bank-like level.

A continuing recession would place downward pressure on the industry by reducing loan demand and raising credit issues. However, with much more opportunity than the typical regional bank to reduce its deposit rates and offset yield pressure, especially in the near term, Charter One is better positioned for such a scenario than most regional banks. We propose to add the stock to our portfolio.

Charter One Financial (CF)

November 30, 2002 Price	30.1	Market Cap. (mil)	6530		EPS	P/E
52 Week Price Range	23.89-34.77	Shares Outs. (mil)	226	2001	2.25	13.4
52 Week Return	9%	Dividend Yield	3.05%	2002E	2.62	11.5

ROE (FY 2001)	19.21%	Beta	0.91	2003E	3.03	9.9
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**Morgan Stanley Dean Witter & Co. 4.79% of Active Portfolio
(MWD)**

Reduce Position

With over \$452 billion in assets under management, Morgan Stanley provides products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Morgan Stanley is a global financial services firm that maintains market positions in each of its three business segments: securities, investment management and credit services. The Company also provides worldwide financial advisory and capital-raising services to a diverse group of domestic and international corporate and other institutional clients through international divisions all over the world.

Last semester we added Morgan Stanley to the portfolio as a result of selling our position in Lehman Brothers. We considered that Morgan Stanley represented one of the most solid business mix in the industry and a better holding overall than Lehman. Morgan Stanley is the firm with less investment banking exposure to revenues in the industry, a definite advantage as investment banking outlook still is weak and may take time to recover. In addition, the Company owns Discover Card, which has increased market share and receivables in the past couple of years.

Going forward, Morgan Stanley should be able to bounce back from its current levels relying on its fixed income business, growth on its credit services segment, and increased trading activity on its securities area. In addition, we consider the Company will continue to benefit from its focus on institutional and high-net-worth investors.

Morgan Stanley Dean Witter (MWD)

November 30, 2002 Price	45.24	Market Cap. (bil)	46.5		EPS	P/E
52 Week Price Range	28.81- 60.02	Shares Outs. (mil)	1,085	2001	3.20	14.97
52 Week Return	-18.6%	Dividend Yield	2.15%	2002E	3.61	14.79
ROE (FY 2001)	17.19%	Beta	2.12	2003E	4.66	13.65

Ambac Financial Group (ABK)

4.0% of Active Portfolio

Reduce Position

Ambac is a leading player in the financial guarantee industry. Through its principal operating subsidiary, Ambac Assurance Corporation, the company provides insurance for municipal and structured finance obligations. Through its financial services subsidiaries, the Company provides financial and investment products including investment agreements, interest rate swaps, funding conduits, investment advisory and cash management services, principally to its financial guarantee clients.

Ambac has been performing favorably since its addition to the portfolio last year at a price of \$54.00. The company has a very distinctive business model, which allows the company to arbitrage credit spread by leveraging its financial expertise. As only one of four AAA rated insurers in the primary market, the company does not face as much competition as in other insurance industries. Ambac should be able to secure its long-term growth by its increased involvement in structured and international finance, an area that has seen exceptional growth over the past several years. The short-term outlook looks also very promising for Ambac. The current low interest rate environments historically have fostered new issue and refinancing activity, both contributing to growth. In addition, the widening of credit spreads have created increased demand for Ambac's credit enhancement business which makes volume and underwriting premiums go up. Going forward, we expect positive results from Ambac as it keeps on outperforming the market.

Ambac Financial Group (ABK)

November 30, 2002 Price	62.51	Market Cap. (bil)	6.44		EPS	P/E
52 Week Price Range	49.86-71.25	Shares Outs. (mil)	106	2001	4.16	14.00
52 Week Return	-0.8%	Dividend Yield	0.67%	2002E	4.47	13.40
ROE (FY 2001)	15.33%	Beta	0.65	2003E	4.99	12.40

HEALTH CARE

14.95% of the Active Portfolio

Analyst: Katrin Deutschmann

14.37% of the S&P 500 Index

The US health care services market, the world's largest, is worth nearly \$1.4 trillion, while the European market is worth about \$700 billion. We recommend to market weight the healthcare sector since the healthcare industry has performed similar to the S&P over the last twelve months.

One of the key growth drivers of the health care industry is the aging of the U.S. population. The first members of the Baby-Boom generation turned 50 in 1996. From 2010-2030, the population of elderly aged 65 to 84 is expected to grow 80 percent, while the population aged 85 and over would grow 48 percent. In contrast, the population under age 65 would increase only 7 percent. As the baby boomers reach retirement age, the number of people over 65 years of age is expected to increase dramatically.

Other key factors for the industry's profitability are costs for hospitals, drugs and physicians. Historically HMOs could lock in a spread between health care cost increases and premiums. However, it is questionable for how long people will accept double digit premium increases.

Much of the industry profitability is driven by innovation. Research and development is a major expenditure of the technology oriented industry participants (8-20% of sales). Increasingly, the productivity of this research is being aided by the use of computers and other advanced scientific techniques. Loading patient and payor information, supply orders, and other administrative red tape onto computers organizes information and helps reduce costly errors, but many doctors are reluctant

Unlike the Tech Boom of the late 1990s, the Biotech Boom seems to have some staying power. Relatively strong Venture Capital investing, both in the US and Europe contribute to this. We see a trend towards consolidation as larger biotech companies buy cash-poor startups with promising product ideas. In addition, large pharmaceutical companies are hoping to find the next blockbuster through alliances with biotech companies.

PORTFOLIO HOLDINGS

UnitedHealth Group (UNH)

3.41% of the Active Portfolio

Increase Position

UnitedHealth Group is a leading provider of diversified health services. The company's five divisions (UnitedHealthcare, Uniprise, Ovations, Specialized Care Services, and Ingenix) provide a variety of service including: 1) Traditional HMO; 2) Health Benefits Administration for Self-Insurers; 3) Network plans for Vision, Dental And Mental Health Care; 4) Health Care Delivery Data and Expertise.

The company's dense regional bases enable it to leverage its service network, which allows for high cost utilization and a broader suite of available services for the customer. The company not only provides technology based health information services but also utilizes its advanced systems to enhance its low cost position. Its systems give it greater insight into pricing trends and allow it to bring new products to market faster than competitors. The company moved early to diversify its product offering, to meet the changing needs of both employers and employees. The company is well positioned within its industry and is performing very well. The stock price appreciated by 16 percent over the last year. We see UnitedHealth Group as an attractive investment and recommend increasing our portfolio holding by 50 shares.

UnitedHealth Group (UNH)

November 30, 2002 Price	81.45	Market Cap. (bil)	25.1		EPS	ROIC
52 Week Price Range	67.85-82.36	Shares Outs. (mil)	304.4	2001	2.79	34.54%
52 Week Return	16.00%	Dividend Yield	0.00%	2002E	3.40	38.84%

ROE	30.81%	Beta	0.70	2003E	3.68	45.96%
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Pharmacia Corporation (PHA) 6.30% of the Active Portfolio Reduce Position

Pharmacia is a leading global competitor in the branded prescription drug market. The company maintains a diverse product portfolio and a solid product pipeline with well below average exposure to patent expiration for the next several years. The company's most recognized prescription brands include Celebrex, Xalatan, Ambien, Detrol, and. In August, due to the merger with Pfizer, Pharmacia spun off its remaining 85 percent stake in Monsanto, a leading provider of diversified agricultural products that capitalize on the company's biotechnology research expertise.

In July Pfizer announced that it will acquire Pharmacia. The company's shareholder will receive 1.4 shares of Pfizer for each share of PHA they hold. Given current market prices, this represents a takeover premium of about 3%.

We recommend reducing our portfolio holding in Pharmacia, which currently is 6.30 percent, by selling 100 shares.

Pharmacia Corporation (PHA)

November 30, 2002 Price	42.30	Market Cap. (bil)	53.3		EPS	ROIC
52 Week Price Range	30.36 - 46.64	Shares Outs. (mil)	1290	2001	1.43	NA
52 Week Return	-3.6%	Dividend Yield	1.31%	2002E	1.55	NA
ROE	18.18%	Beta	0.41	2003E	1.79	NA

Guidant Corporation (GDT) 3.99% of the Active Portfolio Maintain Position

Guidant was spun off from Eli Lilly (NYSE: LLY) in 1994. As a leader in the medical technology sector, the company designs, develops, manufactures, and markets therapeutic medical devices encompassing all forms of cardiac health care. The company is divided into four distinct operating segments: Cardiac Rhythm Management (CRM), Vascular Intervention Division (stents), Cardiac Surgery Group, and Endovascular Solutions. Furthermore, we like Guidant's focus on the high margin segments of the medical device industry and avoidance the price competition in the disposable medical product market.

However, we only recommend maintaining our position in Guidant because of the fierce competition in the drug-eluting stent market. This product will be extremely important for future sales, since drug-eluting stents have significantly lower reclogging rates and will replace bare-metal stents at some point. Some of Guidant's competitors have already shown impressive results in clinical trials.

Guidant Corporation (GDT)

November 30, 2002 Price	29.93	Market Cap. (bil)	9.50		EPS	ROIC
52 Week Price Range	25.00 - 51.50	Shares Outs. (mil)	305.7	2001	1.61	32.10%
52 Week Return	-37.30%	Dividend Yield	0.00%	2002E	1.49	28.60%
ROE	37.02%	Beta	0.46	2003E	1.70	23.73%

IDEC Pharmaceuticals (IDPH) 1.53% of the Active Portfolio Maintain Position

IDEC Pharmaceuticals develops treatments for cancer, autoimmune and inflammatory diseases. The biotechnology company's best-selling Rituxan treats non-Hodgkin's lymphoma (NHL). Delivered intravenously, Rituxan is a monoclonal antibody used in place of chemotherapy or radiation therapy. IDEC produces and markets Rituxan in partnership with Genentech. Through licensing agreements, Hoffmann-La Roche sells Rituxan outside the US and Canada, except in Japan, where it is sold by a local company. Another important product is Zevalin, which also treat NHL.

We added IDEC to our portfolio in order to diversify the healthcare sector into biotechnology. Even though Idec and the biotechnology industry in general underperformed compared to the S&P, we still believe in the long-term growth potential of this investment.

IDEC Pharmaceuticals (IDPH)

November 30, 2002 Price	32.58	Market Cap. (bil)	5.26		EPS	ROIC
52 Week Price Range	20.76 – 72.60	Shares Outs. (mil)	153	2001	0.67	87.51%
52 Week Return	-51.70%	Dividend Yield	0.00%	2002E	1.21	82.16%
ROE	13.99%	Beta	1.34	2003E	1.85	65.42%

Monsanto (MON)**0.47% of the Active Portfolio****Proposed Sale**

In 2000 Monsanto and Pharmacia Upjohn merged to form Pharmacia. Pharmacia integrated Monsanto's pharmaceutical business and took the remaining Monsanto public while keeping an 85 percent stake in the company. This summer, Pfizer acquired Pharmacia and as a consequence Monsanto became completely separate and independent from Pharmacia on August 13, 2002.

Monsanto helps farmers grow more crops by applying biotechnology, genomics, and molecular breeding technology to herbicides and seeds. Its flagship product, Roundup, is the world's #1 herbicide and accounts for 44 percent of MON's sales. Monsanto also produces genetically altered seeds that tolerate Roundup and resist bugs; it estimates that more than 70% of the world's insect- and herbicide-resistant crops bear its stamp. The company produces Roundup-tolerant cotton, corn, soybean, and canola seeds. It also produces Asgrow, Hartz, and DEKALB seeds.

Monsanto operates in a very cyclical business where the weather, government policies, future crop prices, and planting patterns are key demand drivers. Monsanto is also strongly dependent on launching its biotechnology products in new markets like India, Latin America and Europe. However, lots of people shy away from genetically manipulated food.

Monsanto (MON)

November 30, 2002 Price	17.45	Market Cap. (bil)	5.28		EPS	ROIC
52 Week Price Range	13.20 – 35.80	Shares Outs. (mil)	261.4	2001	1.15	9.3%
52 Week Return	-43.50%	Dividend Yield	2.38%	2002E	0.50	9.5%
ROE	-0.54%	Beta	0.83	2003E	1.59	13.1%

INDUSTRIALS

3.69% of the Active Portfolio

Analyst: Rajesh Narayanan

3.62 % of the S&P 500 Index

Industrial sector is very cyclical industry has seen revenue growth of about 7% a year since 1992, but growth is slowing. Between June of 1999 and the summer of 2000 the Fed raised interest rates six times; this, along with still sluggish Asian economies and the beginnings of a world wide overcapacity in the industry signal an industry slowdown. Although overall manufacturing output is still rising in the US, if one subtracts high technology products (computers, semiconductors, communications equipment, etc.) from the equation, a different picture emerges: the resulting manufacturing output is contracting.

The current holding in Industrial sector is Ingersoll Rand, we recommend to hold it. The slowing economy caused companies to curtail capital spending plans, hurting the shares of industrials. We believe that the ongoing restructuring plans and strong order position of their Security and Safety division should be able to offset the soft demands in the Industrial sector.

PORTFOLIO HOLDINGS

Ingersoll-Rand (IR)

3.69% of the Active Portfolio

Maintain Position

Ingersoll-Rand Company is a provider of security and safety, climate control, industrial solutions and infrastructure products. Climate Control focuses on markets requiring refrigerant-gas compression technology, and services to provide gas pressure for distribution to end users or to maintain a refrigeration cycle for protecting food and other perishables. Industrial Solutions is composed of a diverse group of businesses focused on providing solutions to enhance customers' industrial efficiency. Industrial Solutions consists of three segments: Air and Productivity Solutions, Dresser-Rand and Engineered Solutions. Infrastructure supplies products and services for all types of construction projects, industrial and commercial development and golf and utility vehicles. Security and Safety manufactures and markets architectural hardware and access-control products and service to customers seeking to enhance productivity and security for residential, commercial and institutional buildings.

The company's diverse product portfolio encompasses such leading industrial and commercial brands as Schlage locks and security solutions; Thermo King transport temperature control equipment; Hussmann commercial and retail refrigeration equipment; Bobcat compact equipment; Club Car golf cars and utility vehicles; Torrington bearings and components; PowerWorks microturbines; and Ingersoll-Rand industrial and construction equipment.

In addition, IR offers products and services under many more premium brands for customers in industrial and commercial markets. Ingersoll-Rand is undergoing major restructuring process; we feel that with its restructuring efforts the company is well positioned to take advantage of an eventual upturn in the economy and further the security market has huge potential in the near future. But, considering the depressing economic conditions ahead we feel that the stock is trading within its fair value range. We are confident in Ingersoll-Rand's strength in the long-term.

Ingersoll-Rand (IR)

November 30, 2002 Price	46.20	Market Cap. (bil)	7.43		EPS	ROIC
52 Week Price Range	29.69-59.64	Shares Outs. (mil)	169.2	2001	1.49	26.73%
52 Week Return	-1.00%	Dividend Yield	1.64%	2002E	3.00	15.73%
ROE (TTM)	10.00%	Beta	1.23	2003E	3.04	15.14%

TECHNOLOGY

13.23% of the Active Portfolio

Analysts: Kevin Bakker and Mark Wall

16.96% of the S&P 500 Index

The technology sector suffered steep losses again this year. The Dow Jones Technology Index was down over 29%. The holdings within our sector suffered similar losses. Cisco Systems lost 27% of its value throughout the year despite increasing market share, improving margins, and strong positive cash flow. Intel Corporation suffered a 44% loss on the year. Much like Cisco, Intel continues to dominate the chip market, maintain margins and generate strong cash flows. We also owned a technology spider that lost approximately 36% of its value YTD. The technology spider was market weighted, and had approximately 33% of its value in Microsoft, Intel, and IBM. This attributed to its lackluster performance of our technology portion of the fund. Moving forward, we have decided to sell off the technology spider and invest in two stocks, Autodesk and Drexler Technology. These stocks have low correlations with Intel and Cisco and should provide some added diversification.

PORTFOLIO HOLDINGS

Intel Corporation (INTC)

4.70% of the Active Portfolio

Maintain Position

Intel Corporation is semiconductor chip maker that supplies the computing and communications industries with chips, boards, systems and software building blocks that are integral to computers, servers and networking and communications products. Intel offers products at various levels of integration, allowing customers to create advanced computing and communications systems.

Intel's major products include microprocessors, chipsets, boards, networking and communications products, such as Ethernet network interface cards and network processors, embedded control chips and flash memory used in cellular handsets and handheld computing devices, as well as cellular baseband chipsets. Intel is organized into four operating segments: the Intel Architecture business, consisting of the Desktop Platforms Group, the Mobile Platforms Group and the Enterprise Platforms Group; the Intel Communications Group; the Wireless Communications and Computing Group, and the New Business Group.

Intel's continued commitment to capex during the down times of 2001 and 2002 have them well positioned for then the economy recovers. The cuts in IT spending and upgrades have had a significant impact on Intel, but their \$9 billion in cash has seen them through quite nicely. We are fairly confident that we have seen the lowest points of this stock and are set growth going forward.

Intel Corporation (INTC)

November 30, 2002 Price	\$20.88	Market Cap. (bil)	113.5		EPS	ROIC
52 Week Price Range	\$17.13-36.78	Shares Outs. (bil)	6.62	2001	0.19	11%
52 Week Return	-44.12%	Dividend Yield	0.47%	2002E	0.77	42%
ROE (FY 2002)	7.21%	Beta	1.82	2003E	1.03	55%

Cisco Systems (CSCO)

3.70% of the Active Portfolio

Maintain Position

Cisco Systems is the worldwide leader in networking for the Internet. Cisco's Internet Protocol-based (IP) networking solutions are the foundation of the Internet for most corporate, education, and government networks around the world. Cisco provides the broadest line of solutions for transporting data, voice and video within buildings, across campuses, or around the world. Cisco's products are considered the standard in computer networking. They have a dominant market share in ethernet switches, routers, and also in WAN switches and routers. They also have a substantial presence in many other product markets and will be a fierce competitor in all markets in which they

participate. They continue to invest heavily in R&D and will continue to remain the standard in computer networking.

Cisco is the dominant player in the enterprise market segment and compared to competition has a much smaller portion of its revenues generated from sales to service providers and telecom's. Approximately 80% of Cisco's revenues come from enterprise business. Given the current telecom market environment, this gives them a big advantage over their competition.

Despite the dominant position within their industry we believe Cisco is still facing many of the same problems as their competition. Our outlook for the service provider segment is negative. Carriers have continued to cut capital expenditures, and capacity is still very low. Despite Cisco's relatively low exposure to this segment it will still hurt overall growth. The enterprise business has also been slow to improve with IT budgets relatively tight.

Overall, we believe Cisco is in a better position than all its competitors. Cisco has an extremely healthy balance sheet, with over \$21 billion in cash and investments and no debt, which should allow them to weather the current downturn in the industry and come out in a better strategic position. Cisco has consistently grown market share in the enterprise segment and is in a position to remain the dominant player in what will be a high growth industry long-term.

Cisco Systems (CSCO)

November 30, 2002 Price	\$14.92	Market Cap. (bil)	96.8 B		EPS	ROIC
52 Week Price Range	\$8.12-\$21.84	Shares Outs. (bil)	7.2 B	2001	0.30	8%
52 Week Return	-26.0%	Dividend Yield	N/A	2002	0.30	46%
ROE (FY 2002)	9.84%	Beta	2.08	2003E	0.54	46%

JDS Uniphase (JDSU)

0.30% of the Active Portfolio

Proposed Sale

JDS Uniphase's primary business is designing and manufacturing fiber-optic components. Their business has been decimated by overcapacity in the telecommunications market and most signs indicate this market will remain weak at least for the next twelve months. Capital spending by telecoms was down 15% in 2001, and is expected to be down an additional 60% in 2002. Our outlook is for this trend to continue into 2003. Initial indications of telecom capital expenditures have not been positive. Lucent expects 2003 capex to be down 20% from 2002, while SBC announced its forecast for a 33% decrease in capital expenditures. This has a trickledown effect throughout the industry, with network system makers and component manufacturers seeing revenues drop off. JDS Uniphase's revenues have fallen from \$3.2 billion in FY 2001, to \$1.0 billion in FY 2002. Revenue estimates for FY 2003 are around \$650 million, a further 35% decline, and for no growth in FY 2004.

JDS does have a healthy balance sheet with over \$1.3 billion in cash (\$0.96 per share) and short-term investments and no debt. However they are expected to burn \$300 million in 2003, and are continuing to post losses. In addition, the stock is trading at a P/S (2003 estimate) of almost 6.0, which seems excessive given the huge declines in revenue, forecast losses of \$.08 and \$.02 per share in 2003 and 2004 respectively, and overall weak industry outlook.

JDS Uniphase (JDSU)

November 30, 2002 Price	\$3.41	Market Cap. (bil)	3.9		EPS	ROIC
52 Week Price Range	\$1.58-\$10.34	Shares Outs. (bil)	1.4	2001	-51.40	--
52 Week Return	-69.0%	Dividend Yield	0.0%	2002	-6.50	--
ROE	-160.0%	Beta	2.90	2003E	-0.08	--

Autodesk (ADSK)

Proposed Addition

Autodesk provides design software and digital content for architectural design and land development, manufacturing, utilities, telecommunications, and media and entertainment. Autodesk has a great product line. AutoCAD, the flagship product, accounts for around 30% of total revenues, with a huge established customer base (3.1 million seats). They have also been growing users, by selling a cheaper version of this software (AutoCAD LT) for users that do not demand some of the high-end features. Autodesk's architectural products have a 33% market share, twice that of the nearest competitor. These established users will continue to upgrade to new versions of the software. A major upgrade of AutoCAD is due in early FY 2004, which should drive revenue growth. In addition, this established customer base helps them to introduce new products by providing them immediate credibility.

Autodesk is in great financial condition. They have no debt, over \$340 million in cash and short-term marketable securities, are generating strong positive cash flow from operations, and continue to have positive net income, despite challenging economic conditions. The stock has consistently paid a dividend, yielding around 1%.

At its current market price Autodesk is a great value play. Using various valuation metrics, we believe Autodesk has much more upside potential than downside risk. It is trading at a discount to many of its competitors and is also trading at over 25% discount to its historical price to earnings ratio.

Autodesk, Inc. (ADSK)

November 30, 2002 Price	\$15.49	Market Cap. (bil)	1.6 B		EPS	ROIC
52 Week Price Range	\$10.18-\$23.69	Shares Outs. (mil)	113.4 M	2001	0.82	78%
52 Week Return	-58.0%	Dividend Yield	0.83%	2002	0.83	78%
ROE	8.5%	Beta	1.24	2003E	0.57	74%

Drexler Technology (DRLX)

Proposed Addition

Drexler Technology Corporation develops, manufactures and markets optical data storage products and systems featuring LaserCard optical memory cards and chip-ready Smart/Optical cards. Drexler-made LaserCard optical memory cards are used for digital governance applications, such as immigration, visas, cargo manifests, motor vehicles, pay-per-use systems and ID/access, and other digital read/write card applications. LaserCard Systems Corporation (LSC), a wholly owned subsidiary of Drexler Technology, makes optical card read/write drives, develops optical card system software and markets optical cards, related data systems and peripherals. The LaserCard optical memory card is an updateable, laser-recordable, computer-readable, non-volatile, credit-card-sized data storage card. It contains a reflective stripe of laser-recording material, Drexon, a Company invention.

Drexler is proven company with a successful track record over the past fourteen years. They are in a fairly stable financial position with approximately \$10 million in cash and no long-term debt other than operating leases. Drexler's proven and strong relationship with the U.S. government provides stability in future revenues and also increases opportunity with other foreign countries.

Drexler's proprietary Lasercard technology has unlimited growth opportunities. Right now, the Lasercards are used predominantly for the U.S. Green card and for the U.S. border cards. The post-9/11 security awareness has enhanced the global demand for national security. A successful relationship with the U.S. should bode well for Drexler's global growth opportunities. At a 52 week low, we are confident that we are getting Drexler with enormous upside potential.

Drexler Technology (DRXR)

November 30, 2002 Price	\$16.98	Market Cap. (mil)	142.5		EPS	ROIC
52 Week Price Range	\$13.77-\$30.30	Shares Outs. (mil)	10.3	2002	0.52	-1.38%
52 Week Return	-41.4%	Dividend Yield	N/A	2003E	0.47	17.68%
ROE	14.5%	Beta	0.89	2004E	0.59	21.86%

TELECOMMUNICATIONS

0.70% of the Active Portfolio

Analyst: Rob Van Auken

4.09% of the S&P 500 Index

The telecommunications sector continues to under-perform the general market. The sector is down 12.4% YTD vs. the S&P 500. The wireline sector has experienced declining access line growth. This can be attributed to wireless service substitution and the replacement of 2nd lines in the home by DSL service. Pricing pressures within the wireless industry will continue to hurt the wireline sector as those firms aggressively cut prices and offer large buckets of free off-peak minutes.

We expect U.S. wireless penetration to hit 47% by the end of 2002. Penetration growth has been explosive since 1998 as the number of users has almost doubled over that time period. Clearly, future growth will not be able to sustain this rapid pace. The industry is relatively concentrated with 4 firms comprising 70% of the market which results in an extremely competitive environment. Most experts feel that industry consolidation is imminent. However this sentiment has existed for several years and the likelihood of impending M&A activity is improbable.

The Baby Bells employed an aggressive strategy in the DSL market during 2002. They possess an estimated 90% share of the market with penetration estimated at around 3%. Competition in the broadband market from cable providers is increasing. Cable modem penetration is 5x that of DSL. However, as cable telephony further threatens fixed wire access lines, we expect marketing efforts to be expanded.

With competition tight, maintenance of several performance metrics will be crucial. Telcos will need to reduce capex spending and headcount. We've witnessed progress on the first metric and have begun to see headcount reductions in the wireless and wireline industry. Most of these announcements indicated several hundred million dollars in savings as a result. This will help firms cut costs and improve their balance sheets as they move into 2003.

PORTFOLIO HOLDINGS

WorldCom Group (WCOM)

0.04% of the Active Portfolio

Maintain Position

WorldCom Group provides a broad range of communications services to both United States- and non-United States-based businesses and consumers. The Company is a global communications company utilizing a strategy based on being able to provide service through its own facilities throughout the world instead of being restricted to a particular geographic location. WorldCom's core business is communications services, which include voice, data, Internet and international services.

WorldCom filed for Chapter 11 bankruptcy protection on July 21, 2002. Once the telecom diamond of several Wall Street investment banks, WorldCom's filing has become the largest bankruptcy in American corporate history. In June the firm acknowledged it had knowingly capitalized operating expenses and overstated revenue by almost \$4B over the course of the past two years. It has subsequently admitted that the fraud could reach more than \$10B once financial records have been audited. WorldCom's top two officers have been ousted. Scott Sullivan, former Chief Financial Officer, has been indicted for conspiracy to commit securities fraud and for making false statements to the SEC. The company has hired former Hewlett-Packard president Michael Capellas as its new CEO to lead the firm through its restructuring efforts.

We currently hold 540 shares of WCOM. Our position is extremely small relative to the portfolio. Because of the commission expense associated with a sale of WorldCom, we have decided to maintain our position and liquidate the holding after the company emerges from bankruptcy.

WorldCom Group (WCOM)

November 30, 2002 Price	.28	Market Cap. (bil)	NA		EPS	ROIC
52 Week Price Range	.05 – 16.06	Shares Outs. (mil)	NA	2000	1.43	12.69%
52 Week Return	-98.26%	Dividend Yield	0%	2001	0.75	10.80%

ROE (ttm)	NA	Beta	NA	2002E	NA	NA
Sprint PCS (PCS)	0.66% of the Active Portfolio			Proposed Sale		

Sprint PCS, based in Kansas City, Missouri, is the fourth largest wireless service provider in the United States. Sprint has licenses to offer service to all 50 states, Puerto Rico and the U.S. Virgin Islands. The company has a 100% all digital national network, operates on the 1900 MHz frequency and reaches the top 50 largest metropolitan areas and more than 300 metro areas overall.

Customer growth is a key driver in the wireless industry. With one of the most extensive retail networks in the industry, Sprint continues to expand its national distribution channels. National chains such as Best Buy, Office Depot, Circuit City and over 400 Sprint-owned stores, give Sprint PCS access to a network of almost 17,000 distribution points. Its most lucrative partnership exists with Radio Shack where the company has exclusive rights to sell Sprint PCS service.

PCS has been a disappointment for the portfolio. The holding was added in December of 2001 at a price of \$22.85. Our position of 350 shares has since lost 75% of its value. 3Q02 results were less than rosy. For the first time in 15 quarters Sprint failed to have positive customer additions. The cost to acquire a customer increased 39% from a year ago. PCS also announced another round of layoffs as cost cutting appears to have taken a priority over customer growth.

Sprint PCS (PCS)

November 30, 2002 Price	5.76	Market Cap. (bil)	5.10		EPS	ROIC
52 Week Price Range	1.75 – 25.20	Shares Outs. (mil)	999.1	2001	-1.28	-1.7%
52 Week Return	-78.60%	Dividend Yield	NA	2002	-0.55	1.2%
ROE (ttm 2000)	-74.65%	Beta	3.54	2003E	-0.06	4.4%

Alltel Corporation (AT)

Proposed Addition

With headquarters in Little Rock, Arkansas, Alltel Corporation (AT) is a diversified telecommunications company with more than 10 million customers primarily in rural and suburban areas of the Southeastern United States. With 6.7 million subscribers, the firm is the 7th largest wireless service provider in the U.S. and is also the sixth largest incumbent local exchange carrier (ILEC) in the U.S. It provides wireless service in 21 states and wireline service in 15 states. AT complements these services with long distance, Internet access and network management systems. In addition, through its Alltel Information Services subsidiary, AT provides data processing software to offer services such as billing, customer care, and mortgage loan processing to financial and mortgage institutions in 55 countries.

The company rapidly added to its portfolio in the late 1990's. Its strategy has been to either acquire smaller players in desired markets, or to acquire valuable access lines in underdeveloped markets from its competitors. In mid-1998, AT entered into a merger agreement with 360° Communications Company. This partnership significantly increased AT's presence in the wireless market adding 2.6 million customers in 15 states. In late 2001, AT signed an agreement with Verizon Communications that increased its wireline properties by 25%. The acquisition overlaps existing wireless service lines in northeastern rural areas of Kentucky.

We believe AT has unique characteristics over other firms in the telecommunications arena. Its split between wireless and wireline businesses allows the company to take advantage of growth opportunities while hedging against the volatility that makes high growth possible. Its positive FCF position and good credit ratings make it the envy of not only other telecom firms, but other companies in general. AT has held up relatively well vs. other firms in the S&P 500 and especially in the telecom sector. Its strategy of acquisition and focus on rural markets has delayed the inevitable price wars plaguing the rest of the industry. We feel confident that adding AT provides good diversification within the portfolio, offers upside potential of 15%, and also provides a steady stream of dividend income.

Alltel Corporation (AT)

November 30, 2002 Price	55.08	Market Cap. (bil)	16.3		EPS	ROIC
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52 Week Price Range	35.33 - 63.72	Shares Outs. (mil)	311.0	2001	3.43	27.9%
52 Week Return	-17.7%	Dividend Yield	2.68%	2002E	3.19	24.7%
ROE (ttm)	15.92%	Beta	0.74	2003E	3.41	27.2%

TRANSPORTATION

2.71% of the Active Portfolio

Analyst: Rajesh Narayanan

1.70% of the S&P 500 Index

Pummeled by poor profits and scarred from a terrorist attack against the US, the airline industry finds itself on a bumpy course. In an effort to head off a drop in the number of passengers and rising costs for security, companies laid off staff and trimmed services. In an already intensely competitive market, the inevitable industrywide shakedown will have far-reaching effects on the industry's trend towards expanding domestic and international services. Major carriers hoping to merge -- such as United Airlines and US Airways -- have been rebuffed by a headwind of regulators scrutinizing competition issues. An operating partnership established by KLM Royal Dutch Airlines and Alitalia has fallen apart amid disputes. Currently major airlines are deep in debt, United Airlines declared bankruptcy the biggest in its history, US Airways are struggling to reduce costs. In comparison Southwest Airlines our holding in this sector performed decently. Although their revenue and net income was down, we believe they are in much better position to take advantage of eventual upturn in the economy.

At the forefront of the transportation industry's growth is new technology that allows time-specific delivery and electronic tracking of cargo. Providing logistics services is a fast-growing industry segment, as manufacturers seek to outsource logistics rather than maintain transportation inventories. Offshore Logistics our holding in this portfolio had another good year, increasing over 23%.

PORTFOLIO HOLDINGS

Southwest Airlines (LUV)

0.99% of the Active Portfolio

Maintain Position

Southwest Airlines Co. is a domestic airline that provides primarily short-haul, high-frequency, point-to-point, low-fare service. Southwest focuses principally on point-to-point, rather than hub-and-spoke service in markets with frequent, conveniently timed flights and low fares. Southwest offers ticketless travel to trim back-office costs and operates its own reservation system. A top-10 US airline, Southwest stands as the inspiration for scrappy low-fare upstarts the world over. It has also enjoyed 29 straight profitable years. The reason is the airline keeps it simple. Most Southwest flights are less than two hours, and the airline usually lands at small airports to avoid congestion at competitors' larger hubs; in Dallas it's the big dog at little Love Field, its birthplace. Its fleet of about 360 aircraft consists only of one type -- the Boeing 737 -- to minimize training and maintenance costs. Because Southwest offers ticketless travel and runs its own reservation system, it sells a significant portion of its seats through its Web site. By sticking to its formula, which also emphasizes customer service and a sense of fun, Southwest has enjoyed 29 consecutive years of profits. Flamboyant chairman Herb Kelleher, who stepped down as CEO in 2001, has created a highly participative corporate culture: The airline, nearly 85% unionized, has had only one strike. Employees own about 13% of the company. Since the September 11, 2001, terrorist attacks, Southwest has been the only major US carrier to maintain a full flight schedule and to avoid layoffs. The airline carried out previously scheduled plans to add a destination in October 2001, and it hopes to win business as its rivals struggle. Southwest also has grown out of its western heritage and is building up its services in the eastern US, and it plans to take advantage of the cutbacks in services by major carriers with the addition of nonstop transcontinental flights, a first for the low-fare carrier.

For the nine months ended 9/30/02, revenues fell 5% to \$4.12 billion. Net income fell 56% to \$198.6 million. Revenues reflect decreased passenger revenues due to a weak domestic airline environment. Net income also reflects increased salaries and wages.

Southwest Airlines (LUV)

November 30, 2002 Price	\$16.70	Market Cap. (mil)	\$11,172		EPS	ROIC
52 Week Price Range	10.90-22.00	Shares Outs. (mil)	773.6	2001	0.7	4.8%
52 Week Return	-7.4%	Dividend Yield	0.1%	2002E	1.01	7.2%
ROE (TTM)	6.9%	Beta	0.9	2003E	0.80	5.9%

Offshore Logistics (OLOG)**1.63% of the Active Portfolio****Maintain Position**

Offshore Logistics takes its customers for a ride. The company offers helicopter transportation services for offshore petroleum workers and equipment. Through its Air Logistics division, an affiliation with UK's Bristow Aviation and several smaller operations, Offshore Logistics serves oil and gas companies and construction companies operating in the world's major offshore oil production zones. Its main operating area is the Gulf of Mexico. The company and its affiliates together operate a fleet of more than 425 aircraft, which consists primarily of helicopters but also includes some fixed-wing aircraft.

In addition to its activities in the Gulf of Mexico, Offshore Logistics also does business in the North Sea and Alaska, as well as in Africa, Asia, Australia, and South America. Besides supporting oil and gas operations, company aircraft also are used to provide emergency medical transportation, general aviation, and support services to the agriculture and forestry industries. Subsidiary Grasso Production Management operates offshore oil rigs.

Offshore Logistics has agreed to purchase four new helicopters and has secured options to buy another eight. The company plans to continue to update its fleet of passenger helicopters.

For the six months ended 9/30/02, total revenues increased 10% to \$280.9 million. Net income decreased 11% to \$22 million. Results reflect higher flight hours and revenues in Brazil, China, Mexico and Nigeria, offset by higher foreign currency exchange losses.

Offshore Logistics (OLOG)

November 30, 2002 Price	\$21.71	Market Cap. (mil)	\$510.32		EPS	ROIC
52 Week Price Range	15.35-24.41	Shares Outs. (mil)	22.50	2002	2.02	6.18%
52 Week Return	23%	Dividend Yield	0%	2003E	1.94	10.54%
ROE (TTM)	13.1%	Beta	0.73	2004E	2.27	8.58%

STATEMENT OF SECURITY HOLDINGS

November 30, 2002		November 30, 2001	
Active Portfolio (at market):		Active Portfolio (at market):	
Alcoa	\$5,110	AK Steel Holding Corp.	\$5,300
Ambac Financial	\$14,065	Alcoa Inc.	\$7,720
Calpine Corp.	\$1,985	Anadarko Petroleum	\$7,785
Cisco Systems Inc.	\$10,862	Cisco Systems Inc.	\$14,880
Citigroup Inc.	\$15,552	Citigroup	\$28,740
CSG Systems Intl. Inc.	\$3,878	CNF Transportation Inc.	\$2,034
Devon Energy Corp.	\$11,448	EMC Corp.	\$7,388
Disney Walt Company	\$7,135	Enron Corp.	\$78
Exxon Mobil Corp.	\$8,352	Exxon-Mobil Corp.	\$8,976
Guidant Corp.	\$10,476	Fifth Third Bancorp	
Harley Davidson Inc.	\$6,068	Frontier Airlines	\$9,855
IDEC Pharmaceuticals Corp.	\$4,113	Ingersoll Rand	\$15,709
Ingersoll Rand Co. Ltd.	\$10,395	Intel Corp.	\$22,993
Intel Corp.	\$14,700	Ispat International	\$625
International Paper Co.	\$5,495	JDS Uniphase	\$3,276
Dow Jones Utilities Sector Index	\$3,036	Lehman Brothers	\$19,845
JDS Uniphase Corp.	\$1,108	Maytag Corp.	\$13,886
Maytag Corp.	\$8,204	McData	\$402
Monsanto Corp.	\$1,196	Mondavi Robert Corp.	\$6,307
Morgan Stanley	\$17,191	New York Times	\$11,363
New York Times	\$8,647	Pepsico Inc.	\$25,774
Offshore Logistics Inc.	\$4,342	Pharmacia Corp.	\$7,370
Pepsico Incorporated	\$10,832	Philip Morris Cos. Inc.	\$20,991
Pharmacia Corp.	\$16,920	Target Corp.	\$15,016
Philip Morris Cos. Inc.	\$9,241	United Healthcare Corp.	\$14,290
Procter & Gamble Co.	\$6,340	Walt Disney Holdings Co.	\$7,369
Redwood Trust Inc.	\$13,590	Watson Pharmaceuticals	\$14,366
Sector Spdr. Technology	\$11,970	WorldCom - MCI Group	\$275
Smucker JM Co.	\$39	WorldCom	\$7,852
Southwest Airlines Co.	\$2,839		
Sprint Corp.	\$2,016		
Target Corp.	\$10,434		
Travelers Class B	\$560		
Travelers Class A	\$271		
UnitedHealth Group	\$8,145		
Worldcom Inc.	\$151		
Total Active Portfolio	\$266,704	Total Active Portfolio	\$300,465
Vanguard Index Trust	\$7,935	Vanguard Index Trust	\$9,585
SCI Cash/MM Account	\$2,479	SCI Cash/MM Account	\$19,028
Total Fund Assets	\$277,118	Total Fund Assets	\$329,078
Scholarship Appropriation	(\$2,000)	Scholarship Appropriation	(\$4,000)
Net Fund Assets	\$275,118	Net Fund Assets	\$325,078

INCOME STATEMENT

November 30, 2002		November 30, 2001	
Beginning Fund Balance	\$ 329,165	Beginning Fund Balance	\$ 417,318
Cash Added	\$ -	Cash Added	\$ -
Income		Income	
Dividend Income-Active	\$ 4,065	Dividend Income-Active	\$ 3,574
Dividend Income-Index	\$ 121	Dividend Income-Index	\$ 114
Dividends-Money Funds	\$ 38	Dividends-Money Funds	\$ 71
Total Income	\$ 4,224	Total Income	\$ 3,758
Capital Gains		Capital Gains	
Realized	\$ 7,701	Realized	\$ 3,829
Unrealized	\$ 9,557	Unrealized	\$ 20,437
Total Capital gains	\$ 17,258	Total Capital gains	\$ 24,266
Capital Losses		Capital Losses	
Realized	\$ (358)	Realized	\$ (110)
Unrealized	\$ (75,076)	Unrealized	\$ (111,948)
Total Capital Losses	\$ (75,434)	Total Capital Losses	\$ (112,059)
Taxes and fees	\$ -	Taxes and fees	\$ -
Scholarship Appropriation	\$ (2,000)	Scholarship Appropriation	\$ (4,000)
Miscellaneous	\$ (118)	Miscellaneous	\$ (118)
Ending Fund Balance	\$ 277,216	Ending Fund Balance	\$ 329,165

A special thanks to all Henry Fund Managers for their dedication and commitment to the 2002 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.