Miller/Howard INVESTMENTS, INC

MARKET OVERVIEW

THE STRATEGIES

BETTER THAN BONDS / INCOME

A fixed income alternative/equity income approach utilizing reliable dividend growth companies from across the broad market. Stocks are conservative, high quality, high yield, and are projected to have a rising stream of income.

BETTER THAN BONDS / UTILITIES

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

DISTRIBUTION / EMERGING UTILITIES

An opportunistic portfolio 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.

THE SBI PORTFOLIO

Based on the strategy detailed in Lowell Miller's book, *"The Single Best Investment,"* the SBI Porfolio combines value analysis with stable, moderate growth prospects from all sectors. The portfolio emphasizes companies with reliable dividend growth as well as strong fundamental characteristics.

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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The short and intermediate-term question on all investors minds today is, "can the little engine?" Can the little engine make it up the mountains? There seems little question about the long-term potency of the U.S. economy and markets now—war on our shores did not create disarray (it's opposite, if anything), the Federal Reserve has apparently managed to stymie a recession which resulted from numerous imbalances, the consumer has been and remains stalwart, and the dollar—the world's economic vote—continues to rule. All these augur well for the long-term investor, but what about the current problems that must be overcome in order for stocks to resume their progress?

The market seems locked in a range now, a range that reflects both the inner tensions of valuation and the relationship of equities to the broader economy and the broader world. The mountains the little engine will have to overcome include first and foremost, in our view, the end of Fed easing. There are lots of other issues…but there are always other issues. The rate cycle, throughout history, remains paramount.

Among the problems in addition to rates are rising energy prices, which function something like a tax increase and may make it difficult for the Fed to act as it would like. Rising energy prices at the moment are minorly related to demand increases as economic activity perks up, and majorly related to tensions in the Middle East. Though we have become rather inured to Mideast stress (so long as it doesn't spread to our shores), things have reached such a pitch of intensity there that investors have to consider deeper and more inescapable events unfolding. This fear clearly restrains the enthusiasm of investors now. In addition, the capital goods area, which was the heart of the slowdown, hasn't seen much pickup, though there is evidence of a bottom. The economy needs this sector, from computers to tractors, to be fully healthy. Compounding that problem, valuations are far from cheap historically, even taking into account low current interest rates. Corporate profits will have to ratchet up mightily to justify current stock prices in many technology and capital goods companies, or those stocks have little chance of appreciation.

There are also strange crosscurrents in the sentiment area. People are mad, and investors are both mad and skittish, in response to the chicanery and fraud at a few companies, the complicity of their accountants and investment

continued on next page

bankers (who in the end will probably prove to be the real villains, as they usually are), and the pervasive corrupting influence of stock options which enrich managements at the expense of shareholders. Yet the quantitative look at market sentiment numbers reveals way too much complacency. The volatility measures are low, and open interest on index puts and calls (our favorite area) shows moderate optimism—not a good sign in an indicator where the most positive readings are those which show the most fear. Sentiment among speculators is not quite as non-supportive for a rally as it was during 2001, but it is not a positive factor in the current picture.

"The safe zone respite provided by bonds is on borrowed time, so to speak."

We think the most threatening challenge is rising interest rates. Rates may not rise tomorrow, or even this quarter, but in our view they are in the danger zone. And rising rates are often a problem for equities—though this factor can be overcome if it is not too severe and if there is non-inflationary growth in the picture.

The Federal Reserve has already formally announced the ending of its bias in favor of lower rates, and the only question now is when, not if, short-term rates will increase. We often hear pundits assert that a tight Fed stance is good for bonds (long-term rates) since it shows that the Fed is taking a strong position against inflation. Historically, however, rising short-term rates have not been good for bonds. As the *Bank Credit Analyst* recently pointed out, rates have had a three-stage cycle over the past twenty years, and there have been no exceptions. First, the Fed follows an easy policy, in an effort to maintain economic growth in the face of a slowdown. Short rates come down and down, and down some more—enough to be sure that a recession is "healed." Certainly 2001 saw an extreme moment of this loosening. The persistent reduction in rates is Stage One of the cycle. Once economic recovery appears indicated, as it has recently, rates are brought back from their overshot reduction to a "normalized" level known as "fair value" which reflects current inflation, inflation trends, plus a small lenders premium. As economic recovery takes hold, Stage Two emerges: rates are then tightened upward to ward off excessive or imbalanced growth, and at this point bonds begin to follow short rates higher. But just as the Fed overshoots on the downside to moderate a recession, it also overshoots on the upside as insurance to protect against an overheated economy. In Stage Three both short and long rates ratchet higher and higher until economic momentum is restrained. For good measure, the Fed will increase somewhat beyond what's necessary in Stage Three, since at that point there is generally considerable fear of inflation and economic growth running out of control.

Right now we nearing the end of Stage One. Stage Two may begin sooner or later, depending upon the level of economic growth, but the likelihood of Stage Two failing to arrive is low, and it would certainly augur poorly for corporate profits if the economy did not begin to heat up a bit. (Some would argue that the depth of the capital goods and technology recession is so intense that the economy will revive only slowly, and we would not argue with that. Still, such a feature merely stretches out the time frames of what we've described, rather than repealing the cycle).

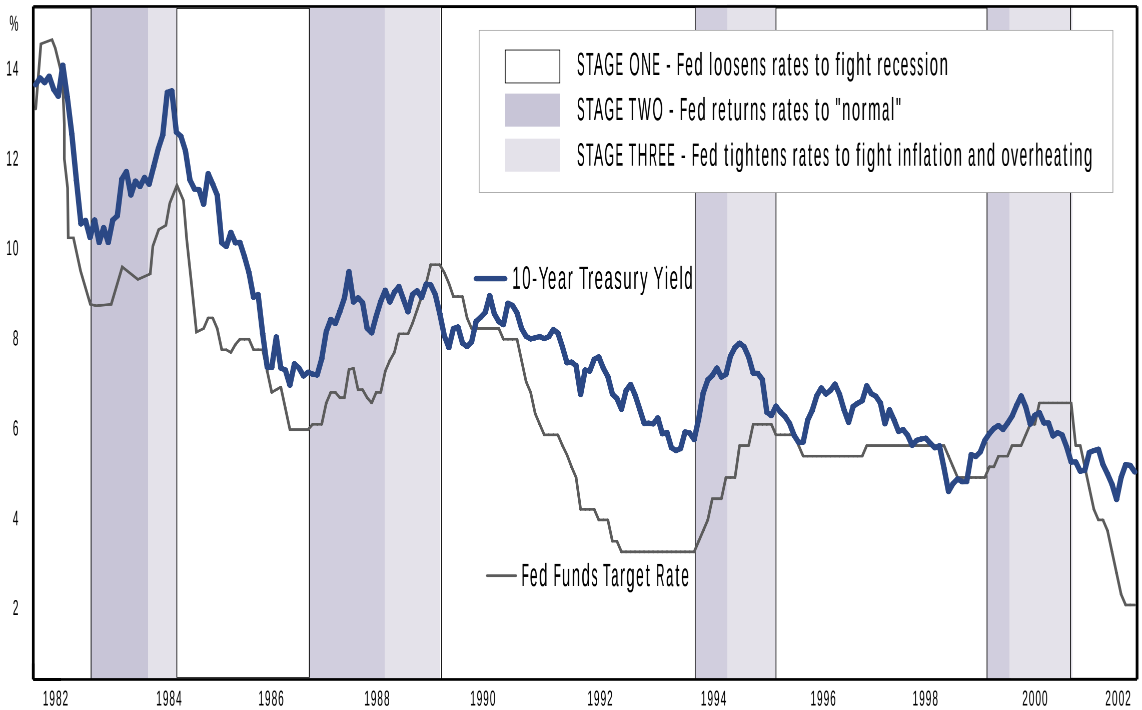
The net of these rate cycle comments? This is not the time to become involved in long rate fixed income investments. The safe zone respite provided by bonds is on borrowed time, so to speak. For equity investors, the key will be evaluating the quality and momentum of any increases in long rates. Mild increases are tolerable (and our own portfolios have shown

SELECTED INDICES

	1st Qtr'02	12 Mo
S&P 500	0.28	0.24
Equity Inc	2.74	3.24
Util Fund	(1.36)	(15.28)
DJUA	5.10	(16.72)
LB Treas	(1.67)	1.08
LBGC	(0.47)	4.64
S&P 400	6.72	18.89
Value Line	2.34	2.42
Rus 2000	3.99	14.08
Rus 2000 Val	9.58	23.74

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/Credit 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

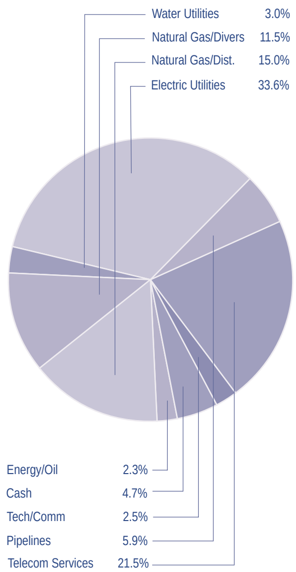
Bond Performance During Fed Rate Tightening and Loosening



? How much more time before the cycle goes up again?

themselves to be increasingly immune to mild changes in long rates). Sharp increases damage all financial assets and provide a drag on all economic activity. Under current circumstances we don't foresee sharp rises in bond rates, but some increase is almost inevitable, and bond investors, like the cavalry in battle, will be the first to suffer injuries.

The little engine that could—and this engine, the US capital markets has shown over time that it always can—has an ample supply of near-term challenges. So shouldn't we all just go home and wait until the landscape becomes less steep? It's a tempting thought, but that ignores the fact that the market is made up of individual companies, and there remain many interesting opportunities for investors in specific situations. The high-yield stock area has been fine, and so has the small-cap area. The outstanding investments now aren't the ones you hear about in the media, aren't the biggest or the most active stocks. They are pockets of true value and/or growth that persist with or without economic tailwinds. We believe this will remain the case for many quarters to come, as the largest companies have cost structures which will inhibit their progress during a period when the spigot is only open half way or less, and niche agility is far more important than scale, which needs a boom to warrant its massive mobilization of manpower. ❑



Quarter Composite Net of Fees*

BTB/Util (Preliminary)	(2.48)%
DJUA (total return)*	5.10%
LBGC*	(0.47)%
Ave Util Fund*	(1.36)%

12 Month Composite Net of Fees*

BTB/Util (Preliminary)	(14.38)%
DJUA (total return)*	(16.72)%
LBGC*	4.64%
Ave Util Fund*	(15.28)%

5 Year Composite Net of Fees*

BTB/Util (Preliminary)	10.52%
DJUA (total return)*	11.14%
LBGC*	7.45%
Ave Util Fund*	7.64%

*See Performance Disclosure on page 11.

Though we thought at the end of the 4th quarter of 2001 that utility stocks were already modestly valued as a result of investor anxiety over the year's events, there was still more turmoil to come during January and February of this past quarter. Sanity finally prevailed, but not without first testing the strength and commitment of holders.

Just to review, we entered this quarter on the heels of what amounted to a "perfect storm" for utilities in 2001. That year started off with natural gas at the unnatural price of $10 and electricity at more that $200 in California, where chaos still reigned and whose problems cast doubt on the entire regime of deregulation. Utility stocks had also just finished one of their best years on record. As natural profit-taking came into the stocks, gas and electricity prices began to fall in response to a weakening economy as well as abnormally mild weather. Independent Power companies began to fall hard (as we'd suggested in late 2000 they were sure to do) when investors began to realize that these were commodity cyclical rather than perpetual growth companies, and that overbuilding was not only possible but likely—even in the face of falling prices for the final output. The economy continued to weaken, and the summer—the major electricity season—was among the coolest on record. Meanwhile, financially overextended new entrant companies in the telecom sector were dropping like flies. Then, just as a measure of stabilization seemed to enter the picture for the economy and utilities as well (we became bullish in mid- to late-summer) the unforeseen struck on 9/11. During the recovery phase after that horror the situation at Enron began to boil (casting doubts throughout the electricity and gas sector), culminating in that company's bankruptcy filing in November.

Meanwhile, the ratings agencies, such as Standard & Poor's and Moody's, which had utterly and totally failed to comprehend what was happening at Enron, and the major brokerage firms, which had likewise failed to grasp the situation, began a race toward the caution flag. Aided by political posturing in California and Washington and a feeding frenzy by a bloodthirsty press, agencies and analysts began a quest for any dirt that could be dug on nearly any company.

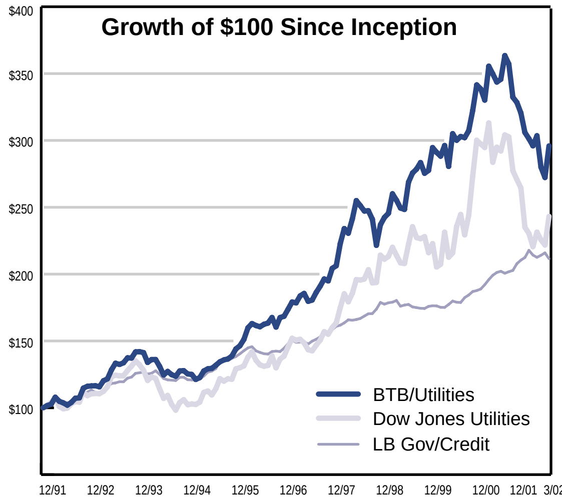
We noted in our last report that this process would ultimately lead to better, cleaner, more reliable financial reports from corporations and a far reduced chance for fraud, but we were perhaps too sanguine about how quickly that effect would become felt in the marketplace. First, the ratings agencies in particular had much work to do in order to regain their credibility as watchdogs. They marched in to every power producer and pipeline, practically wearing hoods, and threatened credit rating reductions if the companies did not bolster their finances and pull back on their capital expansion plans. One by one the companies sold stock and pulled back on construction plans. Suddenly the threat of an electricity glut was expunged in a mass group wide effort to preserve credit ratings. But the weak economy and a mild winter conspired to keep energy prices low, so the IPP stocks, as well as the integrated utilities with some independent power sales, were left to languish. A similar fate was in store for the pipeline companies, who were inextricably linked to power companies, and in some cases also had power production subsidiaries.

The press hammered at these issues day after day, pointing to these stocks as a kind of scapegoat for the all the ills of the recession and of the world, though *in truth the majority of the stocks had nothing to hide* (well, maybe a little stretch here and there), creating hyperbolic emotional stories out of facts that had been disclosed by the companies many months prior.

PORTFOLIO HIGHLIGHTS

Williams was a perfect case in point. The company had guaranteed certain debt and lease obligations of Williams Communications, which it had spun off in early 2001. These obligations were fully disclosed by August of 2001, and it should have been perfectly obvious to anyone performing the most cursory review of Communications' debt load-to- revenues that these obligations of Williams might surely come home to roost. Yet these obligations represented only about 2% of Williams' market capitalization, so they were manageable even should they arise and were simply one of the risks of owning Williams – a company which, in many if not all other respects, is one of the strongest players in the energy markets and which has a long history of excellent management – a history we know well, having been involved in the company since 1991. Nevertheless, when it finally came time for Williams to deal with these obligations, the company was treated in the press as if it were a fellow-traveler with Enron, as if it had hidden the information and defrauded investors.

The stock was pummeled in winter, driven down to about seven times projected earnings for 2002 (which we reduced to account for the current financial bumps). Now, this is a company that had raised its dividend twice in 2001 (meaning of course that the "earnings" it reported had some strong element of real cash to them) and is clearly capable of sustainable earnings growth in the mid-teens, growth arising from its extensive and frequently irreplaceable assets. But the press needs stories—they publish and broadcast every day. In April, for example, the Wall Street Journal published a story indicating the big "news" that Williams was being investigated by the SEC. The problem here is that in early February Williams received an inquiry to

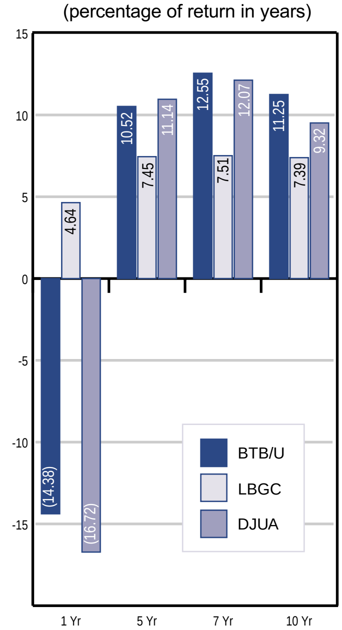


clarify certain of their accountant entries, to which they responded, and to which the S.E.C. responded within days indicating the acceptability of the information provided. We hesitate to call the WSJ exactly "yellow," but there was no retraction of their story, even though it was incorrect and it caused a temporary decline in Williams' stock price. One has to wonder if the self-appointed watchdogs are possessed of any more substantial ethical values than the subjects they attempt to expose.

Enough ranting. By February, Williams' stock price had gotten to the point at which an investor needs only to take a longer-term view and immunize himself against the current hysteria to embrace the values palpably apparent. We doubled-up on the stock – its current dividend yield had reached 5% at that point, highest in more than a decade, and by the end of the quarter had an unrealized gain of about 45% on the new stock. Later, Warren Buffet and Berkshire Hathaway took a substantial position through a convertible issue. At the same time many of the depressed issues under an "enronitis" cloud began to recover as sanity returned and investors with a reasonable time horizon entered the scene; there were many similar gains across the IPP and pipeline landscape.

"One has to wonder if the self-appointed watchdogs are possessed of any more substantial ethical values than the subjects they attempt to expose."

10-Year Average Annualized
3/31/92 - 3/31/02
(percentage of return in years)



"The tech and financing bubble of the late nineties infected our sector a bit...a rigid focus on the eternal verities of investing – solid finances, proven track record, moderate and consistent sustainable growth, proof through dividends – are the best vaccine we know."

UTILITIES PORTFOLIO CHARACTERISTICS

Beta*	0.47
Dividend Payout	48.35%
Sharpe Ratio	0.57
Proj Dividend Growth	4.97%
Treynor Ratio*	13.95
Current Yield	3.58%
Annualized STD	11.51
Market Cap (MDN)	$4.7 Bil
Price/Book	2.29
Quality (Equity Rating)	B++
P/E Ratio (MDN)	14.65

**Relative to S&P500, 3/31/92-3/31/02*

We also added Allegheny Energy, an integrated utility with a fully owned IPP division which had been dragged down when its previous plans to spin off its group of power plants had to be cancelled, given the new environment. Paradoxically, investors have turned to integrated utilities—those with power plants but also with local distribution customers—as the preferred play in electricity, and AYE fits that profile precisely, in its existing configuration. Here, too, we were able to add a solid company at over 5% yield, and this one is an interesting takeover candidate as well (most of its neighboring utilities have been taken over or approached for a transaction). In that same vein, we added DPL, a company that is surely on the shopping list of German utilities who have stated they would like to buy a US Midwestern utility. Towards the end of the quarter we added a small position in Dynegy, which may be the best positioned company in the entire gas-electricity vertical industry. We'd like to build that weight up later, when a few issues that we consider minor (such as Enron's claim that DYN should have bought them) have been resolved.

March was a terrific month, and in a graceful swoop upward nearly all the price damage of January and February was resolved. Finally, the vast majority of stocks in the portfolio turned profitable for the quarter, led by some of the more "boring" issues such as Energy East, MDU Resources (we had boosted our weight in this one recently), NICOR, TECO, Peoples Energy, and Keyspan. The Baby Bells, which we believe are being wrongfully ignored by investors just now, were a drag on the portfolio, with fairly uniform single digit gains. We also housecleaned remaining telecom new entrant companies such as Qwest and the Williams Communications stock that was spun off to us, which weighed on results.

LOOKING FORWARD

We think the incumbent phone companies are much better positioned than investors realize. Capital budgets have been cut back, in part because the companies are in such a good bargaining position with equipment suppliers that they can get more for their money. Long distance, which is creeping into the top and bottom lines of each company should start to run this year, as more and more territories are opened (don't you really want just one phone company, after all?). Revenues have run a bit soft in recent quarters, but that is more a function of the weak economy than anything else (there certainly is little competition left to consider).

The economy will strengthen sooner or later, and, at least, it does seem to have bottomed. With a better economy comes higher volumes in telecomm, gas, and electricity. Some investor money may depart for so-called higher growth areas if the economy puts on a stronger and more broad-based showing than we expect, though we don't think there are a great many transient investors left in the sector at the moment.

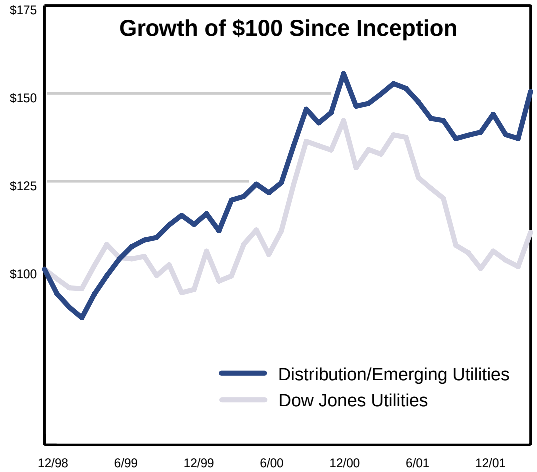
In our own approach, we are avoiding any new commitments in stocks that aren't seasoned and don't pay a dividend. Some of these were very helpful in years past but that, as they say, was then, and this is now. We have, perhaps, a 2% weight in "then" stocks remaining, which we are monitoring closely. We don't want to wear blinders, and we do want to participate in the important directions which develop in the utility field, but our participation will be through the financially strong, honest, well-managed kinds of companies that have served us so well and so consistently for more than ten years. We may make an exception for opportunistic trading purposes from time to time, but always with a trading mentality and with pre-determined stop losses in mind. The tech and financing bubble of the late nineties *infected* our sector a bit, as we occasionally mused that it might. We don't think it's likely to happen again soon, but a rigid focus on the eternal verities of investing – solid finances, proven track record, moderate and consistent sustainable growth, proof through dividends – are the best vaccine we know. ❑

Distribution was definitely a good place to be for the first quarter, as this most conservative portfolio was able to avoid the turmoil in the Utilities sector and post returns that outperformed not only the utilities indices but nearly every category in the broad market as well. And we managed to do this without any deals announced – again confirming our idea that even in an environment of little or no deal flow this is still a pretty good portfolio with a nice yield of over 4%. Basically, we're not holding wounded issues here, and investors have lately been clamoring for the real, the solid, the gimmick-free, the proven long-term holdings in this world.

PORTFOLIO HIGHLIGHTS

The hallmark of the portfolio this past quarter was consistency. Our best performers among existing holdings were ONEOK and Energy East—two very different kinds of distributors with returns in the mid-teens, while the worst were WGL Holdings and CMS Energy Corp, with returns in the mid-single-digits—two distributors which are rather similar to the winners. To provide a sense of the consistency in the portfolio, 23 of 28 stocks were either up or down less than one percent. This is not bad at all, we think, considering the general utility area was plagued by enronitis for much of the quarter.

We sold or reduced some stocks that were at or near their final takeover values, to make way for new issues whose prices had been driven down by panic in utilityland. Niagara Mohawk, American Water, RGS Energy, and disappointing Sprint, helped provide cash to buy Allegheny Energy (which responded with a double digit gain), DPL (a 6% gain), Williams (a takeover candidate at 17, where we bought it), and Empire District (a jilted former takeover bride).



LOOKING FORWARD

There haven't been any deals in our portfolio or in the sector since American Water Works last fall. In part, this is a result of congressional failure to repeal the Public Utility Holding Company Act. But there are also many stocks in the portfolio that could be bought without interference from PUCHA. In these cases the doldrums have resulted, we think, from general uncertainty in the financial world and general uncertainty about the landscape of deregulation, but in particular from the digestion process underway at the most likely acquirers already active in the field. In addition, Euroland utility companies have been busy buying each other rather than coming to America. But the shelves have become empty in Europe, and the German utilities in particular have been very specific about saying they want to next purchase "Midwestern utilities." Why they would lay open their hands is a mystery to us, but we've got a nice inventory of Midwestern utilities for anyone with an appetite.

We do think that PUCHA stands a good chance of repeal this year after many pushbacks, especially now that the ANWAR issue preventing the passage of an energy bill seems to be dying. And there are lots of buyers pawing the ground, both domestic and foreign. In the meantime, we collect our dividends and we don't have any companies under investigation. ❑

Quarter Composite Net of Fees*

Distribution (Preliminary)	4.53%
DJUA (total return)*	5.10%

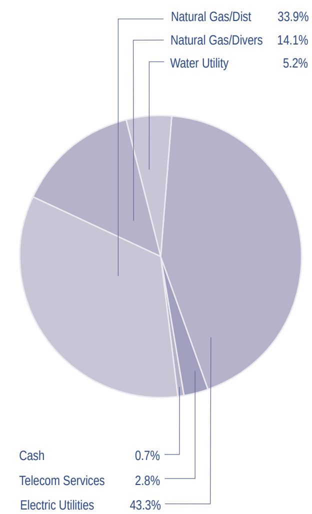
12 Month Composite Net of Fees*

Distribution (Preliminary)	0.52%
DJUA (total return)*	(16.72)%

3 Year Composite Net of Fees*

Distribution (Preliminary)	20.46%
DJUA (total return)*	5.37%

*See Performance Disclosure on page 11.



FUNDAMENTAL CHARACTERISTICS

Yield	4.07%
Proj Div Gro	4.0%
Payout Ratio	59.88%
Market Cap (MDN)	$2.0 Bil
Price/Book	1.64
P/E Ratio (MDN)	15.14
Quality (Equity Rating)	B++
Beta*	0.22

Relative to S&P 500, 3/31/99-3/31/02

"There is an increasing thirst for 'real' companies that have reliable businesses and pay dividends."

Frankly, we're shocked.

For years we've labored in obscurity, focusing on stocks with income, despite the derision of "intellectuals" who claimed that dividends were dinosaurs and that investors should trust all their money to companies who would reinvest it for them in their businesses. We always have taken the view that an investor is safer with a company that is willing to share some of its current prosperity with its "partners," while still being able to generate some moderate and sustainable growth over the long term. Now, the world seems to crave dividends.

Our Better Than Bonds/Income portfolio came through with a solid quarter this period, despite the racings up and the racings down in the broad market and in the energy sector where we have substantial weight. Enronitis and continuing softness in the technology area plagued the markets, but had minimal effect on this portfolio—and a diverse group of rising stocks overcame losses in those few that suffered from the issues of the day. We outperformed both the S&P 500 and various fixed-income indices, which is ideal for a portfolio of this type.

Quarter Composite Net of Fees*

BTB/Income (Preliminary)	1.92%
LBGC	(0.47)%
LB Long Treasury Index	(1.67)%

12 Mo Composite Net of Fees*

BTB/Income (Preliminary)	1.77%
LBGC	4.64%
LB Long Treasury Index	1.08%

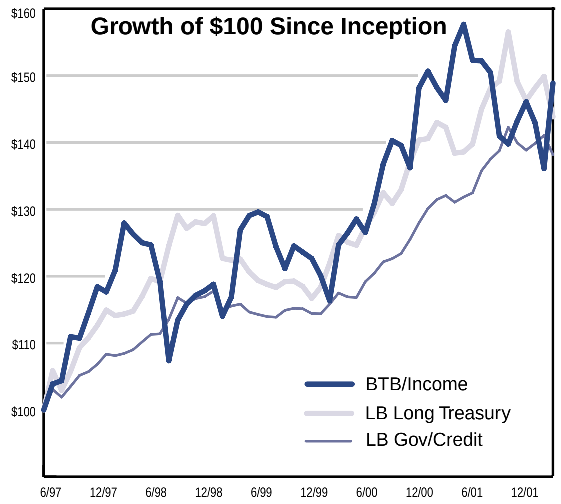
3 Year Composite Net of Fees*

BTB/Income (Preliminary)	8.40%
LBGC	6.15%
LB Long Treasury Index	5.52%

**See Performance Disclosure on page 11.*

PORTFOLIO HIGHLIGHTS

Real Estate Investment Trusts had a great quarter, following on a solid 2001, with the REIT indices hitting new all-time highs on many occasions during March. Three of our four REITs provided double-digit returns, and the fourth was positive, if less shiningly so. We did sell Boston Properties, albeit reluctantly, based on the severe downturn in Boston and San Francisco real estate markets, two areas



where the company is heavily exposed. While we consider BXP one of the leading blue chips of the industry, we saw no reason to take this visible risk. Frankly, the sale didn't help our returns, but we remain comfortable avoiding risk in what is supposed to be a conservative stock.

Banks were good performers across the board, and helped our portfolio in recent months. Our best performing stock was AmSouth, up 16.5%, joined by KeyCorp, Union Planters, and US Bancorp. The first three are all high-yielding takeover candidates, while USB, inherited through a takeover some time ago, is one of the outstanding regional or super-regional growth banks. Its yield is lower than we'd like, but its historic relative valuation prompts us to maintain our position for now.

Stocks that declined with energy last year have risen along with energy pricing this year. Names from our utility portfolio such as TECO, Keyspan, Peoples Energy, and Questar all did well, joining our holdings in tankers, oil royalties, and energy product transport. We also took advantage of a remarkable moment of investor panic to add Williams at a 5% yield. This one is a poster child for the manner in which investors will toss away great value when headlines are frightening them. In six weeks we have already experienced a 40% gain on our position, and harbor no thoughts of selling. You can read more about this stock in our BTB/Utilities portfolio review.

Notable on the downside was Kinder Morgan Energy Partners. This one suffered from some "enronitis" though the collective efforts of all the analysts in the energy sector haven't been able to turn up any evidence of problems. We've about tripled our money in KMP from first purchase and the stock still yields 7% (it has had the fastest dividend growth in our portfolio), so we can buck up under an occasional nick. We do our best to keep this portfolio diversified across as many sectors as possible, and this time around we were held back somewhat by convertible preferred positions in Qualcomm, Amdocs, Vodaphone, and AES. In past quarters, however, the tech stocks have helped balance our returns. AES is on our monitor closely list, however, since we are concerned that circumstances for the company have changed since we made our first commitments.

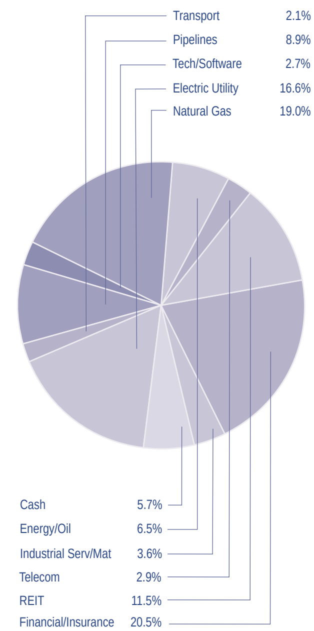
We also added Allegheny Energy to the portfolio. This company is a vertically integrated utility operating in five states that has developed a fleet of independent power plants in addition to its basic delivery business. When the market for IPPs turned sour, AYE decided to cancel plans to spin off this group of plants. The stock fell apart as aggressive speculators abandoned ship, leaving it in deep value territory where we found it highly attractive. The stock has risen 15% since purchase and is still cheap. So far so good. We also added EDS preferreds. Shortly after purchase some brokers turned cautious on EDS, and the stock backed off a bit, carrying the preferred with it. But this is a short-term phenomenon. EDS is perhaps the leading company in the enormously strong theme of outsourcing, and sells at an historically low valuation. Patience will be rewarding here, we think, and the 8.16% yield on our preferreds makes the waiting easier.

LOOKING FORWARD

We don't have a crystal ball, of course, but this portfolio appears to be in the sweet spot for investors now. On our website (mhinvest.com) we're begun to post articles from a variety of journals that are unanimous in their praise of dividends and the value of dividends for long-term investors. None of these articles are more than six months old.

There is an increasing thirst for "real" companies that have reliable businesses and pay dividends. And the capitalizations in our area are small enough to be quite sensitive to new flows of funds. In an uncertain world we have a portfolio with a combined A- credit rating, a 7% current yield, a 5% projected growth of yield and 12.6% projected growth of earnings (this is as high as the S&P 500 and far more likely to actually happen)—compared to a current median portfolio P/E of 13.6%.

The numbers speak for themselves, we think. ❑



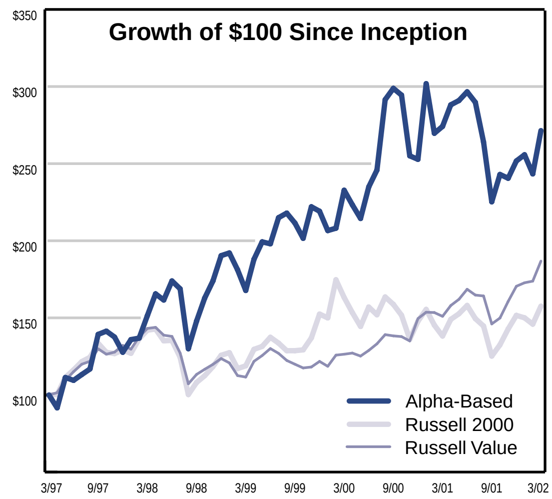
FUNDAMENTAL CHARACTERISTICS

Yield	7.00%
Proj Div Gro	12.31%
Payout Ratio	44.89%
Market Cap (MDN)	$4.8 Bil
Price/Book	2.31
Beta*	0.48
P/E Ratio(MDN)**	13.65
Quality (Equity Rating)	B+

**Relative to S&P 500, 3/31/98-3/31/02*
***REITs use P/FFO ratio rather than P/E Ratio*

"Our goal is to achieve high risk-controlled absolute returns, and we like our current holdings from that standpoint."

In the first quarter we maintained numerous positions in very cheap growth-at-a-reasonable-price (GARP) type investments that found investor interest and market recognition shortly following their addition to our portfolios. The majority of our holdings performed well, giving us an overall solid quarter, despite rumblings and volatility elsewhere in the marketplace. Lots of proprietary research and back-testing during 2001 began to bear fruit this past period.



PORTFOLIO HIGHLIGHTS

Take-Two, following several nerve-wracking weeks of a trading halt, came back a winner, rising 24% for the quarter, and closing in on a double since our first purchase. The company recently raised guidance for the second quarter and the full year. Although we took some profits near the high, the share price still reflects a modest valuation relative to current fundamental momentum and projected forward earnings. This little company has three of the top ten video games in terms of both sales and rentals. Take-Two's balance sheet improved dramatically along with selling revenues as they reported no outstanding debt for the period compared to about $50 million at the end of the October quarter. It does not take much to see that TTWO could move substantially higher should its excellent sales profile persist.

A heavy weight in Chico's FAS, our long time favorite, resulted in roughly an 85% gain since original purchase. We took some profits in early January, and sold our remaining shares a bit later to make room for new ideas, since the stock—whose fundamentals remain arguably the best in retailing—had reached our valuation targets. Also in the retail area, we were successful catching Jos. A. Bank Clothiers at an attractive moment and were able to realize a gain in the neighborhood of 70% in a bit of a flash. All of a sudden, investors decided men's suits were the new new thing. We also added School Specialty, a company of a slightly different league with the most ridiculously boring "old thing" business model—wholesaling pencils and "educational-quality" basketballs (there is such a thing!) to middle schools. We have to admit that we find the novelty of this idea very appealing (combined with the reasonable valuation and impressive prospects for the future) and we're in the position at a relatively high weight due to its very modest valuation.

In food retailing, we chose to swap out of Fleming once it's controversial nature and elevated risk profile became apparent and replaced those losing shares with Champs Entertainment, a casual dining play, with excellent GARP characteristics and persistent and sizeable insider activity. We sold CMPP with a quick 30% gain on the position.

In the same sector, NBTY was our best performer, gaining over 47% for the period after beating analyst estimates by some 140% on stronger than ever vitamin and supplement sales.

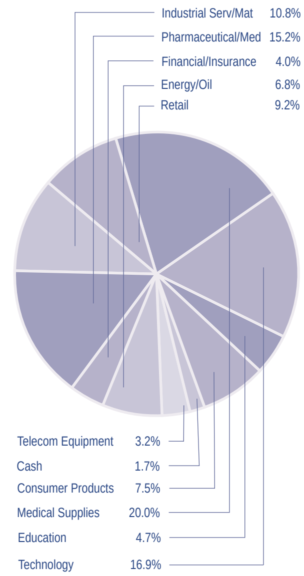
Quarter Composite Net of Fees*	
Alpha-Based (Prelim)	7.81%
Russell 2000 Value	9.58%
Russell 2000	3.99%
12 Month Composite Net of Fees*	
Alpha-Based (Prelim)	(1.04)%
Russell 2000 Value	23.74%
Russell 2000	14.08%
5 Year Composite Net of Fees*	
Alpha-Based (Prelim)	22.09%
Russell 2000 Value	13.32%
Russell 2000	9.53%

*See Disclosure on page 11

Medical services continued to generate outstanding returns for our portfolios. Relentless insider selling finally prompted us to close our position in Mid Atlantic Medical Services (after undertaking a series of small profit-taking bites) with a gain of over 42%. Portfolio stocks Vital Signs and Prime Medical have also generated gains in the mid- to upper 20%s, as strong fundamentals have sparked the persistent interest of investors. We had one “torpedo” in the health sector: Lumenis fell by nearly half when an investigation into its prior accounting practices was announced. However, all of the issues relate to activities under prior management, we seriously doubt whether the company in its current configuration will suffer any adverse judgments at all. Meanwhile, LUME is an industry leader and sells at a remarkable 5 times projected 2002 earnings. We’ve seen a number of cases this year in which stocks were pummeled on news of an SEC investigation, only to rise again when no serious action was needed, and chances are good LUME will become another of these.

LOOKING FORWARD

Looking forward we are extremely excited by the performance of our positions in a tough market environment. We’re continuously testing and refining the Alpha Strategy factors, and we think we’ve made improvements on an approach that’s already a standout. Growth rates among our stocks continue to far exceed their PE ratios, and that is a strong ingredient for success. Our goal is to achieve high risk-controlled absolute returns, and we like our current holdings from that standpoint, along with the new candidates that perpetually arise as market conditions and individual company circumstances undergo their inevitable evolutions and changes. ❑



FUNDAMENTAL CHARACTERISTICS

Forward P/E Ratio	14.42
Forward PEG Ratio	0.67
Market Cap (MDN)	$375 Mil
Price/Book	2.62
LT Growth Rate	24.22
Beta*	1.01
R-SQR*	0.36
Annualized STD	29.68
Alpha*	14.00

**Relative to S&P500, 3/31/97-3/31/02*

Disclosure

Yield-Oriented Portfolios: 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. Number of accounts in the composite as of 3/31/02 was 308, which represents 93% of total assets managed in this strategy with a measure of dispersion of 0.26. Inception of the composite was September of 1991. **Distribution:** Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. Number of accounts in composite as of 3/31/02 was 22, which represents 94% of total assets managed in this strategy with a measure of dispersion of .15. Inception of the Distribution composite was December of 1998. **Better Than Bonds/ Income:** Composite includes 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 3/31/02 was 100, which represents 63% of total assets managed in this strategy with a measure of dispersion of 0.24. Inception of the composite was June of 1997. **SBI:** Included in the results are all portfolios that are unrestricted and that have been managed for at least one full quarter. Number of accounts in the composite as of 3/31/02 was 9, which represents 100% of total assets managed in this strategy with a measure of dispersion of .47. Inception of the SBI composite was September of 1998. **Alpha-Based Strategies:** Net of fees performance is based on actual results after the deduction of management fees (weighted average fee of 200 basis points). Included in the results are all Alpha-Based portfolios that are unrestricted, including one non-fee paying portfolio, and that have been managed for at least one full quarter. In addition, in order to be included in the composite a new account has to be at least 80% invested and it should hold not more than 5% cash exceeding the maximum cash held by any portfolio already in the composite, as of the end of the preceding quarter. The number of accounts in the composite as of 3/31/02 was 67, which represent 95% of total assets managed in this strategy with a measure of dispersion of 0.66. Miller/Howard Investments has prepared all performance results. Inception of the composite was 3/31/97. Some accounts were in a modified version of the strategy; they became part of the composite October 2001. Portfolio was managed by William T. Chidester from inception through November 2000. Team managed since December 2000.

Quarter Composite Net of Fees*

SBI (Preliminary)	(6.55)%
Value Line Index	2.34%

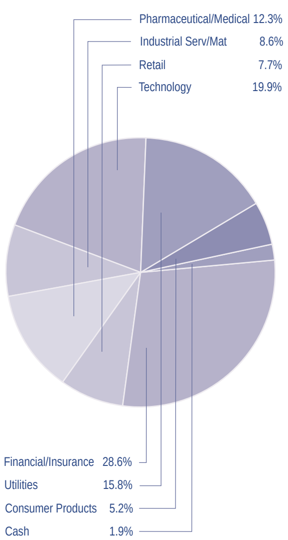
12 Month Composite Net of Fees*

SBI (Preliminary)	(11.81)%
Value Line Index	2.42%

3 Year Composite Net of Fees*

SBI (Preliminary)	(2.81)%
Value Line Index	(2.60)%

**See Performance Disclosure on page 11*



FUNDAMENTAL CHARACTERISTICS

Yield	1.84%
Proj Div Gro	12.57%
Payout Ratio	21.42%
Market Cap (MDN)	$9.9 Bil
Price/Book	4.16
P/E Ratio(MDN)	19.12
Quality (Equity Rating)	A
Beta*	0.81
STD	17.10

**Relative to S&P 500 3/31/99-3/31/02*

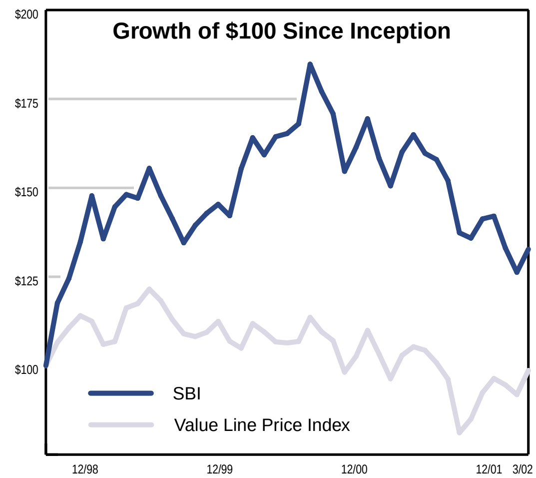
Despite the strong performance of many stocks within our value-oriented approach this quarter, our overall performance was dragged down by Enron-inspired accounting fears, a general weakness in pharmaceuticals, and a special situation related to the bankruptcy filing of Kmart. We ended the quarter behind our benchmarks, though the typical stock in the portfolio actually did reasonably well.

PORTFOLIO HIGHLIGHTS

Though it's old news by now, the Enron story undermined investors' confidence in corporate integrity and the market as a whole. In our portfolio, Tyco fell prey to one of the most severe cases of enronitis. With Enron on everybody's mind and a veritable accounting-witch hunt in progress, TYC's plan to split into four companies invited hyper-scrutiny of the company's finances and accounting treatment of past acquisitions. Whether the facts that came to light merited the 57% slide in stock price between January 22nd and February 5th is an argument wrapped in a question. What is clear, however, is that TYC has been tainted, and its risks prompted us to sell lest more cockroaches suddenly appear.

Fleming Companies (FLM), the nation's number one wholesale food distributor and sole supplier of produce to Kmart's superstores, was knocked back by Kmart's declaration of bankruptcy. Although FLM appears to be rapidly expanding its clientele beyond Kmart, growing its margins, and gaining market-share, the troubles with Kmart argued for an exit. Our Andrx has been battling for far longer than anticipated for the right to sell a generic version of ulcer drug, Prilosec. After a surprisingly poor 4th quarter earnings report suggesting erosion of ADRX's current products market-share, we decided to cut our losses and look for less troubled, diversifying prospects.

The good news is that the balance of the portfolio has performed very well. Our replacement positions, in particular, have not disappointed and are characterized by cheap fundamental valuations, top credit ratings, unblemished earnings histories, and conservative earnings projections. Kimberly-Clark, Liz Claiborne, Pitney Bowes, and Automatic Data Processing, all helped the portfolio as new additions.



Among our veteran holdings, information and human resources company Ceridian (CEN) posted the strongest price move, gaining an outstanding 17% for the quarter, while our three banks, Bank of New York (BK), BB&T Corp (BBT), and US Bancorp (USB), posted gains of 3%, 5.5% and 7.8%, respectively. We doubled up on Williams during a mini-panic, posting a 40% gain on our additional shares – here "enronitis" provided subsequent opportunity.

LOOKING FORWARD

Plain vanilla is the flavor of the day, and perhaps of the decade. Going forward we're sticking with the kinds of solid companies that have delivered for us through thick and thin, focusing on credit market as well as equity market treatment of the companies, resisting special situations no matter how intriguing, and keeping ourselves as sector-diversified as possible. Though the market may not provide a tailwind, we're confident our portfolio can return to its historic solid performance. ❑