

MARKET OVERVIEW

THE STRATEGIES

BETTER THAN BONDS / UTILITIES

A bond alternative and moderate equity approach focusing on opportunities in the broad utilities sector: electric, gas, telephone, sanitation and water. A conservative socially responsible strategy offering growth and income for total return investors.

BETTER THAN BONDS / INCOME

A fixed income alternative which utilizes reliable companies from across the broad market. Stocks are conservative, high quality, high yield, and are projected to have a rising stream of income.

THE SBI PORTFOLIO

A mid-cap strategy combining value with moderate growth that utilizes stable, moderate growth stocks from all sectors and emphasizes companies with strong dividend growth as well as unique fundamental characteristics. Based on the strategy detailed in Lowell Miller's book, *"The Single Best Investment."*

DISTRIBUTION / EMERGING UTILITIES

An opportunistic strategy focusing on companies that are likely to be acquired during an era of utility consolidation and convergence, as well as companies poised to benefit from deregulation.

ALPHA-BASED STRATEGY

An aggressive strategy focusing on small and micro-cap stocks using both value and momentum analysis. Seeks high returns and protects against high volatility with strategic use of cash.

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Shhhhh! Off in the distance we can hear a sound. It's getting closer and closer. It's the sound of bells. Bells, heavy and bronze, clanging through the fog and the night. The bells are ringing, ringing for reality once again.

One of the most intriguing phenomena of the past two quarters, which reached a kind of climax in the past couple of months, has been the decimation of notable value investors whose excellent track records extend for decades, through all kinds of markets. Even in a period when the best performing stocks have been those with the highest P/E's and worst price-to-book ratios, it's been surprising to see, in 1999, the much-revered Warren Buffet of Berkshire Hathaway turn in dreadful numbers and post losses during a positive market year (we all know how bad value has been compared to growth). Then, during the winter, Gary Brinson, whose Brinson Partners had been sold to UBS Bank and who oversaw the hundreds of \$billions that the bank took over, was asked to step down. Institutional investors, those stalwarts of value and long-term holdings, were beginning to desert the ship, assets leaving by the billions for the sexier shores of technology. There are numerous similar stories. But finally, at the end of March, Julian Robertson and his famous Tiger Fund was forced to shut its doors and throw in the towel. Despite a bad recent period his fund still retains one of the all-time best records for long-term total return (after-fee compound average annualized returns of 31.7% from the mid-1980's through 1998). Yet investors today are fidgety, and they fled his hedge fund, driving it down from \$25 billion under management to less than \$6 billion and shrinking. While \$6 billion seems large, the operational infrastructure built in flush times was simply no longer supportable. The degree to which investors turned on Robertson is fairly amazing, and it has all the earmarks of a final capitulation—at the bottom.

Meanwhile, back at the casino, new economy stocks were falling with an equally amazing ferocity. "Amazing" has been the operative word in this market for over a year, but amazing just isn't enough to sustain a secondary market for securities representing investor interests in operating companies. Amazing moves in technology stocks. Amazing valuations for new economy companies with little or no earnings. Amazing discrepancies between growth and value stocks. Amazing indifference on the part of investors to the progress of successful companies in the real world. Amazing downward trend in the advance/decline line, amazingly narrow breadth. Amazing absence of put buyers (no need for insurance!). Amazing expertise of investors with three years of experience, at cocktail parties. Amazing first-day gains for IPO's. Amazing levels of red-lipped greed among young investors, matched only by amazing levels of frustration and depression among investors who actually understand what they are doing. (After all, the real average index, the Value Line Price Index of 1700 stocks—not capitalization weighted—is down .55% year to date, up only 4.74% for the past twelve months, and is actually down 7.4% for the past two years).

“...the eternal verity prevails: winners and losers will emerge based on company performance.”

The combined “amazings” and the final capitulation of value investors may very well have occurred in March of 2000. It would not be difficult to have a tech or small cap portfolio that lost 50% from the March peaks to April 1 (when we are writing). Those stocks are not so amazing any more, especially for the frequently margin-leveraged investors who hold them. Even as the hot newcomers have fallen, the real economy stocks are finding new buyers. Industrials are forming bases. Established drug companies are once again seen as suitable for growth-oriented investors. Almost as “amazing” as all the other amazings, financial stocks have rallied in the face of increased interest rates with more increases to come as a foregone conclusion. How deeply undervalued finance issues must have been to be now rising along with rising interest rates!

Volatility has ruled for many months now—even traditional stocks have been volatile at their lower price levels, and we don’t expect that to go away any time soon. There’s likely to be much flailing accompanied by jumpy short-term pricing as investors attempt to sort out the new directions from the market and the relative importance of traditional and new stocks. What’s likely now, in our view, is that there will be opportunities in both areas but they will be selective. Analysis is likely to come back in vogue, replacing the hype and the schizoid dichotomy between old and new that has ruled for more than a year. It’s almost as though the playing field has been equalized by the events of the first quarter (are we just being superstitious to note that momentum changes occurred during the Ides of March?) Indeed, year-to-date returns from various categories are now nearly the same. Technology growth stocks are no longer superhuman, and real economy stocks are no longer totally lacking in charisma. Within those two categories the eternal verity prevails: winners and losers will emerge based on company performance.

There are a few roadblocks. While the continuing strong economy provides ample raw material for company profits, the Fed will continue to raise rates until slowing is evident. Currently traditional stocks have been

rallying from deeply oversold levels, but at some point pricing will hit a kind of wall if rates continue to rise, since companies are increasingly affected by rising rates, as are their customers. Too, stocks of conventional companies are valued based on dividend or cash flow discount models, and these models impute lower price potentials for the stocks as interest rates rise. Historically, rising rates have been bad for stock prices, irreverent behavior by tech stocks in the last year notwithstanding.

Still, some of the developments in the markets which we suggested last quarter haven’t yet come to pass. The ending of pooling-of-interests accounting should generate a much greater number of corporate transactions this year, as companies rush to get stock takeovers done by the deadline. Activity in the banking sector has been quiet, but we would expect the deal flow to pick up in the coming months. Other areas such as technology and utilities should see more consolidation as well, and it is likely that takeovers at premium prices will give a boost to overall valuations in the market, perhaps in part counteracting the dampening effect of higher rates.

These macro-factors are less important for us than the situations of individual stocks, since our focus is bottom-up stock selection. From that perspective, we remain enthusiastic: there continue to be excellent opportunities in traditional companies and now that the bubble has been pricked there are finally stocks of interest in technology and telecommunications. Similar intimations appeared from the panorama of last year’s third quarter, but they proved evanescent. This time the market has gone to much greater extremes, and the likelihood of substantial re-adjustment is commensurately greater. Over the past couple of years all the rules of thumb have been broken, so we reach our conclusions cautiously and tentatively, but as the dust settles there has been progress toward historical normalcy, and in our view more progress will be seen in the months ahead. □

SELECTED INDICES

	1 st Qtr’00	12 Mo
S&P 500	2.29	17.94
Equity Inc	-1.38	1.58
Util Fund	7.07	26.69
DJUA	3.99	3.71
LB Treas	8.06	3.03
LBGC	2.69	1.70
S&P 400	12.69	38.09
Val Line	-0.55	4.74
Rus 2000	7.04	37.24
Rus 2000 Val	3.82	13.26

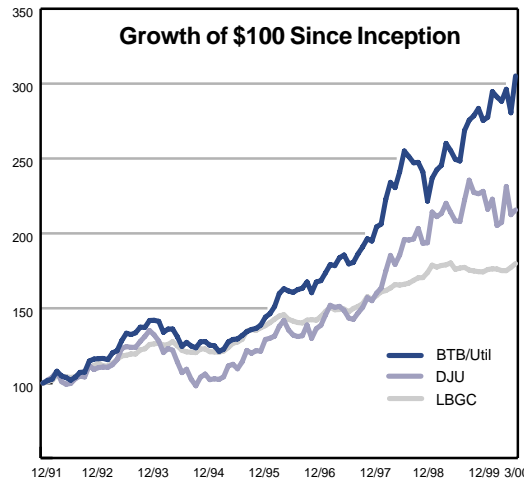
S&P 500 = Standard & Poor’s Index
Equity Inc = Ave Equity Income Fund (Lipper)

Util Fund = Ave Utility Fund (Morning Star)
DJUA = Dow Jones Utilities Ave
LB TREAS = Lehman Long Treasury
LBGC = Lehman Bros. Gov/Corp Bonds
S&P 400 = S&P Mid Cap Index
Val Line = Value Line Price Index
Rus 2000 = Russell 2000
Rus 2000 Val = Russell 2000 Value Index

We went out on a limb last quarter, comparing the situation for our stocks with that of mid-year 1994, which proved to be one of the outstanding buying opportunities in decades, and sent out a “table-pounding buy” notice to our fax list (let us know if you want to be included). So we’re relieved as well as pleased that the year has begun in fine form for us. We noted that, “With much of the market at scary levels, we think our utilities portfolio provides as much or more potential than the ‘headline’ stocks along with something they don’t: serenity.” We took a kind of characterological risk in being so extraverted, especially since the overall utilities environment was weak at the time, and we hope not to make a habit of it.

The general weakness in utilities persisted this quarter, so we can’t attribute our good performance to a rising tide. Indeed, without Enron, which rose nearly 69% this quarter, the Dow Jones Utilities would have registered a loss for the quarter. Without both Enron and Williams, the DJU would have declined by about as much as the index appears, on the surface, to have risen (-4%). We do hold both of these stocks, though at lower weight than the 15-stock DJU.

We suggested last time that better interest rates would likely ignite the outstanding values that littered our portfolio, yet as often happens the world and the market had a few surprises in store. Long government bonds performed very well indeed, but much of the gain was a result of moves by the Treasury to not only stop issuing benchmark 30-year bonds, but to buy back the long-dated securities and actually shrink the outstanding float of bonds. This is not exactly momentum for the economy, but it is a watershed event for the bond markets. The 30-year issue is no longer a reliable benchmark for the fixed income arena. Many participants had thought that agency issues, such as from Fannie Mae, might step into the breach as a benchmark, but no sooner had the bond community raised this flag than rumblings were heard in congress to reduce or remove the government backing



“We’ve been noting for quite some time the unique characteristic of our portfolio—it is a yield-oriented strategy that does not have to decline when interest rates rise.”

of these securities. Ten year notes rose (and interest rates declined) during the quarter, so we can propose that interest rates were supportive on that basis, and yet at the same time the Federal Reserve raised short term rates once again, which is a definite negative. In all, then, a mixed picture—which explains why many fixed income mutual funds posted small losses even as the 30-year Treasury was gaining in price.

We’ve been noting for quite some time the unique characteristic of our portfolio—it is a yield-oriented strategy that does not have to decline when interest rates rise. Just at the moment what exactly is meant by “interest rates” isn’t as stable a concept as it was, but we’ve certainly seen, in this year’s first quarter and over the course of 1999, that the notion certainly includes short-term rates as well as long, for while the recent Fed rate increases may or may not have been a damper, our returns continue to run above the post-WWII trend.

We continue to show dust to other income-oriented strategies (though convertible bonds, which have become technology funds in drag, persist in their upside volatility). Our one-year composite of 22.90% net, compares to the long-term Treasury bond index at 3.03%, the Lehman Government/Corporate Index at 1.70%, average general long bond fund at .42%, and the Dow Jones Utilities Index at 3.71%. For the three years our net composite return is 19.33%, compared to 10.00%, 6.79%, 5.81%, and 14.56%

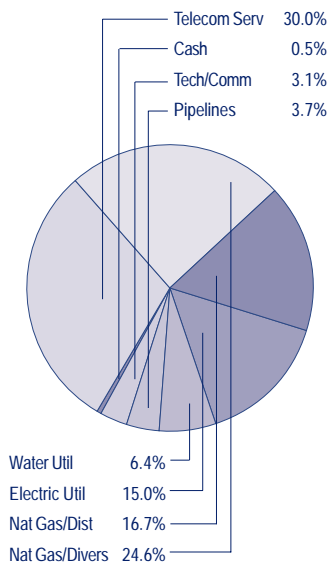
Quarter Composite Net of Fees*

BTB/Util (Preliminary)	5.86%
DJUA (total return)*	3.99%
LBGC*	2.69%
Ave Util Fund*	7.07%

12 Month Composite Net of Fees*

BTB/Util (Preliminary)	22.90%
LBGC*	1.70%
Ave Util Fund	26.69%

*Index returns are stated gross of fees, although it is not possible for an investor to purchase the index without incurring fees.



respectively. Over the past five years our average annualized return is 18.70%, compared to long government bond funds at 6.93%, the LBG at 7.13%, and the DJU at 14.50%.

Also of interest is the fact that we continue to outperform the broad market as represented by the unweighted Value Line Price Index, which has returned only 4.74% for the one year, 4.95% for three, and 7.98% for five years—and with much higher volatility than our portfolio. Other indices that we continue to outperform for one, three, and five years, though they are not really our benchmarks, include small and mid cap value, balanced, equity-income, high yield, municipal bond, and international fund averages. We note also that we've outperformed the S&P 500 for the past twelve months—sometimes the tortoise really does win the race.

PORTFOLIO HIGHLIGHTS

After a 1999 filled with transactions, the M&A element of the utility industry cooled down considerably this quarter, with few deals announced of any consequence. We did have one takeover in LGE, which is to be bought by British utility Powergen. In this case we were only holding LGE as a takeover candidate, as fundamentals had deteriorated moderately, and we were content to be relieved of the position at a decent premium to its previous price. Our holding NiSource won the fight for Columbia Gas, somewhat to our surprise, and won it at a moderate price. While we're a bit disappointed that CG did not go for more, we must give credit to NiSource. In a few short years they've created a potent system of gas distribution covering the Midwest and Northeast and done it without overpaying (this deal will rapidly become accretive to earnings, as was their earlier deal for our former holding Bay State Gas). We continue to hold NiSource long term, and find it now more attractive than ever. Interestingly, the admirable maneuvers of management have not caught the fancy of Wall Street yet (this stock was once a favorite of even non-utility investors) and the stock is itself cheap enough to be acquired by, for example, a major electric utility.

Ja Wohl! Deutsche Telecom came shopping during the quarter, having been aced out by a smaller competitor last year in their bid to take over Telecom Italia. It's

increasingly apparent, however, that DT management, long accustomed to getting their way in a state-monopoly business run like the post office, lacks a certain finesse, to put it politely. To be blunt, they simply don't know how to play with the other kids. The German company attempted to put together a deal in which they would buy Qwest, and pay somewhat less than would have otherwise been the case for our holding US West. The latter, you may recall, was the object of heated bidding by both Qwest and Global Crossing last year, a war that was settled by Qwest taking US West while Global Crossing acquired our holding Frontier. But US West, already betrothed to Qwest, would have no part of taking a lower payoff just because Qwest had found a new love. They upended the DT-Q negotiations, and DT went home to drink a stein and recover their pride. The net was to leave USW unchanged on the quarter, after much volatility, and still some 20% below its ultimate value when the Qwest deal closes, which is likely to be by the end of the third quarter. The excess value depends upon Qwest's stock price, which may well hold up, as the company is doing well and has made a major alliance with IBM.

In general, our portfolio was pumped up by our gas holdings and dragged down by telephones, which, though already modestly valued, failed to find buyers throughout the quarter.

By far our best performer was Enron, which midway through the quarter suddenly became an internet stock. The company's announcement that they would begin a trading system for Broadband communications, in addition to their own direct initiatives in creating fiber-optic broadband facilities, caused institutional investors to pile in and push the stock up just shy of 70%. We've long admired Enron's aggressive and successful execution of middleman strategies in the various utility industries, as well as its useful physical assets (which have become a decreasing part of the story here), but we must admit that we didn't see this stock as a candidate to double off its 4th quarter lows. It's not really a stock that can be excluded on a valuation basis anymore, but we did trim back our weightings on the price spike.

Williams, a stock we cited at the beginning of the quarter as due for an upward revaluation and one in which we beefed up our weightings when it was down,

UTILITIES PORTFOLIO CHARACTERISTICS

Beta*	0.56
Dividend Payout	62.28%
Sharpe Ratio	1.18
Projected Dividend Growth	4.50%
Treynor Ratio*	24.06
Current Yield	3.4%
Annualized STD	11.33
Market Cap (MDN)	\$3.3 Bil
Price/Book	2.64
Quality	B++
P/E Ratio (MDN)	16.53

*Relative to DJUA, 3/31/95-3/31/00

came to life once again. Here too, however, the catalyst wasn't their excellent pipeline system which now runs coast-to-coast and essentially has no peer. In this case their broadband fiber-optic subsidiary, Williams Communications, gets the credit. Along with other fiber carriers the sub found many buyers, and pulled the parent higher. Here we'll trim a bit, but we don't see good reason to reduce this company from its status as our highest-weighted position. For the market is attributing almost no value to the parent company. Once you back out the value of the company's Williams Communications holdings from the stock price, you get the rest of the company, including trading, production, and pipelines, for just a few dollars and an almost incalculably low P/E and price to book value. So we see more upside ahead for this one.

Both Enron and Williams are outsized embodiments of our philosophy of buying solid companies with a "growth kicker," but we also saw big gains from Kinder Morgan, Inc. (or KN Energy Preferred) which is a straightforward pipeline and production company in the throes of improvement by new management. You may recall we bought when the rest of the world was selling last summer after a deal with Sempra fell through, and acquired thereby our best performer in the intervening months. Richard Kinder, who took control through a complicated swap, is one of the outstanding managers in the energy industry and has embarked on a program of rationalizing KN's substantial assets, with success coming earlier than many observers had expected. Here the "kicker" is outstanding management.

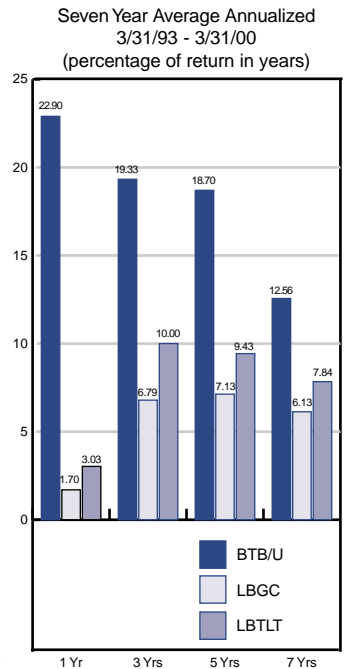
An undervalued stock we've mentioned often, Questar, came to life at the end of the quarter. Questar sells at the currently depressed valuations for a local gas distributor, which it is, among other things. But what's not built into STR's price is the fact that it may have made the largest gas discovery ever in North America, and each test well to date seems to confirm that possibility. Nevertheless the stock sells at takeover valuations, and we think we're only at the beginning of a sustainable stock-price recovery. Our long-time favorite American Water Works also woke up this quarter, as did AT&T, Scottish Power, and TECO.

We're frankly proud of our positioning with Keyspan. We've been supporters of this stock for some time to no

avail, as investors have been skeptical about the company's ability to make progress despite the vast opportunity that has opened up for them in Long Island as well as in New England through their purchase of our holding Eastern Associates. However, the EA deal is near closing, relieving arbitrage pressure, and the company is starting to show clear signs of earnings acceleration. We watch the stock closely, and when volume purchases began to show up in early March we raised our weight from 1.5% of the portfolio to 4.5%. That the stock now stands, through appreciation, at 5.7% pretty much tells the ensuing story of the final weeks of March in this, and to a lesser extent Utilicorp and TECO, two others that we boosted in weight at about the same time. We love this trio, with an average yield above 6%, projected growth of about 10%, and an average P/E of just over 11 on forward earnings.

But all oars did not pull in the past three months. Our telephones were troublesome. Although GTE and US West were stable, Global Crossing saw buyers flee at the end of the quarter. The stock made a pair of strong moves to the 60 area, and on the second move we were sorely tempted to lighten or sell our position. However, that moment was just at the time that Deutsche Telecom was making a play for Qwest. Our analysis was that if the Qwest deal failed DT would likely come after GBLX and its fabulous collection of unique assets, while if DT was able to strike a deal with Qwest then Global would stand alone as the most likely acquisition candidate for the raft of large acquisitive telecoms which are consolidating worldwide, including British Telecom, Telefonica, AT&T, SBC, etc. So far that view has proved costly, but we haven't changed it and have retained our position. Incidentally, most investors don't realize that high-growth Global Crossing sells at a lower price-to-book ratio than the moderate-growth Baby Bells.

Century Telephone and ALLTEL fell victim to investor fears regarding reduced roaming fees from major carriers in the Midwestern region. While a few companies will suffer reduced earnings growth, these two will not feel much impact, and their current low prices are irrational. Indeed, ALLTELL made some outstanding deals during the quarter, acquiring territories at astounding low prices. The quarter was a sorry period for these, but we are buyers with a high level of confidence.



(continued on page 10)

“As the dust settles, we think individual stocks will become the focus of investor interest, whether they are old or new economy issues.”

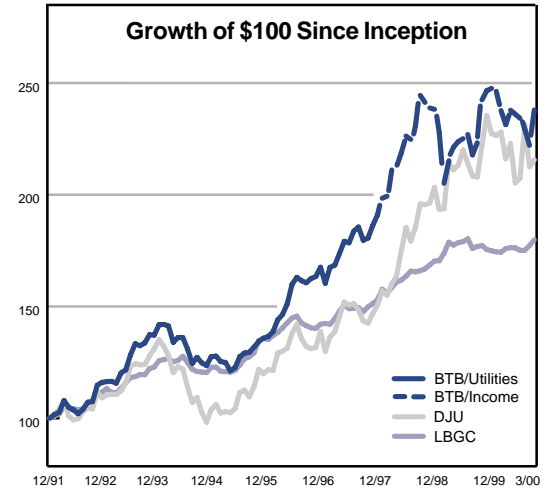
Last quarter we suggested that the market had brought us to a point of “pendant possibility,” and that the values which had been created by the market’s indifference to traditional companies and yield-oriented stocks had set up a low-risk environment in which existing and new stocks were likely to make greater contributions than they had in the recent past. While this portfolio didn’t set the world on fire during the past quarter, we did experience reasonably good performance, and the sources of that performance were, mercifully, for the most part, those that we had expected.

Better long rates helped, but as we discussed in the utilities review, it’s not exactly clear what caused long treasuries to rise; the reduction in supply by the Treasury Department may have had more to do with firm long bond pricing than any true view of investors. The rise in short-term rates was certainly a countervailing pressure, and yield stocks did well to overcome it. Overall, there was a need to begin to mark up prices in the market, for pricing had sunk just too far below private market values.

PORTFOLIO HIGHLIGHTS

Speaking of private market values, we did have one takeover, LGE, although takeover activity in the utilities sector slowed to a crawl during the quarter. This one was at a decent premium to previous pricing, though the overall adventure in this stock was only a mild victory, as the stock had declined so much as to be irresistible to Powergen, the British utility and new owner. We expect more takeovers from the small to mid-sized utilities that we own, and we will be adding more.

Many of the same stocks whose low valuations we’d whined about last quarter helped us mightily this time around. Kinder Morgan, Inc (KN Preferred) was the leader here, as it was in our utilities portfolio. Other “loaners” from the utility portfolio contributed as well, without deals to help them. TECO finally began to find some fans, as



did Keyspan, in whom investors finally now are beginning to see the value and long-term growth potential. Yet the stock is still cheap enough to catch the eye of acquirers, in our view, and still carries a current yield well above 6%. Also in the gas area, we saw good returns from Equitable Resources, a company that has made an outstanding turnaround under new management in the past couple of years and which has become the darling of that handful of brokers who follow the industry. We had small gains as well in two of our takeover stocks, Eastern Associates and MCN, as their deals moved closer to fruition.

We suggested previously that we needed to get a bit more aggressive in this portfolio, trimming deteriorating stocks sooner and making better use of our technical tools to find new issues that were particularly timely. We did make an incremental adjustment in our management of the portfolio this past quarter, and the results were good. We added AES preferred securities for a quick 10% gain, at a time when the common had experienced a pullback which we determined was not based on any significant problems. AES is the world’s largest independent producer of electricity, operating plants around the globe with great efficiency. It’s a true growth company in the electric industry, and we’re able to participate through convertible 6.5% trust certificates. They’re difficult to buy,

Quarter Composite Net of Fees*	
BTB/Income(Preliminary)	1.59%
LBGC	2.69%
LB Long Treasury Index*	8.06%

12 Mo Composite Net of Fees*	
BTB/Income	6.60%
LBGC	1.70%
LB Long Treasury Index*	3.03%

*See Performance Disclosure on page 11.

but worth the trouble for a long-term holding. We'd also been watching Lincoln National for some time since it seemed to be languishing on the bargain table, especially in view of its large money management operation which might appeal to any number of acquirers. A sudden influx of buying suggested that the long decline in this stock might be over, and the yield on its convertible preferreds was sufficiently high to provide a cushion of safety in the event of further soft pricing. This one also improved in price shortly after we bought it, despite a downturn in the overall market. In both cases we were able to further diversify the portfolio and add to return through timeliness. We also added slightly light yielding ALTEL when it was sold irrationally on misplaced investors fears regarding roaming revenue, which doesn't play a significant role in the company's overall picture. The stock fell a bit more, but has been rebounding, and is included in the portfolio for its relatively low-risk total return potential, which we believe is in the vicinity of 50% for a twelve-month time horizon.

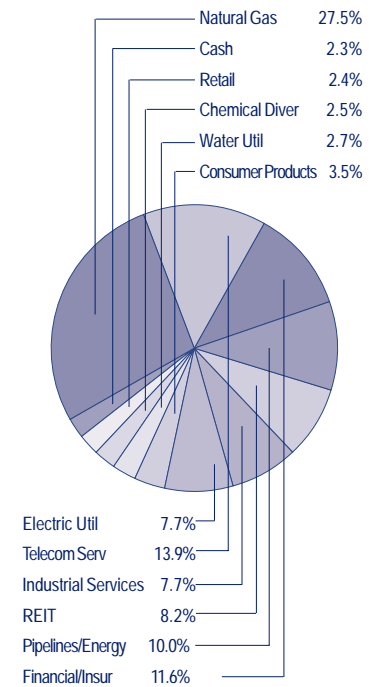
We spoke last time about the "mystery" of Crown Pacific's cheapness, since it is a fine company with fine results but one that couldn't find buyers in the market (an all-too-familiar story in recent quarters). Management must have been listening, since it recently hired investment bankers to explore increasing shareholder value, including sale of the company. We're sure the chairman, who's a constant buyer of stock, will follow this line of thinking through to the end. Meanwhile, the stock helped our portfolio with a nearly 20% gain for the period.

There were a small pantload of basically unchanged stocks, and a few that definitely dented returns. Global Crossing, a residual of our Frontier position rose to new heights and then fell back, as rumors swirled regarding a possible combination with Deutsche Telecom. We would have liked to lighten up at higher prices, with 20-20 hindsight. What we do know is that despite increasing revenues 10-fold over the past two years, GBLX sells at

half the price to book value of its peers, and substantially below comparable numbers for the remaining Baby Bells. Peoples Energy was surprisingly weak for a gas distributor, but has now reached levels at which it is an attractive takeover target, so we're optimistic for future quarters. Imperial Chemical was voted worst large-cap stock in Europe, so let it never be said that we are not contrarian (same goes for Union Planters).

LOOKING FORWARD

Our stocks are attractively priced, and we believe a measure of reality has re-entered the market, as we noted in the Overview. As the dust settles, we think individual stocks will become the focus of investor interest, whether they are old or new economy issues. Now that our yield is higher than long-term Treasuries, it's difficult to see why investors will not continue their move in our direction. We're not looking to shoot the lights out in this portfolio—just turn them back on! And prospects are good that the combination of a broader market and our slightly more aggressive stance will combine to continue the improvement seen in recent quarters. Current yield for the portfolio is 6.10%. □



FUNDAMENTAL CHARACTERISTICS

Yield	6.0%
Proj Div Gro	4.23%
Payout Ratio	69.83%
Market Cap (MDN)	\$2.2 Bil
Price/Book	2.43
Beta*	0.48
P/E Ratio**(MDN)	12.54
Quality	B+

*Relative to LBGC, 3/31/98-3/31/00
 **Reit's use P/FFO ratio rather than P/E Ratio

"...we remain cautious that the long-awaited return to normalcy has returned (after all, we've just witnessed the historic and astounding day of April 4), but the signs of broadening, or at least as much broadening as we need for success, continue to make their appearance."

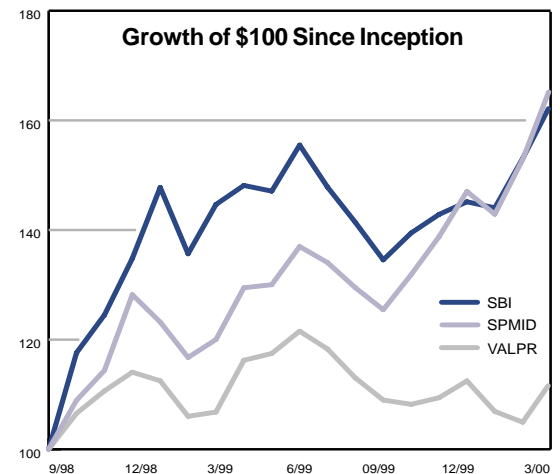
We continued the good performance from last quarter with strong results. We were helped by one spectacularly performing special situation, but contributions were made broadly and from diverse industries. While the proportion of advancing stocks to decliners in the market didn't really improve much past quarter, it has at least stopped declining—and that has been enough to take the pressure off otherwise intriguing companies. As before, we remain cautious that the long-awaited return to normalcy has returned (after all, we've just witnessed the historic and astounding day of April 4), but the signs of broadening, or at least as much broadening as we need for success, continue to make their appearance. That this should be the case in the face of rising short-term rates is remarkable, and in our view a testament to the compelling values available.

We've been discussing for some time the need to be flexible and build some of the world's changes into our philosophy and practice, and this past quarter our execution satisfied even our own highly critical and skeptical eye (what misery it is to be under the constant glare of that eye!). We cut stocks whose fundamentals and technicals both deteriorated and did so rather quickly. We bought stocks making much more use of our proprietary technical tools than in the past, to good effect (a great combination of factors and prospects is no more than that if there's absolutely no interest in the market). And we crept higher toward market weighting in technology, acknowledging that this is the world we live in—not much of a stretch considering that our firm has always been technologically driven internally. We've no "dot-coms," but plenty of real companies that may benefit from a society that has increasingly become dependent on electrons and the machines they animate.

PORTFOLIO HIGHLIGHTS

We'd held a position in Rambus, a designer of input/output solutions for addressing computer memory at high

speeds since last spring. The stock experienced a number of ups and downs and false starts as the new Intel processors with which its products work were delayed, and naysayers arose from the woodwork. But all's well that ends well, and in this case it ended very well as the stock went parabolic in a pyrotechnic few weeks, caught up in the technology fever which then gripped the market. We'd thought we were a little slow on the draw selling it finally at above 350, but last time we looked the stock was in the low 200's. Importantly, this sale was not "tax efficient." We could have waited, sold at the lower long-term capital gains rate, and harvested about half the earlier profits, perhaps even less.



Early in the quarter we nearly doubled our position in Williams, a loaner from the utilities portfolio. This was timely, as the stock led performance with a 44% gain. Tyco bounced back, once investors became convinced that a letter-writer's charges regarding the company's accounting were simply grandstanding, rising nearly 30%. Network Associates rallied back as well, helped by improving revenues and a general interest in network security, gaining 20%. Other rebounders included Watson Pharmaceuticals, IBM, Bank of New York, and Alza.

We opened a new position in Antec, a growth company that we perceived as extremely undervalued,

Quarter Composite Net of Fees*

SBI	11.91%
S&P 400Midcap	12.69%
Value Line Index	-0.55%

12 Month Composite Net of Fees*

SBI	12.48%
S&P 400 Mid-cap	38.09%
Value Line Index	4.74%

*See Performance Disclosure on page 11

especially considering its leadership position in cable telephony equipment. Shortly after our purchase Barron's ran a love-piece on the company, attracting investors to the situation and buoying the stock. Shared Medical, which we had bought for similar reasons—it's a seasoned leader in a different area, the medical information field—received a takeover offer and rose about 50%. Subsequently the deal may or may not have broken down—it's actually not clear. No matter: we didn't buy the stock as a takeover candidate but as a long term holding at a moderate price.

Not all new positions did well. It was, after all, a tricky market filled with ups and downs over the quarter, and easy enough to land on a zig instead of a zag. We purchased Adelphia Communications, a cable company with a large presence in the mid-Atlantic region making a major push, like AT&T, in the direction of cable telephony, but managed to pick off a short-term high. Nevertheless, we find the company's direction appealing, and, more to the point, we find its market position and assets to be almost irresistible to an acquirer. This one is frankly selected as a consolidation candidate. New position Alcatel is also a bit under water, but likely as not that is just a result of the turmoil in technology and telecommunications at the end of the quarter, since we purchased in mid-March. We noted last time that we were looking for some non-domestic exposure, and this global French equipment company seems to fill the bill. The great growth in conventional telephony in the next 3-5 years is likely to come from the implementation of DSL services, and Alcatel is a leader in this technology. They're also only one of two companies with expertise in undersea fiber-optic cables. Yet the company's valuation is a fraction of other equipment makers, many of whom lack the expertise, financial strength, depth, and credibility of ALA. They've provided some disappointments in the past, but that was before their current positioning, with the wind of DSL at their back.

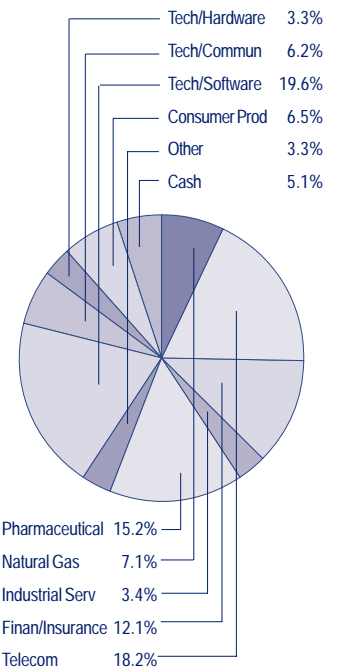
A few existing holdings disappointed, but they are not the kinds of holdings for which a bit of temporary price

weakness is troublesome. Fannie Mae, Ralston, Pitney Bowes, Worldcom, and Computer Associates all contributed some downside drag, but without attendant fundamental deterioration. Like an art gallerist with exciting and high-quality inventory, we just need to wait for some buyers to come along, in these cases.

LOOKING FORWARD

Dust Devils in the Nasdaq notwithstanding, we really do sense that as each month passes there is an increasing quality of "business as usual." The only complaint one hears about the economy is that it "shouldn't" be so good, and should have punked out months if not years ago. This thinking comes, in our view, from forming opinions and "rules" based on too few data points. Somewhere back in the cobwebs of memory we recall that a valid statistical inference requires 100 data points. Well, there surely have not been 100 economic cycles in this country, even more obviously there have not been 100 recessions, there are barely even 100 years of accurately recorded market data. It's no wonder everyone is surprised. They formed their rules from too little information. Where is it written that the economy must boom and bust? In *Das Kapital!* Where is it written that inflation must rise as unemployment declines below six percent? Or is that five percent? Or is that *four* percent? It is written in textbooks that are under frantic revision, even as we speak.

George Soros described investing as proposing a kind of hypothesis, which you try out in the real world as your experiment. There seem to be enough permanent truths to make that concept a bit extreme—there are certain results that seem to persist in every kind of market—but as the world evolves we need to let Mr. Soros' arrow be one of the sharper points in our quiver. □



FUNDAMENTAL CHARACTERISTICS

Yield	0.8%
Proj Div Gro	10.56%
Payout Ratio	30.33%
Market Cap (MDN)	\$13 Bil
Price/Book	5.34
P/E Ratio(MDN)	21.86
Quality	B++
Beta*	0.82
STD	13.86
Sharpe Ratio	0.51
Treynor Ratio*	8.71

*Relative to S&P 400 Midcap Index (3/31/99-3/31/00)

Quarter Composite Net of Fees*

Distribution	6.14%
DJUA (total return)*	3.99%

12 Month Composite Net of Fees*

Distribution	38.84%
DJUA (total return)*	3.71%

**Index returns are stated gross of fees, although it is not possible for an investor to purchase the index without incurring fees.*

FUNDAMENTAL CHARACTERISTICS

Yield	4.2%
Proj Div Gro	3.53%
Payout Ratio	66.96%
Market Cap (MDN)	\$1.4 Bil
Price/Book	1.85
P/E Ratio(MDN)	13.75
Quality	B++
Beta*	0.30

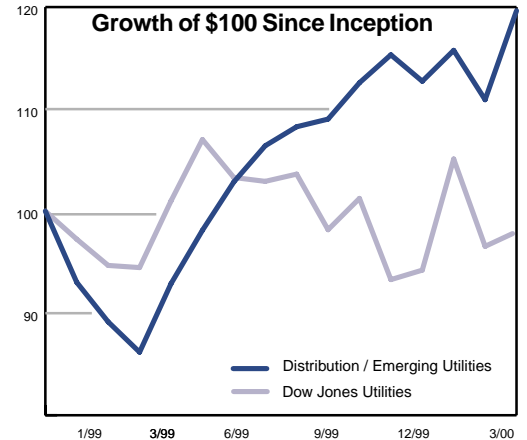
**Relative to Dow Jones Utilities Index (3/31/99-3/31/00)*

All was quiet on the Distribution front this quarter, save our returns—which continued to make noise of the good variety. Strangely, the pace of consolidation and convergence plays that had been so frantic during the last three quarters of 1999 suddenly paused, almost the way fish will stop biting on a summer’s night after a voracious feed.

We can hardly complain. After a tough first quarter in 1999 before the activity began in earnest, the returns path has been on an uninterrupted ascent, until we arrive at a point which is almost absurd: our little 4+% yielding portfolio of conservative stocks has outperformed every index in sight over the past year, including the S&P 500 and the Russell 2000. (Bear in mind that 1qtr 1999 is now dropped from the 12 month returns). It would appear that the right idea at the right time is more important than traditional asset allocation—assuming you’ve got both “rights” right.

PORTFOLIO HIGHLIGHTS

A number of our existing deals worked slowly higher during the quarter as they come closer to completion, and the takeover of CNE (formerly Connecticut Energy) by Energy East was completed. We bought Southwest Energy as a replacement. This is a cheap gas distribution company whose recent deal with Oneok almost resulted



in the financial equivalent of fisticuffs, as additional suitor Southern Union resorted to “negative campaigning” in an effort to force its way into SWX’s boudoir. In the end everyone lost, but such is love. Oneok did establish a much higher private market value for Southwest, one we’re sure will be achieved eventually.

At this point we’re evaluating purchase candidates to replace stocks that will be going away as their deals complete. There are many, and each is a stock we’d be comfortable holding without any transaction—though we’re confident that M&A in this sector will revive before long. The nature of the utility industries and deregulation make it inevitable. In addition, we’ll begin to look at stocks that are major beneficiaries of deregulation, even if they are not takeover candidates. □

(BTB/Utilities continued from page 5)

LOOKING FORWARD

Our hands are not yet bruised from pounding the table. While we expect a little backup in our portfolio as the quarter opens—since more than half our gains came at the end of March, in our view the good results can continue without much letup. We anticipate improvement from telephones such as ALLTEL and Century, as well as SBC and Worldcom, and we anticipate more re-valuation in our “traditional” stocks such as Questar, MDU Resources, TECO, Utilicorp, and

the like. It’s difficult to imagine Enron repeating it’s first quarter performance, but there are an ample number of stocks in the portfolio which may take up the slack. As the first quarter has ended and the second begun, technology and new economy stocks have floundered. Perhaps we’ll find an extra boost among investors who have strayed from real values returning to the eternal truths of investing. □

Yield-Oriented Portfolios: Gross of fees performance is based on actual results according to standards set forth by the Association for Investment Management and Research (AIMR). Miller/Howard Investments has prepared all performance results. AIMR was not involved in the preparation or reporting of these results. Net of fees performance is calculated by deducting a weighted average annual fee of 75 basis points from gross of fees performance. A complete list of all the firm's composites is available. Portfolios are matched across all accounts so that each client holds substantially the same issues at the same weights. Portfolios are typically fully invested, and hold minimal cash although cash holdings may fluctuate somewhat on a residual or transitional basis. No representation is made that future returns will approximate past results, and none should be implied.

Better Than Bonds/Utilities: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 3/31/00 was 118, which represents 36% of total assets managed in this strategy with a measure of dispersion of 0.28. Inception of the composite was 9/30/91. (Note: The composite represents only 36% of assets managed in this strategy because two large clients, a mutual fund and a pooled fund, are not included due to excessive and non-regular cash flows.)

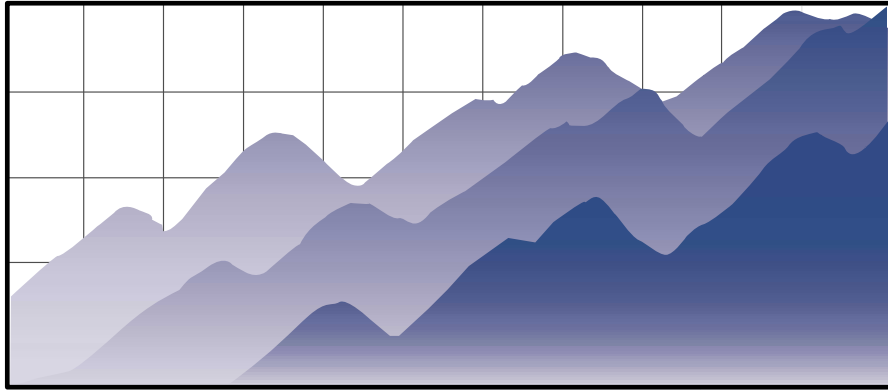
Better Than Bonds/Income: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 3/31/00 was 19, which represents 72% of total assets managed in this strategy with a measure of dispersion of 1.43. The cumulative chart contains a combination of Better Than Bonds/Utilities performance from 9/30/91 through 9/30/97 and Better Than Bonds/Income performance from 9/30/97 through 3/31/00. Better Than Bonds/Income as a stand alone strategy started in May of 1997. BTB/Income is a strategy that evolved from BTB/Utilities sharing the same philosophy and process and many of the same stocks. The essential difference between the two is that a portion of BTB/Utilities invests in telecom stocks and a comparable portion of BTB/Income invests across the broad market.

SBI: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 3/31/00 was 5, which represents 100% of total assets managed in this strategy with a measure of dispersion of 2.96. Inception of the SBI composite was 9/30/98.

Distribution: Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. The number of accounts in the composite as of 3/31/00 was 19, which represents 66% of total assets managed in this strategy with a measure of dispersion of .30. Inception of the Distribution composite was 12/31/98.

Benchmarks: The benchmark data from which this report is prepared has been provided by sources generally considered reliable. Except for benchmark returns based on published mutual fund net asset values, and unless otherwise stated, the index performance figures contained in this report do not reflect the deduction of investment advisory fees. Mutual fund data published by Lipper and Morningstar are net results after deductions of all annual fees and expenses by the advisor. Benchmark returns are presented on a total return basis unless otherwise stated.

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