4-8-1999

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Charles Donald Boudreaux
Rollins College

Atanas Dobrev
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Christian Daniel Dragos
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Rhoda Lee
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Jodi Timmons
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CRUMMER
GRADUATE SCHOOL OF BUSINESS
ROLLINS COLLEGE

SUNTRUST

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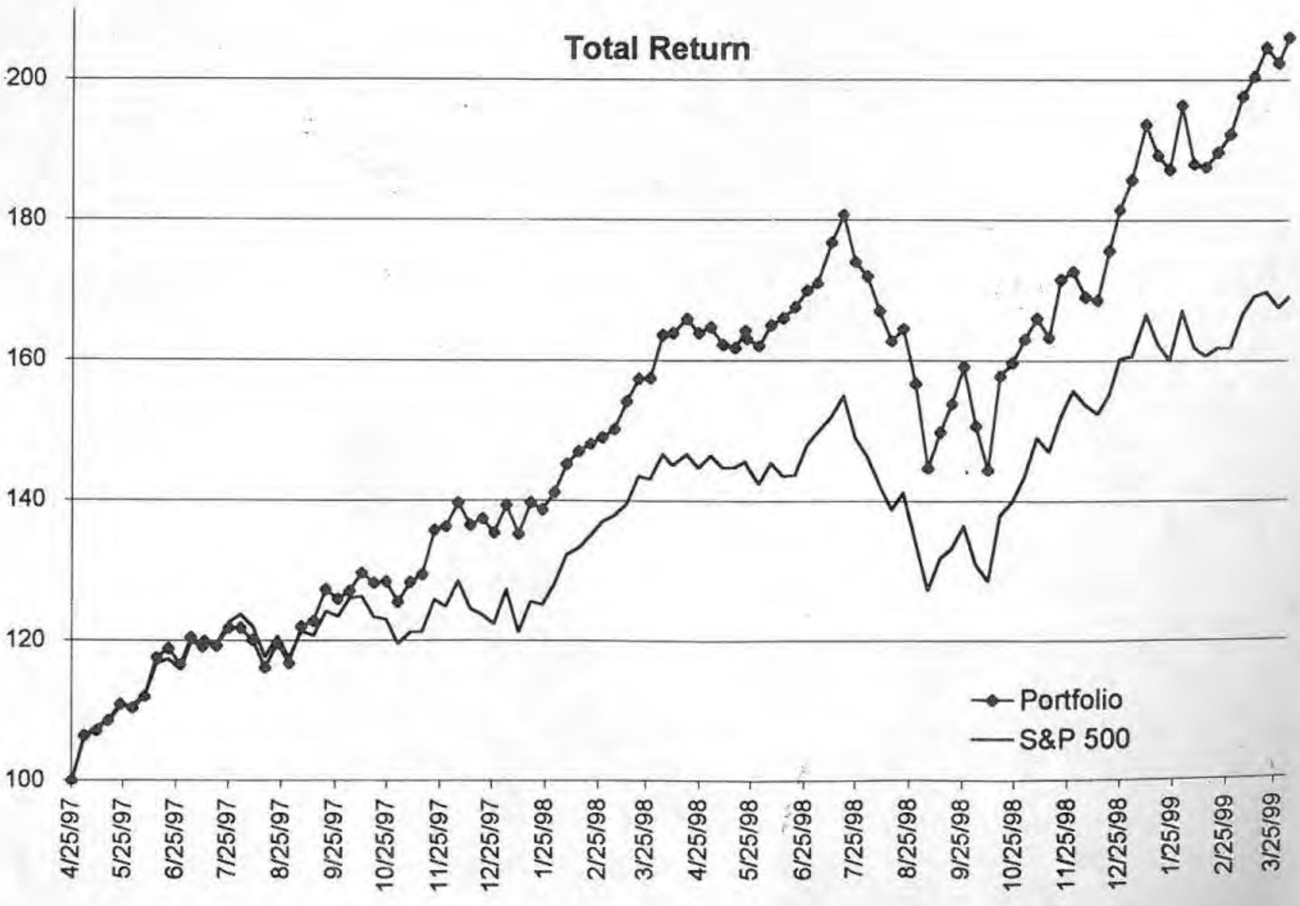

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1. Executive Summary

After examining the investment objective, risk profile and cash flow requirements of the Crummer Graduate School Sun Trust Scholarship Endowment Fund, it has been determined that:

- The desired return of the endowment fund is in the low double digits.
- The desired investment style is buy-and-hold with no market timing
- Non-systematic risk should be diversified away as much as possible
- Investment should be made only in equities and equity funds, as in the first four years of the life of the portfolio the inflow of cash ($100,000 per year) will probably be greater than the outflow of cash (6% of average net asset value).

In order to decrease the non-systematic risk and to utilize the opportunities available globally, 30% of the available funds were allocated for global investment.

The current market situation and trends were also examined. The U.S. market is currently momentum-driven with gains concentrated in a small number of very large cap stocks. However, the market is also acting on the expectation of higher earnings potential in these very stocks.

Therefore, it was decided that in the U.S. portion of the portfolio, the investment should be concentrated in high growth, large market cap stocks which are leaders in growing industry sectors.

Within each industry, funds were allocated on the basis of forward-looking projections along with a fundamental analysis determining the strength of each company and its product line. Eight industries and one sector were chosen for investment purposes.

Investments in the technology sector are becoming a must for each investor, but at the same time many investors do not feel comfortable with the stock valuations of the specific companies. The Nasdaq-100 investment trust was chosen to take exposure in this sector. The trust is passively tracking the performance of the Nasdaq-100 index and has a very low expense ratio.

The global portion of the portfolio was allocated according to market capitalization between the two highest capitalized and liquid markets, Europe and Asia/Pacific. For this portion of the investment, mutual funds with low expense ratios and solid track records were picked.

The composition of the portfolio is as follows:

Stock	Price	Pct	Shares	Cash Value
GNE	87.25	5.3%	61	5,322
PFE	139.56	5.3%	38	5,303
MCK	68.19	5.3%	78	5,319
DAL	68.62	5.4%	78	5,352
C	64.69	5.4%	83	5,369
AXP	121.00	5.3%	44	5,324
T	78.50	5.3%	103	5,350
GMH	51.94	5.4%	57	5,365
JNJ	94.13	5.3%	70	5,316
BUD	75.94	5.4%	48	5,358
GE	111.63	5.4%	149	5,355
ODP	35.94	5.4%	50	5,365
QQQ	107.30	5.4%	50	5,365
FEURX	17.24	10.0%	580	9,999
MNIGX	18.10	10.0%	552	9,991
~~WPJGX~~	~~12.52~~	~~10.0%~~	~~798~~	~~9,991~~
Cash		0.6%		554

The performance of the portfolio was back-tested beginning April 1997. The beta (relative to S&P 500) is 1.02, with a correlation coefficient of 83%. The volatility and total returns are higher than the index, but given the higher Sharpe ratio the slightly higher risk was not deemed important.

2. Client profile

The client, Crummer Graduate School of Business, has received an initial sum of $100,000 to start a portfolio of investments. As an educational institution, it is not subject to federal or state taxes.

2.1. Risk preferences

While the school desires a high return on the investments in the portfolio, it is not willing to make risky investments to do so. As far as is possible all risks should be diversified away and the client would like a portfolio on the efficient frontier.

2.2. Objectives

The objective of the investment is to provide scholarships for Crummer students on an on going basis. The portfolio will be used to fund student scholarships of $5,000 each and the number of scholarships awarded each year will depend on the performance of the portfolio. Therefore, it is important that the portfolio earn a positive return from year to year to ensure principal preservation and disbursements for scholarships.

2.3. Choice of asset classes

The portfolio will be selected from among the asset classes consisting of growth equities, international growth funds, indexes, bonds and cash. The client prefers not to invest in real estate, commodities or currencies. Within the equity class, we will select growth stocks for their high returns. Mutual funds selected are regional and invest in Europe and Asia. The index selected is biased towards high-growth technology stocks.

3. Investment Philosophy

The investment philosophy is based on certain basic principles. These principles are applied to all portfolio decisions. The most important of these is the belief that it is the portfolio that matters and that individual securities are important only to the extent that they affect the performance of the overall portfolio.

We measure risk through the volatility of the portfolio and expect that larger portfolio returns come only with larger portfolio risk.

There is no single asset class that can outperform an efficient portfolio on a risk-adjusted basis. The greatest question to be answered by the client is the amount of risk that is acceptable, which is answered by the asset allocation within the portfolio. The optimum portfolio lies on the efficient frontier, where the highest return for the risk tolerance of the client rests. Risk is also associated with the investment horizon of the client and depends on when the investment will be liquidated.

Diversification is a must. Diversification across various securities reduces a portfolio's risk. In an efficient market only systematic risk should be taken.

Global investment strategies have a lower level of risk adjusted return than do U.S. only portfolios. Investors are constantly searching for information that is not currently reflected in the price of a security so they can take advantage of being the first to discover the information. Therefore, the prices of widely held securities trade very closely to their fundamental intrinsic value. Due to this, passive investment strategies appear to give returns similar to active speculation strategies. Passive investment strategies require re-balancing of the asset allocation as investor requirements or security market conditions change.

4. Investment Vehicles

The risk/reward preferences of Crummer Investment portfolio can best be met by investing in stocks. Bonds cannot meet the objective of double digit returns and junk or emerging market bonds are too risky for the risk preferences of the client.

We have also considered real estate, commodities, currencies and precious metals, but after conferring with the client it was decided that stock should be the main investment vehicle.

In order to achieve better diversification, but keep the risk at a manageable level the portfolio will also make limited use of mutual funds and SPDR-like instruments. We believe that they will give exposure to markets and returns that a portfolio of this size will not normally be able to tap into.

5. Asset Allocation

5.1. *Cash requirements*

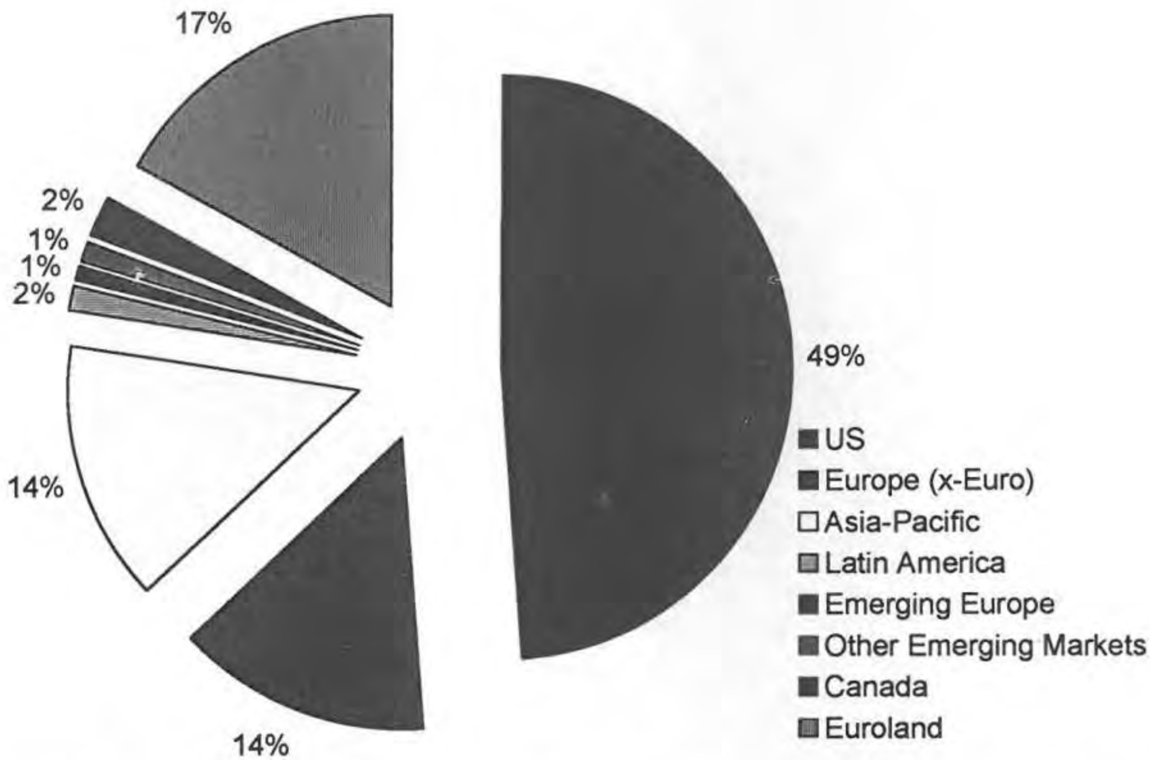
Cash has not been allocated any percentage of the available funds at this time. Diversification has been provided in our allocation selections to obtain growth without placing the funds at unreasonable risk of volatility of returns. Due to the fact that funds are not needed at this time for the annual distribution, generation of current income through fixed income and cash investments is not necessary. Any cash included in the portfolio is only present due to rounding in the purchase of the equities.

5.2. *Regional Allocation*

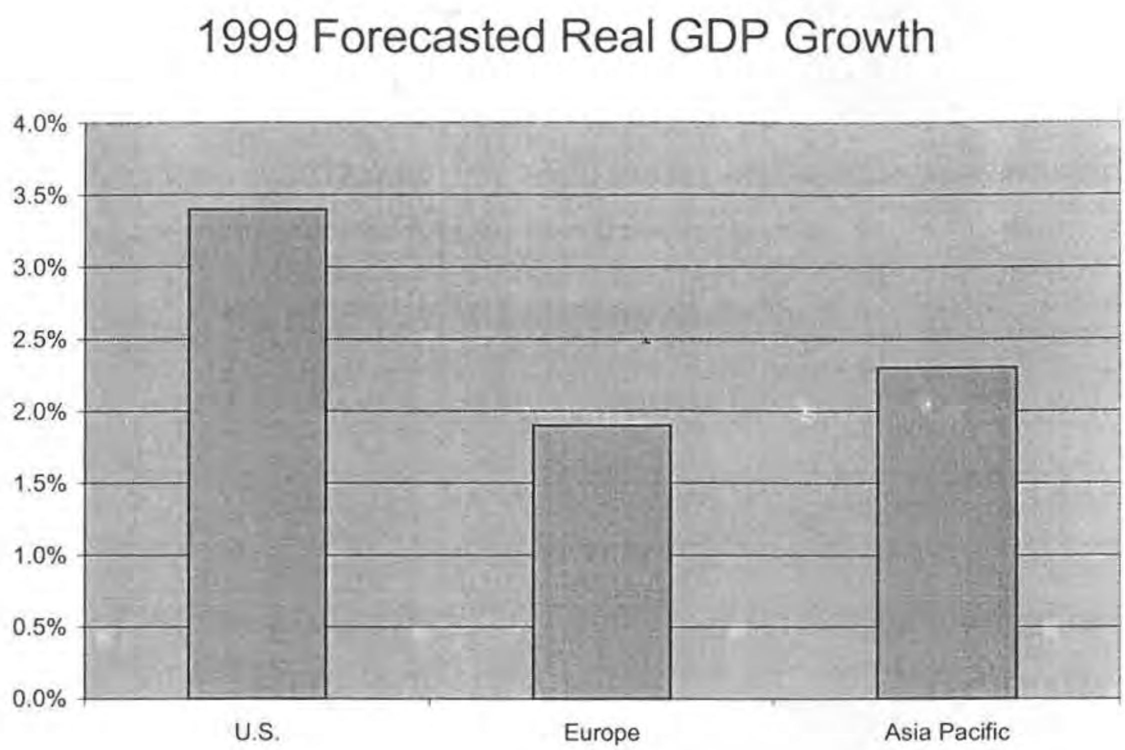
To determine a regional allocation for funds, a strategy was developed based on total world equity market capitalization. Total world market capitalization was looked at and it was determined that four regions comprised 94% of the global total. These regions included the United States (49%), Europe (U.K., Switzerland, Sweden, Norway) (14%), Euroland (17%), and the Asia/Pacific region (14%).

Region	Value	Pct.
US	11,722	49%
Europe (x-Euro)	3,369	14%
Asia-Pacific	3,425	14%
Latin America	380	2%
Emerging Europe	181	1%
Other Emerging Markets	260	1%
Canada	513	2%
Euroland	4,082	17%
Total	23,931	

Total World Equity Market Capitalization



Since the approach internationally was one of using mutual funds as an investment vehicle, Europe and Euroland were grouped into one area in which funds were used that invested in both regions.



Allocations of 70% in the U.S., 20% in Europe, and 10% in the Asia-Pacific region were determined. Overweighting our U.S. allocation is justified based on forecasts for real GDP growth of 3.4% for 1999 compared to a world forecast of 1.5%. The 1999 forecast for European real GDP growth is 1.9%, and for the Asia Pacific region, 2.3%

5.3. US allocation

5.3.1. Industry allocation

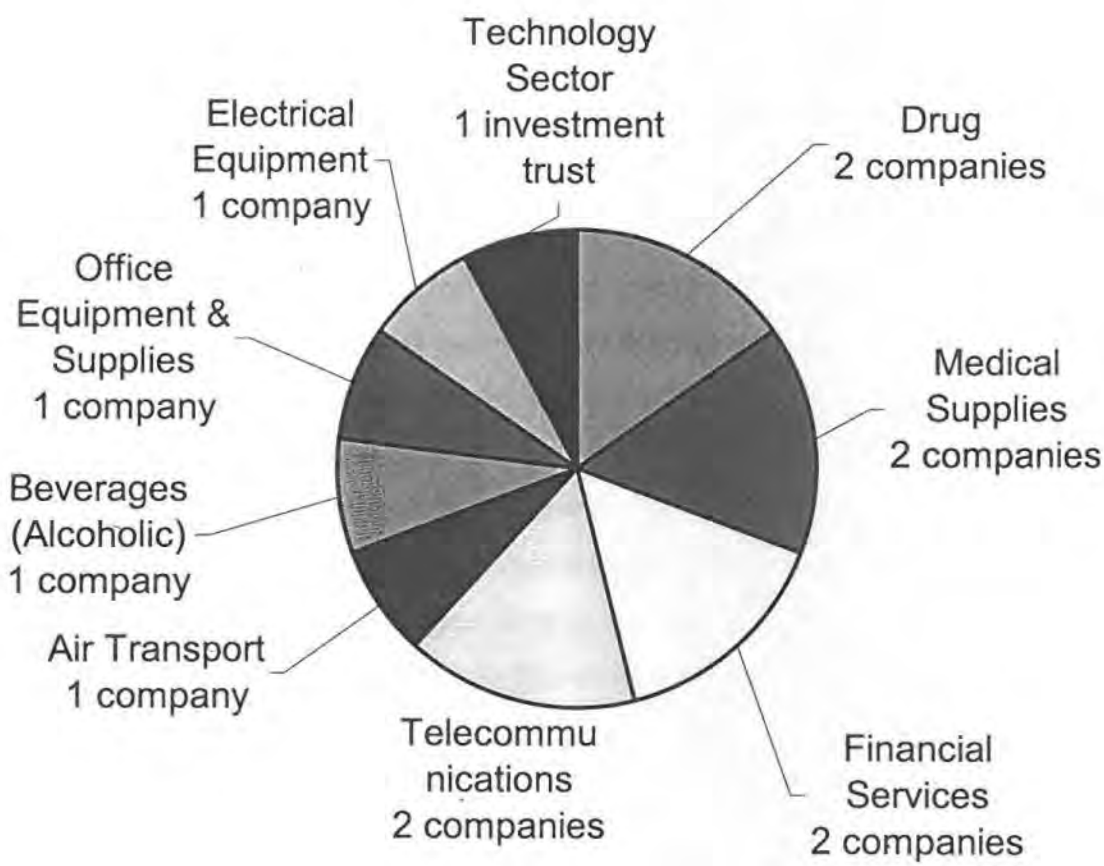
The US allocation of funds was based on the following principles:

- In order to minimize the unsystematic (company-specific) risk, the assets were allocated in nine different industries/sectors.

- The nine industries/sectors were chosen from those with high or medium potential for growth in 1999. The analysis was based on the composite statistics and projections provided by Value Line. The main indicators analyzed for each industry were sales, net profits and ROE.

- Two companies were selected from those industries/sectors with high potential for growth in 1999 while only one company was selected from industries/sectors with medium potential for growth in the coming year.

US Industry Allocation



Drug Industry - In 1998, 28 of the 37 stocks in the Drug Industry had returns higher than the Standard & Poor 500 Index. Five issues more than doubled in price and 17 appreciated by at least 50%. Revenues increased substantially primarily due to the success of some new drugs introduced in the US market: Warner-Lambert's Lipitor (cholesterol) and Rezulin (diabetes), Eli Lilly's Zyprexa (schizophrenia) and Pfizer's Viagra (impotence). The growth trend of the industry is expected to continue this year due to the fact that the above mentioned drugs are relatively early in their respective life cycles. Although some scenarios indicate that the industry's earnings advance is likely to slow modestly in 1999, the gains should surpass those of the most other sectors by a large margin.

Composite Statistics/Forecasts	ROE	Net Profit ($mil)
1998A	28.0%	21,985
1999E	28.0%	24,850
2001-2003E	27.5%	32,295

Source: Value Line, January 1999

Medical Supplies Industry - Between 1990 and 1997, the expansion of the Medical Supplies Industry was based on internal research & development and market expansion. During the past two years, some fundamental changes took place in this sector. The financial and economic turmoil in Asia, Latin America and Eastern Europe has diminished the appeal of penetrating foreign markets. Consequently, acquisitions became the preferred method of growth. Among the most active acquirers in the industry, we find Medtronic, Johnson & Johnson and Boston Scientific. Stock valuations suggest further merger and acquisition activity and this consolidation trend is expected to continue in the next two years.

Composite Statistics/Forecasts	ROE	Net Profit ($mil)
1998A	21.5%	11,040
1999E	21.0%	12,175
2000E	20.0%	13,320

Source: Value Line, March 1999

Financial Services Industry - 1998 was a record year for the Financial Services Industry and the growth trend should continue. February 1999 is the fourth consecutive month of improvement for consumer confidence. Three factors are contributing to the current remarkable growth of this industry:

- *The consistent growth of the equity markets*
- *An extremely low unemployment rate*
- *A low-inflation and low-interest rate environment*

These factors determined last year significant increases in personal income and, therefore, in purchasing power. Consequently, new/existing vehicle and home sales reached record levels in 1998. This spending momentum is likely to continue in the first part of the coming year. Although slower expansion in inflation and interest rates is possible in the second part of the year, 1999 is still expected to be extremely solid.

Telecommunications Services & Equipment Industry

New technology and markets offer good revenue and earnings growth potential. The current opinion is that in 1999, the telecommunication services stocks will outperform the stock market averages. The four major segments of the telecommunications services sub-sector are:

- Long-distance telephone services (AT&T, GTE, MCI WorldCom and Sprint). The market has a value of $80 billion and is expected to grow at an annual rate of 2-5% over the next 3-5 years. Competition will intensify due to the deregulation process that has been already initiated by the Federal Communications Commission.

- Local telephone services (the "Baby Bells"). The market is expected to grow at an annual rate of 5-10% over the next 3-5 years. The main growth factors are the introduction of second lines for personal computers, voice messaging services, caller ID services, etc.

- Wireless (Air Touch Communications). The market is expected to grow at an annual rate of 20-30% over the next years. Significant potential for growth exists both in the US market where the industry penetration is 20-25% and internationally where the penetration is much lower.

- Internet/Data (MCI WorldCom, Frontier Corporation, Sprint, AT&T). The market is expected to grow at an annual rate of 20-40% over the next years. AT&T is currently looking to acquire IBM's Global Network for $5 billion while MCI WorldCom is very active in the development of voice communications services using Internet networks. In the coming years, the technological advancements will determine a significant growth of the sector.

Composite Statistics/Forecasts (services)	ROE	Net Profit ($mil)
1998A	23.0%	17,800
1999E	23.0%	19,785
2001-2003E	23.0%	28,300

Source: Value Line, January 1999

Composite Statistics/Forecasts (equipment)	ROE	Net Profit ($mil)
1998A	5.0%	920
1999E	5.5%	1,000
2001-2003E	6.5%	1,445

Source: Value Line, January 1999

Air Transport Industry - Airline traffic has been increasing for more than two years and there are signs that this growth trend will continue in 1999. The fact that the capacity has been growing more slowly than traffic was very important.

Consequently, the industry load factor rose 0.5 percentage to 70.9%. That compares with load factors of 70.4% in 1997 and 69.4% in 1996. In 1999, it is possible to see an increase in the operating costs due to the increase in the fuel prices. However, the Air Transport industry is very closely tied to the economy and the forecasts indicate that the economy will continue to grow moderately.

Composite Statistics/Forecasts	ROE	Net Profit ($mil)
1998A	23.0%	4,785
1999E	22.5%	4,925
2000E	18.0%	5,325

Source: Value Line, January 1999

Beverages (Alcoholic) Industry - Long term prospects for many of the producers in this group remain bright due to the rapid expansion in areas of the world where per capita consumption is rising at a healthy rate. The penetration of less developed international markets should therefore drive future earnings growth. Although the consumption levels in mature markets such as North America, Western Europe and Japan remain relatively flat, pricing strategies can significantly influence the profitability. During December 1998, pricing for the beer industry continued to rise at a faster-than-expected rate, with positive pricing trends for Anheuser-Busch and Coors. The industry is expected to run in tandem with the broader market averages over the coming 6-12 months.

Composite Statistics/Forecasts	ROE	Net Profit ($mil)
1998A	11.4%	1,815
1999E	11.5%	2,090
2001-2003E	12.5%	3,032

Source: Value Line, February 1999

Office Equipment & Supplies Industry - Both manufacturers and office supply distribution businesses had superior results in the past few years. The main factors that influenced this growth were the introduction of digital products, the expansion in foreign markets and the restructuring programs. The manufacturers of office equipment and electronic systems are expected to have solid earnings in the next two years mainly because of the successful innovations and new product introductions. The office supply distributors will continue to expand through aggressive store opening programs and acquisitions. Another important factor that will contribute to the growth of the sector is the convergence of the information technology and office products (low-priced digital copiers, multi-function machines, etc). However, in making investment decisions, a particular emphasis should be put on industry leaders.

Composite Statistics/Forecasts	**ROE**	**Net Profit ($mil)**
1998A	17.5%	3,600
1999E	17.5%	4,000
2001-2003E	18.0%	5,800

Source: Value Line, January 1999

Electrical Equipment Industry - The performance of the Electrical Equipment Industry over the year of 1999 is expected to be modest. However, the industry has a very diverse nature. Companies in this industry are selling a very broad array of products across a wide set of markets. Consequently, the companies must be evaluated on an individual issue-basis. Companies such as General Electric are expected to continue their strong growth trends.

Composite Statistics/Forecasts	ROE	Net Profit ($mil)
1998A	20.5%	15,000
1999E	20.0%	16,500
2001-2003E	19.5%	19,800

Source: Value Line, January 1999

Technology Sector - Over the past decade, a large number of companies specialized in computer hardware/software provided extremely high returns to their shareholders. Due to the high volatility that is characteristic of many of these stocks, we grouped them together in a broader Technology Sector. Some of the industries represented are:

- Computer Hardware Industry (Intel, Apple Computer, Dell Computer, Cisco Systems, etc)
- Computer Software Industry (Microsoft, Sun Microsystems, Oracle Corporation, etc)
- Internet/Online Industry (Yahoo!)

In 1999, it is very likely that this group will continue to rise both the top and the bottom lines. Although investments in such industries have a much greater amount of risk, the sector's long-term prospects are extremely bright. The rapid growth in the use of Internet should fuel continued demand for many of these companies.

Composite Statistics/Forecasts (Computer Hardware)	ROE	Net Profit ($mil)
1998A	19.0%	18,500
1999E	20.5%	22,900
2001-2003E	21.0%	37,900

Source: Value Line, January 1999

Composite Statistics/Forecasts (Computer Software)	ROE	Net Profit ($mil)
1998A	20.5%	11,350
1999E	19.5%	13,100
2001-2003E	20.5%	25,000

Source: Value Line, January 1999

5.3.2. Company allocation

The company allocation of funds was based on the following principles:

- Selected companies should be part of the nine industries above mentioned
- Selected companies should be large cap, industry leaders or companies with a strategic position within the industry.
- Selected companies should have strong fundamentals
- Selected companies/trusts will have an equal weight in the portfolio

Company	Ticker	Industry	Market Cap (billions)	Rank in Industry
Genentech	GNE	Drug	10.0	13
Pfizer	PFE	Drug	156.0	2
Johnson & Johnson	JNJ	Medical Supplies	125.0	1
McKesson HBOC	MCK	Medical Supplies	6.5	9
American Express	AXP	Financial Services	48.8	2

Citigroup	C	Financial Services	130.0	1
AT & T	T	Telecommunications Services	104.8	1
Hughes Electronics	GMH	Telecommunications Equipment	14.8	2
Delta Air Lines	DAL	Air Transport	8.9	4
Anheuser-Busch	BUD	Beverages (Alçoholic)	33.0	1
Office Depot	ODP	Office Equipment & Supplies	8.4	4
General Electric	GE	Electrical Equipment	317.0	1
Nasdaq 100	QQQ	Technology Sector	N/A	N/A

Drug Industry

➢ GNE

Name: Genentech, Inc

Industry: Biotechnology – Human Therapeutics

Industry Position:

It is the second largest biotech company in terms of market value and revenue. It is estimated that the pipeline should produce 1-3 significant new products, adding substantially to the company's value and earnings.

Business Summary

Genentech, Inc. is a leading biotechnology company that focuses on the production of drugs based on recombinant DNA technology. Roche Holdings, a Swiss pharmaceutical giant, owns 60% of the stock. Genentech was the first company to successfully employ genetic engineering or recombinant DNA technology to produce commercial quantities of new therapeutic substances. The company manufactures and markets seven protein-based pharmaceuticals and licenses several others. The R&D pipeline includes a sustained release growth hormone, a nerve growth factor for diabetic peripheral neuropathy, a second-generation t-PA for acute myocardial infarction, an anti-IgeE antibody for the treatment of allergic asthma and rhinitis, and vascular endothelial growth factor for the revascularization of blood vessels.

Current Price: $87 1/4

12-Month Price Objective: $102

5 Year Forecasted EPS Growth: 32%

1998 EPS: $1.02

1999 Forecasted EPS: $1.55

2000 Forecasted EPS: $2.05

- PFE

Name: Pfizer

Industry: Pharmaceutical preparations

Industry Position

The company's growth has significantly exceeded that of the overall industry in recent years. Growth has came from an exceptionally strong portfolio of blockbuster drugs. Analysts regard Pfizer as strategically well positioned in terms of product breadth and marketing power, and strong pipeline. The company has been able to deliver top earnings performance despite heavy investments in research and development as well as the addition of several sales forces. Pfizer appears well positioned to continue its strong financial performance.

Business Summary

Pfizer is a leading global pharmaceutical company that also has interests in hospital products, animal health items, and consumer products. Pfizer markets a wide range of prescription drugs. Overseas business is very significant, representing 45% of total sales and 37% of profits in 1997. Business segment contributions are as follows (1997): health care 85%/96% (sales/profits), animal health 11%/3%, consumer 4%/1%. Prescription pharmaceuticals are the chief engine of Pfizer's growth.

Current Price: $139 5/8

12-Month Price Objective: $ 153

5 Year Forecasted EPS Growth: 18%

1998 EPS: $2.00

1999 Forecasted EPS: $2.50

2000 Forecasted EPS: $2.95

MCK

Name: McKesson HBOC

Industry: Pharmaceuticals – Distribution

Industry Position

McKesson is a leading distributor of medical products and supplies health care information technology products and services. Management's mission is to become the world leader in health care supply and comprehensive pharmaceutical management across the entire supply chain from manufacturer to patient.

Business Summary

McKesson is a leading health care products supplier. The company recently broadened the scope of its operations with its acquisition of HBO Co. The U.S. operations of the McKesson Healthcare Services segment develops and manages innovative marketing programs and other support services to pharmaceutical manufacturers. HBOC provides integrated patient care, clinical, financial, managed care and strategic management software solutions for the healthcare industry.

Current Price: $68 3/4

12 Month Price Objective: $120

5 Year Forecasted EPS Growth: 30%

1998 EPS: $1.48

1999 Forecasted EPS: $2.05

Year 2000 Forecasted EPS: $3.00

Air Transport

- DAL

Name: Delta Airlines Inc.

Industry - Delta operates in the Air transport industry

Position in the industry - Delta operates the third largest US airline, providing service to 148 US cities and 46 foreign destinations directly and 72 others through code sharing arrangements.

Overview of the business - Delta is one of the industry's lowest cost carriers and manages to do this by keeping the wages of its pilots low. In 1996 the pilots signed an agreement to take a 2% wage cut in return for options on 500,000 of the company's shares. On its Delta Express short haul operations the company only flies point-to-point routes, keeps a simplified fleet and offers only all coach seating.

Current Price - \$68 5/8

12 month price objective - \$80

5 year EPS growth – 21%

1999 and 2000 year projections - \$6.70 and \$7.5

In the past, the company had been slow to adapt to changes in its industry. In recent times, however, there has been a restructuring and revamping of operations and routes. The company is starting to see an increase in unit revenues and profits. Indications are that the current alliance with Air France will strengthen the company and enable Delta to position itself as a major carrier to Europe.

This will boost revenues and market position in the future and enable the company's stock price to increase in value in the long run. Delta offers very good value on a buy and hold strategy in the long term.

Financial Services

- C

Name : **Citigroup**

Industry : Financial Services

Overview of the business - Citigroup, formed by the merger of Citicorp and Travelers Group on 10/8/98, is a diversified financial services company with operations in consumer and corporate banking, insurance, investment banking, and asset management.

The merger of the two giants targeted specific cost reductions, which management estimates at \$680 million in 1999. Expense reductions from earlier efficiency initiatives are also expected. The consumer banking operations should have another good year while substantial improvement in investment/commercial banking operations is also expected.

In the fourth quarter of 1998, Citigroup had a number of important favorable trends:

- Salomon Smith Barney returned to profitability
- The credit card business had an earnings surge, up 80% in the fourth quarter year-over-year
- The Global Consumer Business represents 64% of earnings and is growing strongly.
- The firm bought back 24 million shares in December 1998
- Management is talking about $2 billion in cost saves by year 2000

Price : $64 1/2

12-month price objective : $70

Est. 5-year EPS growth : 13%

99 and 00 year projections

Estimates	**1999E**	**2000E**
EPS	$3.65	$4.30
P/E	14.6x	12.4x
Consensus EPS	$3.49	NA
Dividend Rate	$0.84	$0.97
Dividend Yield	1.6%	1.8%

➢ AXP

Name : American Express

Industry : Financial Services

Overview of the business - American Express, a leader in travel-related services, is also active in investment services, expense management services and international banking. The company's growth strategy is focused on three principal themes: expand its international presence, strengthen the charge card network, and broaden the offering of financial services. Contributions by principal operating segment in 1997 were:

	Revenues	**Profits**
Travel-related Services	71%	62%
Financial Advisors	26%	34%
American Express Bank	3%	4%

- Travel Related Services markets travelers checks and the American Express Card. TRS also offers business expense management products and services, corporate and consumer travel products, magazine publishing, database marketing and management, etc.
- Financial Advisors provide financial products including financial planning and advice, insurance and annuities, investment products such as certificates, mutual funds, etc.
- American Express Bank offers products designed to meet the financial services needs of corporations, financial institutions, affluent individuals and retail customers.

American Express reduced its loan exposure to Asia/Pacific by over $1 billion in 1998. Exposure to areas such as Brazil and Russia does not represent a significant portion of the company's portfolio. Card spending should remain healthy within the consumer and small business segments. Recent expansion of the ATM network should provide additional revenues while demand for mutual funds will also remain firm. American Express is expected to continue repurchasing its shares during 1999.

Price : $121

Telecommunication Services

- T

Name: ATT Corp, NYSE (T)

Industry: Utility - Telephone

Position in the Industry:

AT&T, which has more than 90 million customers, remains the #1 US telecommunications company and the leader in long-distance services (ahead of MCI WorldCom and Sprint). International alliances permit AT&T to offer a full range of services overseas. It is listed on the Dow Jones Industrial Index and is #10 in the Fortune 500.

Overview of the Business:

AT&T CORP. is a major participant in two industries: the global information movement and management industry and the financial services and leasing industry. The Communications Services Group addresses the needs of large and small businesses, the Federal government, state and local governments and consumers for voice, data and video telecommunications services. AT&T Wireless Services Inc. is the nation's largest cellular communications company and operates the fifth largest U.S. messaging service, serving more than 5 million customers in over 100 cities.

The company is attractive because management continues to redefine its operating strategy by divesting non-core operations, growing its core telecommunications services businesses and rationalizing its cost structure. In addition, the company continues to develop alliances with leading vendors across business segments while strategically acquiring complimentary technologies in growing markets. Management has shifted its focus to supporting growth segments such as wireless, data and IP networking, and business local services. AT&T expects capital expenditures to be $9 billion to $10 billion in 1999 with much of the spending shifted into higher growth areas, primarily wireless, local, and data/IP services. AT&T recently took a big stride toward entering the local services market by acquiring Teleport Communications Group for $11.3 billion in stock. It also entered into a joint venture with British Telecom. The multinational alliance is expected to produce $10 billion in revenues by 2000, and to be accretive to earnings in the first year.

The company reported 4Q98 earnings of $1.00 per share, up 45% from the year-ago period. Results were driven by effective spending on revenue generating programs. The company, with 20% of the U.S. intra-LATA toll presubscription market, should sustain earnings growth of about 10% annually over the next five years.

Revenue Contributions in 1998 & 1997:

	1998	1997
Business Long-Distance	41%	42%
Consumer Long-Distance	40%	46%
Wireless Services	11%	8%
Local and Other	8%	4%
Total	100%	100%

Price: $78 1/2

12 month Price Objective: $98

Est. 5 Year EPS Growth: 18.0%

Projections:

Estimates	1999	2000
EPS	$3.50	$3.50
P/E	23.4	22.8
EPS Change	-1.4%	2.9%
First Call EPS	$0.85	
Cash Flow/Share	$6.65	$7.21
Price/Cash Flow	12.0	11.0
Dividend Rate	$1.32	$1.32
Dividend Yield	1.7%	1.7%

Shares Outstanding: 1,769 million

Book Value per Share (December 1998): $14.55

Price/Book Ratio: 5.5

52 week Stock Price Range: $96 1/8 - $48 3/8

- GMH

Name: Hughes Electronics, NYSE (GMH)

Industry: Telecommunications Equipment

Position in the Industry: Hughes Electronics Corp. is a world leader in the design, manufacture and marketing of advanced electronic systems. It is the leader in satellites and satellite services.

Its Hughes Space and Communications unit (45% of sales) has made almost 40% of the world's commercial satellites currently in operation, transmitting everything from telephone calls and video conferences to TV news reports and programming. Direct broadcast satellite service unit DIRECTV is the largest satellite-TV broadcaster in the US.

Overview of the Business:

Hughes Electronic Corp. provides automotive, space, defense electronics and commercial communications satellites. Hughes is a wholly owned subsidiary of General Motors Corporation and was formed on December 31, 1985, when General Motors acquired Hughes Aircraft Company from the Howard Hughes Medical Institute. Hughes Electronics comprises Hughes Space and Communications Company; Hughes Network Systems, Inc.; DIRECTV, Inc.; Hughes Communications, Inc.; and PanAmSat Corporation. The company designs and makes satellites and satellite-based telecommunications systems, which account for 45% of total sales, and provides such services as DIRECTV, a TV broadcast system offering 185 channels of programming. Its telecommunications equipment arm, Hughes Network Systems, is a top supplier of wireless phone networks and cellular mobile systems. The company also owns 81% of PanAmSat, a 17-satellite (with six more expected by late 1999) global network and supplier of satellite-based business networks. GM has been shedding the other Hughes business units to focus on communications.

The company is attractive as it is the leader in satellites/services. The company recently proposed the acquisitions of Primestar and USSB. These deals would raise the company's market share from 50% to 78%. The USSB deal will likely save the company $160-$180 million by 2000. The deals would also improve the company's channel capacity and expand its distribution. The company alone added 1.2 million net subscribers in 1998. Management is planning to expand by adding Internet browser capability. Some results were recently depressed by Asian economic troubles, but management sees a rebound in 1999. The company should be able to generate a long-term growth rate around 64%.

Price: $51.94

12 month Price Objective: $56

Est. 5 Year EPS Growth: 49.1%

Projections:

Estimates	1999	2000
EPS	$0.53	$1.46
P/E	87.4	31.7
EPS Change	29.3%	175.5%
First Call EPS	$0.61	$1.06
Cash Flow/Share	$3.06	$4.83
Price/Cash Flow	15.1	9.6
Dividend Rate	Nil	Nil

Shares Outstanding: 400 million

Book Value per Share: $20.65 (Sept 1998)

Price/Book Ratio: 2.2

52 week Stock Price Range: $57 7/8 - $30 3/8
□

Company versus Industry Ratios:

	Hughes Electronics Corp	Industry Avg	S&P 500
Pr Chg YTD	31.0%		5.0%
P/E (12Mo)	112.9	19.4	28.9
Price/Book	0.72	2.0	7.4
Price/Sales	0.9		
Price/CF	7.7	17.0	
Impl Ret/ P/	0.34	1.29	

Div Yield	0.0%	0.0%	1.2%
Net Margin	4.4%	0.7%	
ROE	3.0%	8.0%	22.0%
Debt/Cap	13.0%		

Medical Supplies

- JNJ

Name : Johnson & Johnson

Industry : Medical Supplies

Overview of the business - Johnson & Johnson ranks as the largest and most diversified health care company in the world. The company offers an impressive list of blockbuster prescription drugs, professional products and the broadest line of health related consumer products.

Foreign business accounted for 48% of the sales and 38% of the profits in 1997. Sales and earnings in 1997 were divided as follows:

	Sales	Profits
Pharmaceuticals	34%	56%
Professional	37%	32%
Consumer	29%	12%

New productslaunches and products introduced in new foreign markets over the past five years accounted for 36% of total sales in 1997. Some of the most fast growing product lines developed in recent years have been: Palmaz-Schatz (coronary stent), LifeScan (glucose monitoring system), and Risperdal (anti-psychotic). The new products enabled Johnson & Johnson to reach a compound EPS growth of over 14% over the 1992-1997 period.

Professional items also include new products such as disposable contact lenses. The recent acquisition of FemRx, a leader in developing surgical systems that make possible less invasive alternatives to hysterectomy, will help to maintain the growth trend within the Professional Division.

The Pharmaceutical Division has an excellent opportunity to concentrate on developing new products because the vast majority of Johnson & Johnson proprietary pharmaceuticals have patent protection well into the next decade.

Price : $94.13

Est. 5-year EPS growth : 14%

99 and 00 year projections

Estimates	**1999E**	**2000E**
EPS	$2.99	$3.45
P/E	27.6x	23.9x
Consensus EPS	$2.98	NA
Dividend Rate	$1.00	$1.14
Dividend Yield	1.2%	1.4%

Beverages (alcohol)

- BUD

Name : Anheuser-Busch

Industry : Beverages (Alcoholic)

Overview of the business - Anheuser-Busch Companies Inc. is world's largest brewer, one of the largest theme park operators in the US, the second largest US manufacturer of aluminum beverage containers and the world's largest recycler of aluminum beverage containers.

- The company enters 1999 with considerable momentum. Although at the beginning of 1998, the pricing environment was extremely competitive, the company's unit sales volume and share earnings reached new highs by the end of the year.

- At the end of last year, the company initiated price increases in an attempt to modify the existing competitive pricing environment. The two largest rivals, Miller and Coors followed the same strategy. Strong growth of domestic revenue per barrel is therefore expected in 1999.

- Significant bottom-line contribution is also expected to come from the company's investment in Grupo Modelo, the largest Mexican brewer due to recent changes in the local accounting legislation.

- The company is expected to maintain its strong volume trends in various foreign markets such as: United Kingdom, South America and China (Anheuser-Busch has a presence in over 70 countries).

Price : $75.94

12-month price objective : $83

Est. 5-year EPS growth : 9%

99 and 00 year projections

Estimates	1999E	2000E
EPS	$2.85	NA
P/E	24.4x	NA
Consensus EPS	$2.77	NA
Dividend Rate	$1.20	NA
Dividend Yield	1.7%	NA

Other

- GE

Name: General Electric

Industry: Electrical equipment and various other

Position in the industry: GE is one of the world's largest providers of financing and insurance as well as a leading maker of jet engines, electric utility generators and medical equipment.

Overview of the business: This diverse company has the highest market capitalization of any public company. GE's interests include a broad range of services, technology and manufacturing industries. GE's senior management has proven adept at defining the strategic direction of the company which lower level managers implement. Key to GE's business plan is the requirement that businesses be first or second in market share in their industries. Businesses that are not leaders are divested.

At the moment, 40% of GE's revenues and 32% of its profits are derived overseas. GE is the midst of a company-wide initiative to boost quality and lower costs. It believes that this should boost margins in 1998 and beyond as hundreds of projects underway mature.

Segment contribution in 1997

Segment	% of Revenues	Profits
Aircraft engines	8.3%	1'051
Appliances	7.1%	458
Broadcasting	5.5%	1'002
Industrial products & systems	11.6%	1'490
Materials	7.1%	1'476
Power Generation	7.9%	758
Technical products/services	5.2%	828
Financial Services	42.3%	4'422
Other	5.0%	3'558

Operations are divided into two groups: product, service and media businesses and GE Capital Services (GECS). Product, service and media includes 11 businesses: aircraft engines, appliances, lighting, medical systems, NBC, plastics, power systems, electrical distribution and control, information services, motors and industrial systems, transportation systems. GECS operates 27 financial businesses clustered in equipment management, specialty insurance, consumer services, specialized financing and mid-market financing.

Price: $111.63

12 month price objective: $125, potential for appreciation - $130-$150

5 year EPS growth: 13%

Projections:

Estimates	1999	2000
EPS	3.15-3.20	3.53-3.57
P/E	34	31
EPS change	13.4%	11.8%
First call EPS	3.19	
Cash Flow / Share	3.89	4.28
Price / Cash Flow	28	26
Dividend Rate	1.40	1.58
Dividend Yield	1.3%	1.4%

Shares outstanding: 3'324 million

Book Value per share: 10.82 (Dec-98)

Price / Book ratio: 10.2

52 week stock price range: $112 15/16 - $69

Office equipment and supplies

- ODP

Name: Office Depot INC

Industry: Miscellaneous shopping goods stores

Position in the industry: The company is a leading operator of office products superstores and mail order catalogs.

Overview of the business: Office Depot operates a chain of large-volume office products warehouse stores that sell high quality, brand name office products primarily to small and medium-size businesses. The company operates over 700 superstores in the US, Canada and France, with the heaviest concentration in California, Florida and Texas (together accounting for 40% of the network).

Stores average 25,000 sq. feet to 30,000 sq. feet in size and use a warehouse format. Each store offers about 6,000 brand name office products, including general office supplies, business machines and computers, office furniture, and other business related products.

Sales in 1997 were derived as follows

General office supplies	42.5%
Business machines and supplies	45.9%
Office furniture	11.6%

ODP offers a wide selection of brand name office products at everyday low prices. Substantially all inventory is purchased directly from manufacturers in large volumes. The company does not use a central warehouse, but maintains inventory on store sales floors. ODP believes that its prices are lower than those typically offered to small and medium-size businesses.

Price: 35.94

12 month price objective: 42

5 year EPS growth: 20%

Projections:

Estimates	1999	2000
P/E	24	19.5
EPS change	21%	23%
First call EPS	1.51	1.85
Cash Flow / Share	2.15	2.50
Price / Cash Flow	16.7	14.4
Dividend Rate	Nil	Nil

Shares outstanding: 269 million

Book Value per share: 7.54 (Dec-98)

Price / Book ratio: 4.8

52 week stock price range: \$39 - \$15 7/8

Technology

➢ QQQ

Name: Nasdaq-100 Shares

Description:

QQQ is an investment trust formed by Nasdaq-Amex Investment Product Services to provide investors with the opportunity to purchase units of beneficial interest in the Trust. The Trust represents proportionate undivided interest in a portfolio of securities, consisting of substantially all of the securities approximately weighted the same, as the component securities of the Nasdaq-100 Index.

The price of the trust is presently 1/20th of the value of the Nasdaq-1000 index.

Expenses: 0.18% per annum of the net asset value.

5.4. *Europe*

Two funds that invest in European equities and primarily in the UK were selected. The screening process involved sorting on:

- A 3-year average return greater than 15%
- Low volatility as measured by standard deviation
- Lipper quintile rating of 5 or greater,
- Majority investment in the UK.

Twenty-three funds matched these requirements. The funds were then screened on the basis of highest return, with 0% sales charge and the lowest expense ratio. From the lot Montgomery International Growth fund and INVESCO European fund were selected.

Montgomery International funds (MNIGX)

The fund started in July 1995 and invests in medium and large cap companies in developed stock markets outside the United Sates. The funds 3-year average return was 19.69% and year to date return stands at 28.69%[1]. It was 5-star rated by Morningstar in February 1998 based on its average three year returns.

John Boich, CFA and Oscar Castro, CFA manage the fund with combined experience in fund management of over 30 years. The minimum investment is $1000 and subsequent investments are $100. The fund trades on the NYSE under the symbol IntlGrth.

INVESCO European Fund (FEURX)

Date of inception for the INVESCO European fund was June 1986. It has since received a five-star Morningstar rating for three, five and ten year returns and is

[1] Other fund facts are included in the appendix

currently ranked 12 out of 96. Its 3-year annualized return is 28.24% and year to date is 6.16%[2]. The fund seeks long term capital growth by investing in specific European countries primarily the UK.

Steven Chamberlain has managed INVESCO European fund since 1990. The minimum investment is $1000 and subsequent investments are $50.

5.5. Asia-pacific

In order to further diversify the portfolio, 10% of the assets were allocated to equities in Asia. It was decided that an equity mutual fund based in the U.S. would be the most appropriate vehicle. Funds were screened by the following criteria:

- A positive 3-year average return
- Low volatility as measured by standard deviation
- Initial Investment between 0 and $10,000 (10% Of $100,000)

Five funds were found that matched the criteria. The funds were screened based on expense ratio, sales charge and historical return. The content of each fund was scrutinized for asset allocation and the records of the fund managers was investigated. Three of the funds were eliminated because of hidden sales charges (redemption charges) and a fourth because of a high expense ratio (2.71% versus 1.75%). The selected fund was Warburg Pincus Japan Growth Fund (ticker WPJGX).

Warburg Pincus Japan Growth Fund

The fund seeks the long-term growth of capital by investing in equity securities of growth companies located in or conducting a majority of their business in Japan (65% or greater) and Asia (remainder). These equities consist of common and

[2] see appendix for more fund facts

preferred stocks, rights and warrants, securities convertible into or exchangeable for common stocks, and American Depository receipts. The philosophy of the managers is to identify companies with attractive growth potential whose equity securities appear undervalued based on factors such as earnings or assets. These companies are not restricted by size.

The funds principal risk factors are market risk, foreign securities, country focus, and non-diversified status. Fund performance in all funds in this sector will be closely tied to economic and political conditions within Japan in particular and Asia overall and the fluctuation of the Japanese stock market.

The fund is allocated as follows: Electronic - 40%, Finance/Services - 12.3%, Computer - 9.8%, Industrial Machinery - 8.2%, Telecom/Equipment - 7.3%. The percentage of the fund contained in the top 5 holdings is 23.2%.

The three year average return is 8.9% and one year 31.6%. These were the highest of the five funds. The standard deviation was in the middle of the pack with a 19.05. Its expense ratio of 1.75% was the lowest in the group.

The fund manager is P. Nicholas Edwards. He has been the fund manager since its inception in 1995. He also manages the Warburg Pincus Japan Small Company Fund. Before joining Warburg, he was director at the Jardine fleming Investment Advisors in Tokyo, Japan, from 1984 to 1995.

6. Portfolio

6.1. Composition

The funds allocated to the U.S. equity markets were allocated equally between the selected stocks and sector fund, while still maintaining our international geographic allocation.

Due to rounding differences, the exact composition of the portfolio will depend on the stock prices pending at the moment of purchase. Taking as a proxy the prices as of close of trading on 4/1/99 the portfolio structure looks as follows:

Stock	Price	Pct	Shares	Cash Value
GNE	87.25	5.3%	61	5,322
PFE	139.56	5.3%	38	5,303
MCK	68.19	5.3%	78	5,319
DAL	68.62	5.4%	78	5,352
C	64.69	5.4%	83	5,369
AXP	121.00	5.3%	44	5,324
T	78.50	5.3%	103	5,350
GMH	51.94	5.4%	57	5,365
JNJ	94.13	5.3%	70	5,316
BUD	75.94	5.4%	48	5,358
GE	111.63	5.4%	149	5,355
ODP	35.94	5.4%	50	5,365
QQQ	107.30	5.4%	50	5,365
FEURX	17.24	10.0%	580	9,999
MNIGX	18.10	10.0%	552	9,991
WPJGX	12.52	10.0%	798	9,991
Cash		0.6%		554

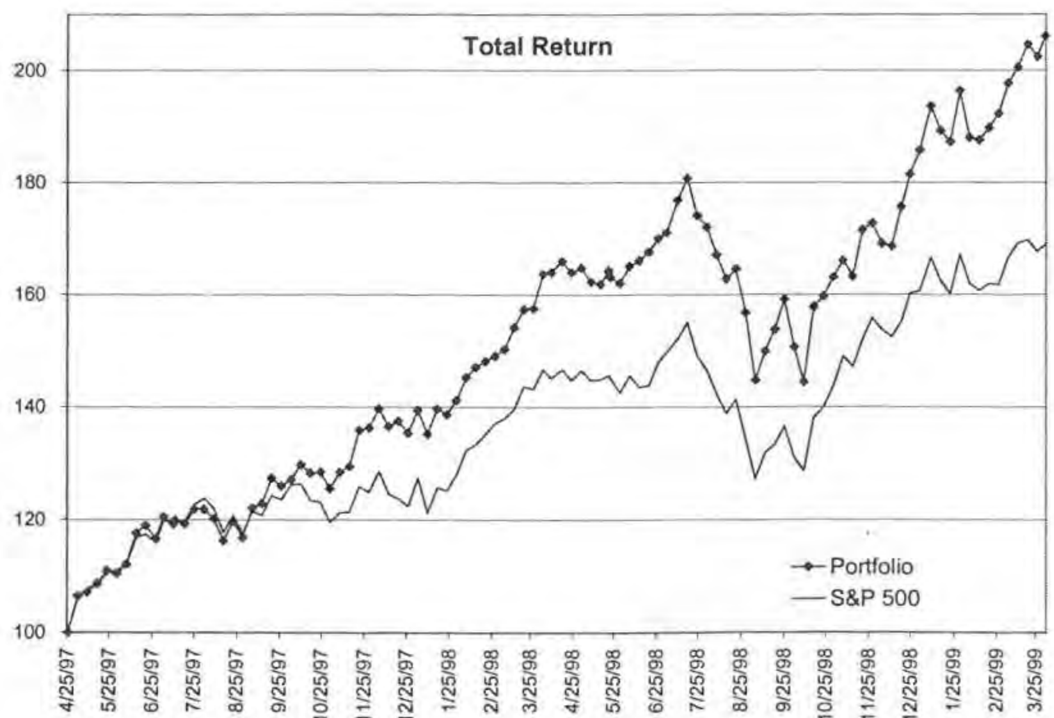
In order to back test the performance and risk of our portfolio we have taken the weekly closing prices since 4/25/97 (first date the NAV for WPJGX was published) and calculated the following statistics:

6.2. Beta

The beta of the portfolio relative to the S&P 500 is 1.016. The beta was calculated using all available data for weekly returns for the portfolio and for the index.

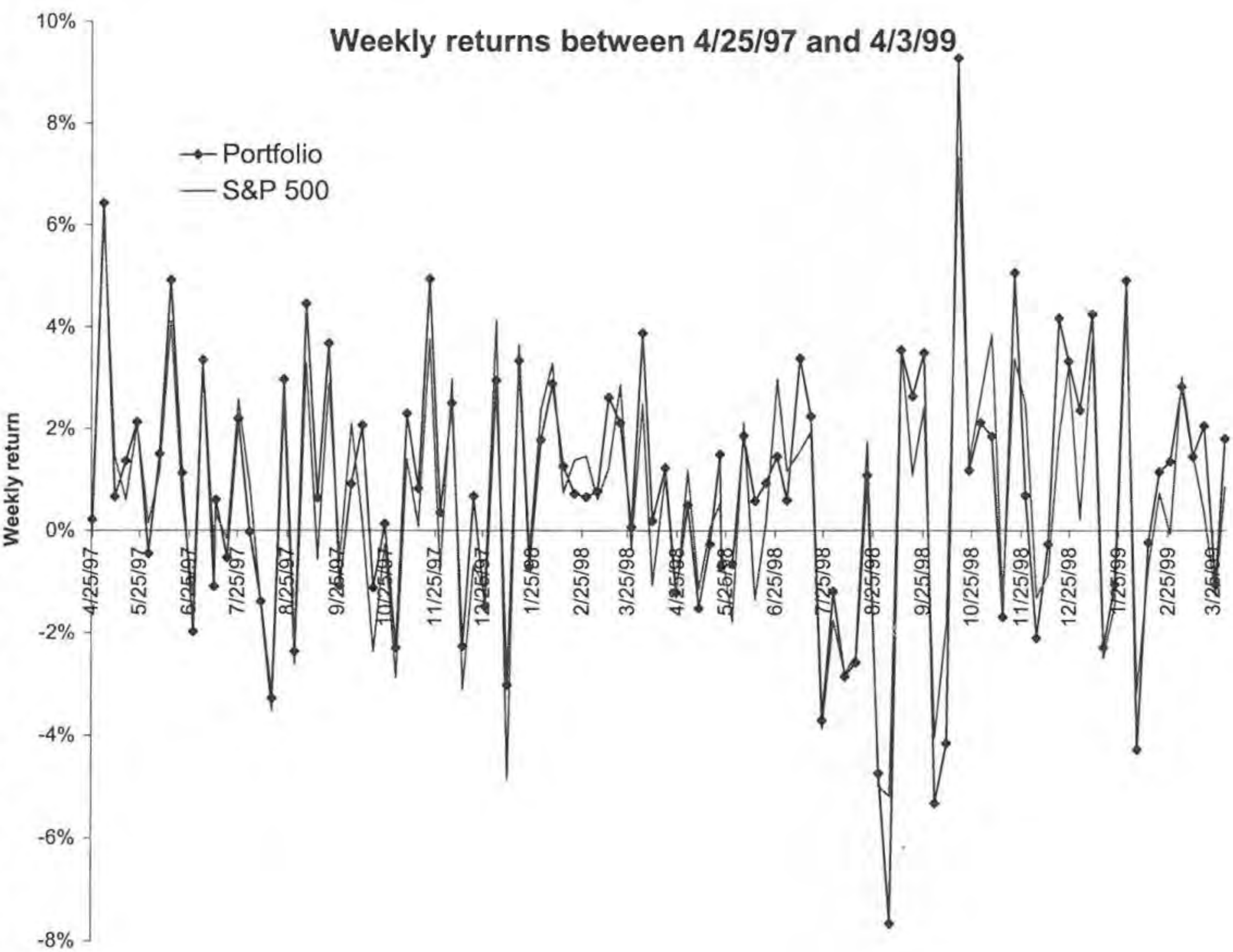
6.3. Total Return

The following graph shows the performance of the portfolio and of the S&P500 index since 4/25/97. In order to calculate the performance of the portfolio as well as to calculate all other performance and risk measures, the portfolio was rebalanced in order to match our allocation strategies as of 4/25/97.



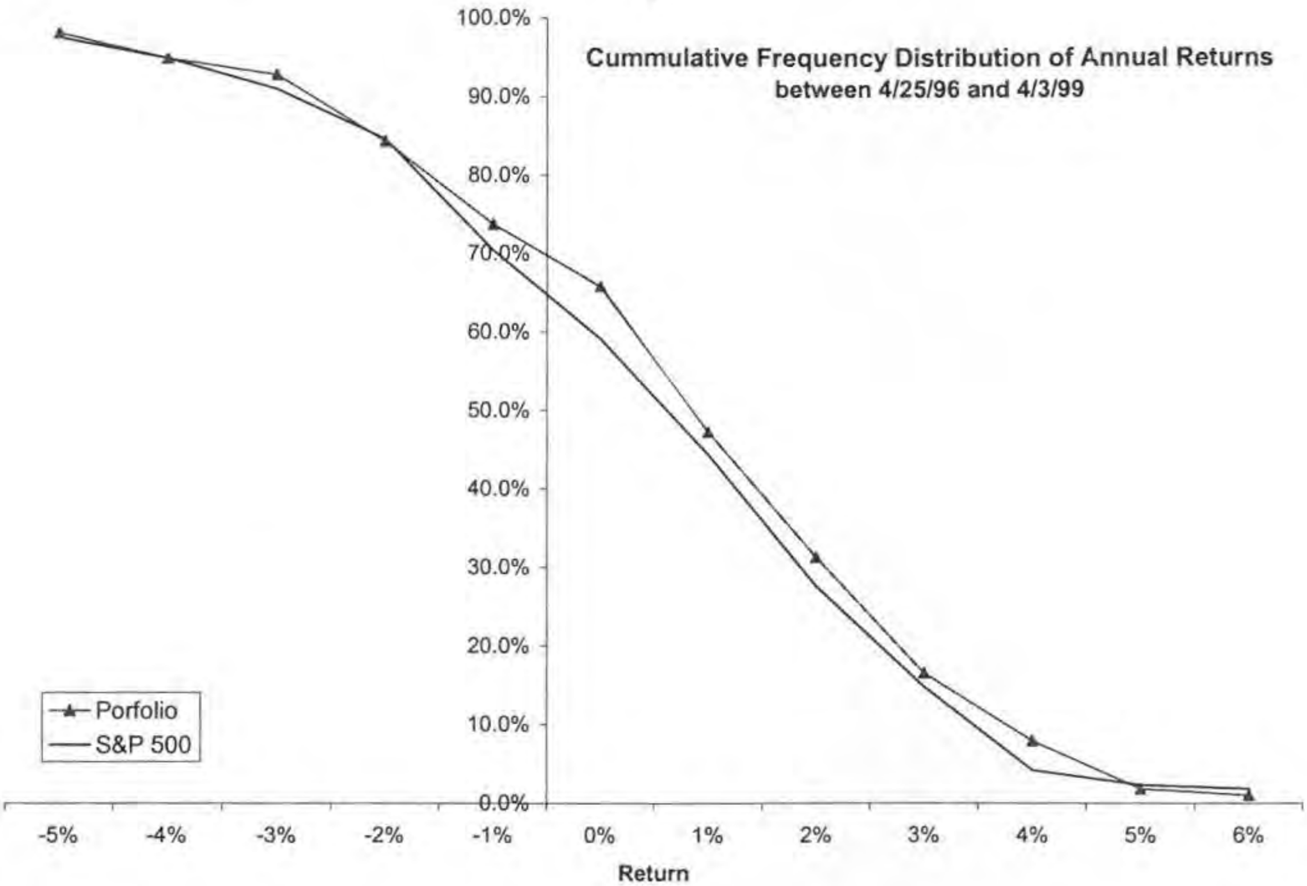
6.4. *Correlation with S&P 500 index*

The portfolio showed high correlation with the weekly returns of the S&P 500 index. The R^2 is 86.3%. The following graph visually presents the data:



6.5. Distribution of Annual Returns

The following graph shows the probability that the weekly returns will exceed a given amount. For example there is a approximately a 70% chance that the weekly returns of the portfolio will non-negative, compared with 65% probability for the S&P 500 index.



As the graph also shows, the portfolio tended to deliver consistently higher returns than the index.

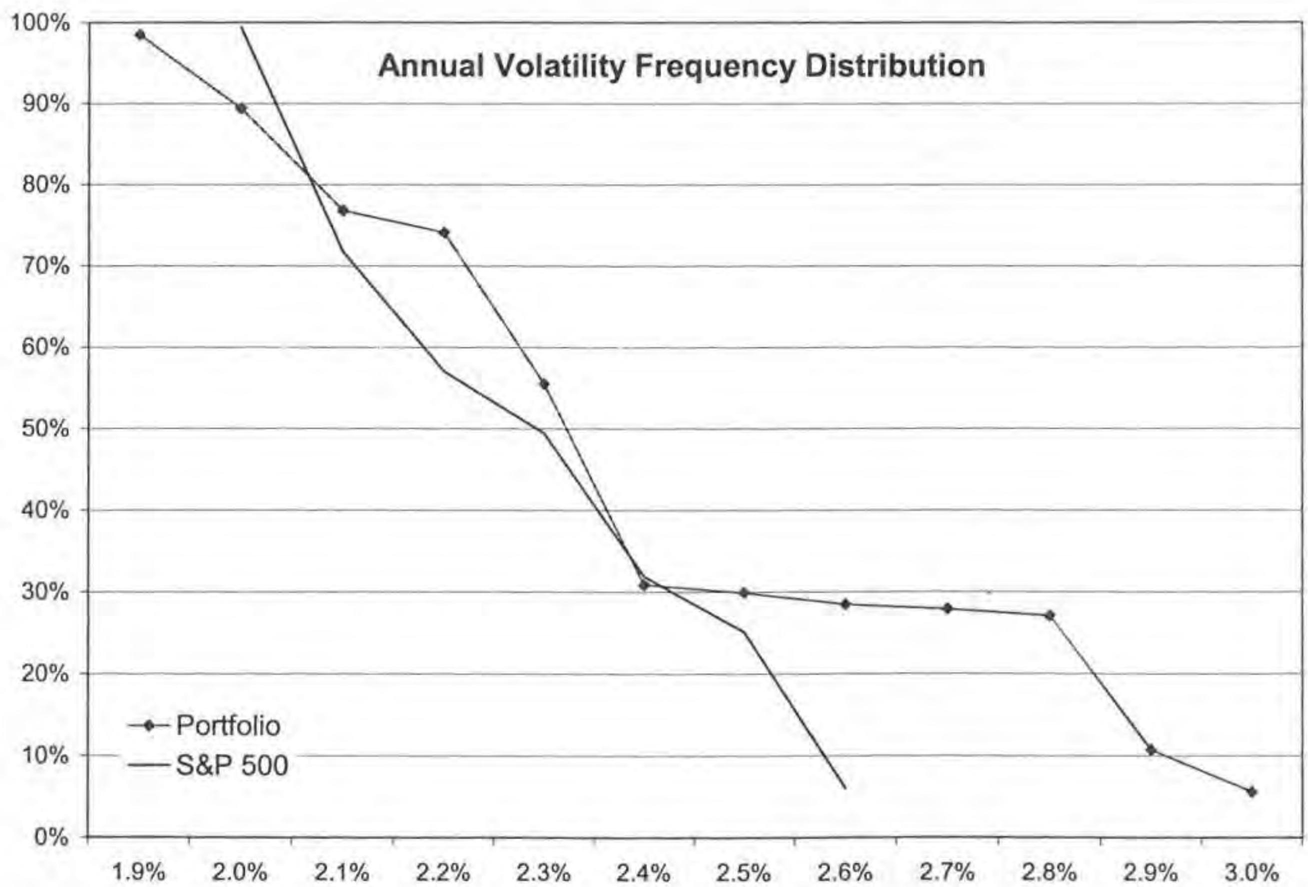
6.6. Volatility

In order to further estimate the risk of the portfolio we looked at two other risk measures:

- Cumulative frequency distribution of the volatility of the portfolio relative to the volatility of the index
- Absolute frequency distribution of the volatility of the portfolio relative to the volatility of the index

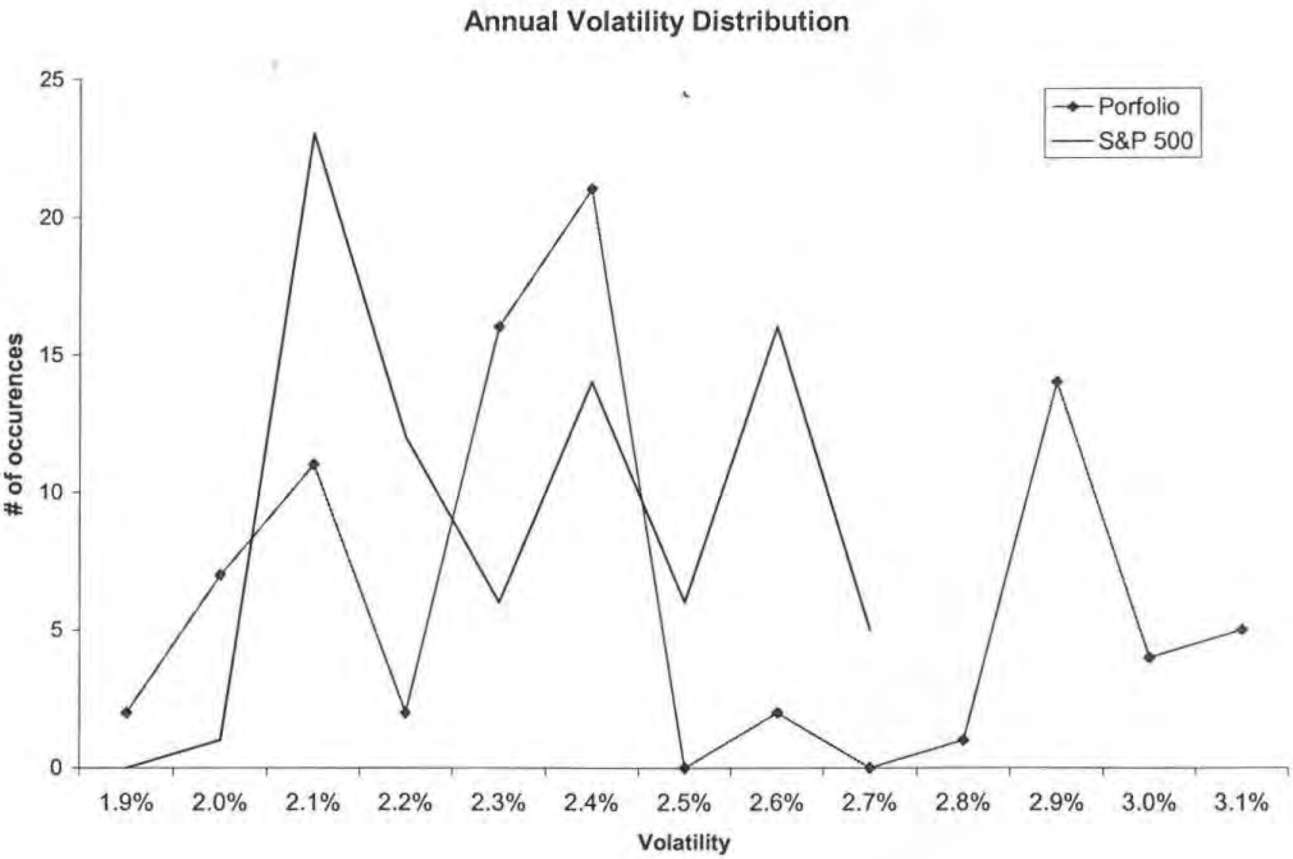
6.6.1. Cumulative distribution of volatility

In order to estimate the volatility over time, a cumulative frequency distribution graph was constructed. As can be seen on the chart, the portfolio has a consistently higher volatility than the S&P 500 index



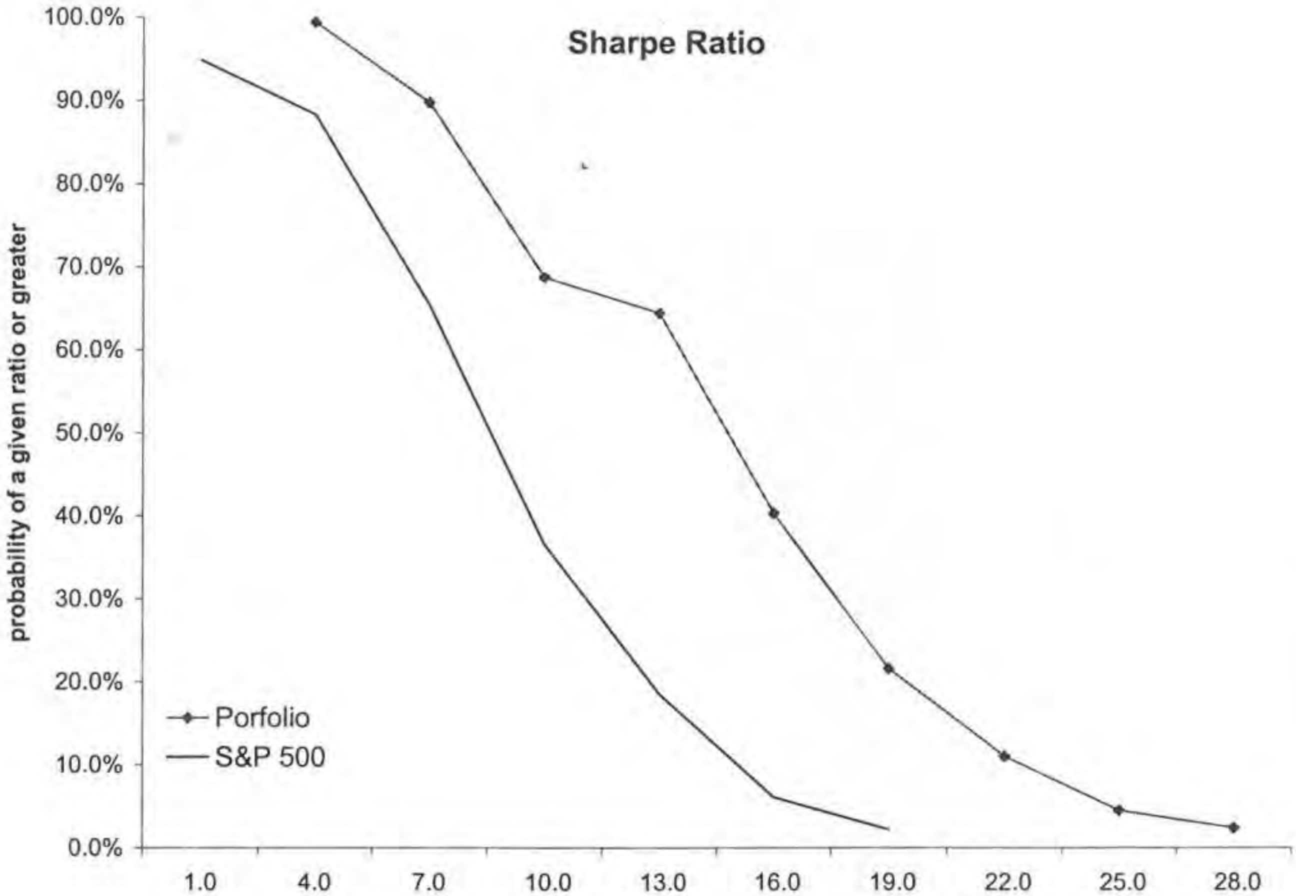
6.6.2. Absolute frequency distribution of volatility

As higher volatility mean higher risk, we have explored the same data from another perspective – what is the distribution of volatility.



6.7. *Sharpe Ratio*

The Sharpe Ratio is determined by the relationship between return and volatility.



As the chart show, the portfolio has a consistently higher Sharpe ratio (i.e. return per unit of risk) than the market and that is why we are comfortable with it. If the client does not like the slightly higher level of risk, it can be mitigated by including an investment in T-bills.

Montgomery International Growth Fund

Objective Go

Updated 2/28/99

Objective

The Montgomery International Growth Fund seeks long-term capital appreciation by investing in medium- and large-cap companies in developed stock markets outside the United States.

There are risks of investing in a fund of this type that invests in securities of foreign countries, such as erratic market conditions, economic and political instability, and fluctuations in currency exchange rates.

Portfolio Manager(s)

John Boich, CFA   Oscar Castro, CFA

General Fund Data

Category:	**Equity**
Symbol:	**MNIGX**
Wall Street Journal® Symbol:	**IntlGrth**
Inception Date:	**7/3/95**
Assets:	**$226,010,540**

Minimum Investment:

Initial:	**$1,000**
Subsequent:	**$100**
Initial IRA:	**$1,000**
Subsequent IRA:	**$100**

Performance Data as of 12/31/98

Average Annual Total Returns:

1 Year	**28.69%**
3 Year	**19.69%**
5 Year	**n/a**
10 Year	**n/a**
Life of Fund	**20.34%**
Year to Date	**28.69%**

Click here for PRICE CHART.

Performance data quoted represents past performance and is not necessarily indicative of future results. Net asset value, investment return and principal value of an investment will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Please read the prospectus carefully before investing.

Operations Data

Maximum Sales Charge:	**0.00%**
12b-1 Fees (%) (R Class Shares):	**0.00%**
Expense Ratio:	**1.65%**

■ Fund Composition

Weighted Average Market Capitalization:	**27,717**
Yield:	**1.35%**
P/E Ratio (1 Year Forward):	**25.46**
Earnings Growth (1 Year Forward):	**17.80**
Cash Position:	**8.49**
Cash Policy:	Portfolio's goal is to be fully invested.

Portfolio holdings are subject to change and should not be considered a recommendation to buy individual securities.

■ Top Holdings

Swisscom AG	Switzerland	2.87%
Railtrack Group PLC	United Kingdom	2.67%
Novartis	Switzerland	2.66%
Unilever NV ADR	Netherlands	2.59%
Cap Gemini	France	2.57%
Vivendi (Generale des Eaux)	France	2.46%
Mannesmann AG	Germany	2.42%
ANZ Banking Corp	Australia	2.40%
NTT Mobile Communications	Japan	2.40%
Argentaria SA	Spain	2.29%

■ Regional Breakdown

Europe	78.01%
Asia	13.34%
Latin America	1.04%
North America	0.01%

■ Top Countries

United Kingdom	18.08%
Japan	10.94%
Germany	9.85%
France	8.87%
Netherlands	8.21%

■ Performance Discussion & Analysis

Fourth Quarter Overview

Most of the developed equity markets rebounded in the fourth quarter, shaking off some of the bearish sentiment that had prevailed throughout the previous quarter. There were three primary reasons for this. First, interest rate cuts in the United States and Europe reassured investors that central banks were taking the threat of possible recession seriously. Second, investor concerns about a deepening crisis in the emerging markets eased somewhat when Brazil, with the assistance of the International Monetary Fund (IMF), stiffened its monetary policy and defended its currency with some success. And third, the absence of further bad news from Asian and Latin American emerging markets allowed investors to concentrate on underlying market conditions that had been overlooked. Long-term interest rates were up in much of the developed world, lowering the rate at which investment returns could be discounted and improving the investment yield potential. Relative to these economic fundamentals, the market had become oversold in the third quarter. In the fourth quarter, it corrected itself in a fairly dramatic fashion.

After declining in the previous quarter, the Montgomery International Growth Fund's benchmark index, the MSCI EAFE [Morgan Stanley Capital International Europe, Australasia and Far East Index], registered a strong recovery in the fourth quarter. The Montgomery International Growth Fund performed even better. Our outperformance was the result of strong stock selection and some market opportunism. By sticking with our convictions and buying stocks in what we believe are fundamentally sound companies with high earnings visibility, we have taken advantage of reduced valuations while improving the quality of the portfolio.

One example of a stock that we believed to have been undervalued was Porsche (1.5% of assets as of 12/31/98). Our interest in the stock was rewarded in the fourth quarter as Porsche rose 29%. Our Japanese portfolio also did well, returning 38% versus the 27% increase in the benchmark's Japanese securities. A recent addition to the portfolio, Kao Corp. (3% of assets as of 12/31/98), a Japanese consumer products company, rose 27% during the quarter. All of the Japanese holdings benefited from the strong appreciation of the yen versus the dollar. The government's announcement of a large stimulus package and declining U.S. interest rates, which softened demand for the dollar, triggered a 20.8% increase in the value of the yen.

In 1999 we expect to see the global economy expand at a rate consistent with, or slightly worse than, the 1.5% that is currently being projected. This slowdown may be reflected in most of the European developed markets. We anticipate that Japan's economy may contract further, though at a slower rate than in 1998.

Thank you for your interest in The Montgomery Funds.

*The ratings are subject to change every month, and past performance is no guarantee of future results. Morningstar ratings are calculated from the fund's 3-, 5-, and 10-year average annual returns (if applicable) in excess of 90-day Treasury bill returns, with appropriate fee adjustments and a risk factor that reflects fund performance below 90-day T- bill returns. If the Fund scores in the top 10% of its class it receives 5 stars.

Questions?

call our shareholder service representatives at

(800) 572-FUND (3863)

Montgomery International Small Cap Fund

Oscar Castro, CFA is the senior portfolio manager and principal responsible for global equity research and portfolio management in the core international and communication related products. He began his investment career in 1983. Prior to joining Montgomery Asset Management, Oscar was vice president and portfolio manager at G.T. Capital Management, where he was instrumental in the successful launching and management of two mutual funds specializing in global telecommunications and two others specializing in the Latin America region. Preceding this, he was co-founder and co-manager of The Common Goal World Fund, a global equity partnership. Oscar was also deputy portfolio manager/analyst at Templeton International covering the financial service, chemical, textile and apparel, telecommunication and data processing industries across global markets.

Oscar holds a Master of B.A. degree in Finance from Drexel University, Pennsylvania and a B.S. in Chemical Engineering from Simon Bolivar University in Venezuela. He is a chartered financial analyst.

John Boich, CFA
Senior Portfolio Manager and Principal

Montgomery International Growth Fund
Montgomery International Small Cap Fund

John D. Boich, CFA is the senior portfolio manager and principal responsible for global equity research and portfolio management in the core international and international small cap products. He began his investment career in 1985. Prior to joining Montgomery Asset Management, John was vice president and portfolio manager at The Boston Company Institutional Investors Inc. While at The Boston Company, John led the development and subsequent management of their flagship international equity product. Before joining The Boston Company, John was the founder and co-manager of The Common Goal World Fund, a global equity partnership. Prior to this, he worked as a financial advisor with Prudential-Bache Securities and E.F. Hutton & Company where he managed global equity and fixed income portfolios for individuals and institutions. He has published several articles on the topic of global investing and is a frequent contributor to the financial press.

John holds a B.A. degree in economics from the University of Colorado. He is a chartered financial analyst.

degree from New York University in 1979. She became a chartered financial analyst in 1989. Josephine is an elected member of the Board of Trustees of MIT, serving a five-year term ending July 2001.

Bryan Sudweeks, Ph.D., CFA
Senior Portfolio Manager and Principal

Montgomery Emerging Markets Fund

Dr. Bryan Sudweeks, CFA, is responsible for all quantitative modeling as well as how it relates to the investment process. He is an expert in the area of equity market development in emerging countries, with extensive experience in applying quantitative asset allocation techniques to the emerging markets. Prior to joining Montgomery, Bryan worked at Emerging Markets Investors Corporation/Emerging Markets Management in Washington, D.C., as a senior analyst and portfolio manager of investments in Asia, Greece, Jordan and Turkey. Previously, he was professor of international finance and investments at George Washington University and also served as an adjunct professor of international investments from 1988 until May 1991. Prior to teaching, Bryan was a consultant at the International Finance Corporation, the private-sector arm of the World Bank, where he developed and expanded the IFC Emerging Markets Database. He also worked as a financial analyst at the Amdahl Corporation and at Utah International.

Bryan, a chartered financial analyst, has a B.A. in Mandarin Chinese. He also holds an M.B.A. from Brigham Young University and a Ph.D. in international business from George Washington University. He is the author of two books and numerous articles on the subject of investments in emerging markets.

Oscar Castro, CFA
Senior Portfolio Manager and Principal

Montgomery International Growth Fund
Montgomery Global Opportunities Fund
Montgomery Global Communications Fund

INVESCO European Fund seeks long-term capital growth.

The Fund invests primarily in a diversified portfolio of the equity securities of companies located in specific European countries, including Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom. Foreign securities are subject to special risks, such as differences in securities and accounting regulations, as well as currency fluctuations.

The Fund may be appropriate for investors seeking growth and international diversification, who can accept additional risks in exchange for the potential for greater rewards. The price per share may vary daily, and investors should be prepared for short-term volatility.

Managed by a group of specialists in the various countries. Team led by:

Steven A. Chamberlain
Portfolio Manager, INVESCO Asset Management Ltd (London)
BS, Kingston Polytechnic; Joined INVESCO in 1987.
Began investment career in 1987. Has managed this fund since 1990.

Fund Inception	6/1986	Total Net Assets	$712.26	Minimum Investment	$1,000
Fund Number	56	Net Asset Value	$17.77	Dividends Paid	Annually
Cusip	46127X-10-8	# Equity Holdings	76	Capital Gains Paid	December
Ticker	FEURX	# Bond Holdings	0	12b-1 Fees	0.25%
Wall St. Journal Symbol	Europ	P/E Ratio (Trailing Earnings)	n/a	Expense Ratio	1.34%
Fund Beta – 5 yr	0.70	Annual Turnover	102%	Mean Market Cap ($mm)	n/a

Holdings and composition of holdings are subject to change.

02/28/1999 Monthly Performance

					Total Annualized[1]			Total Cumulative		
INVESCO FUND	30-day Yield**	Year To Date	1 month	1 year	3 year	5 year	10 year	3 year	5 year	10
European Fund	n/a	(0.56)%	(6.33)%	14.23%	23.96%	17.62%	13.14%	90.47%	125.13%	24
INDEXES*										
Dow Jones Industrial Average		1.65%	(0.42)%	10.81%	21.55%	22.06%	18.45%	79.58%	170.97%	44
S&P 500		0.95%	(3.12)%	19.69%	26.77%	24.11%	18.74%	103.71%	194.45%	45
Lehman Government/Corporate Bond Index		(1.68)%	(2.38)%	6.35%	7.27%	7.09%	9.09%	23.43%	40.86%	13
MSCI EAFE		(2.63)%	(2.36)%	5.25%	8.06%	7.22%	5.33%	26.18%	41.70%	68

12/31/1998 Quarterly Performance

			Average Annualized [1]		Average Cumulative [1]	
INVESCO FUND	Year to Date	1 year	5 year	10 year or since inception	5 year	10 year or since inception
European Fund	32.93%	32.93%	18.06%	13.56%	129.40%	256.71%
INDEXES*						
Dow Jones Industrial Average	18.14%	18.14%	22.27%	18.81%	173.29%	460.36%
S&P 500	28.58%	28.58%	24.03%	19.17%	193.49%	477.45%
Lehman Government/Corporate Bond Index	9.47%	9.47%	7.30%	9.33%	42.26%	144.10%
MSCI EAFE	20.33%	20.33%	9.50%	5.85%	57.46%	76.65%

[1]Total return assumes reinvestment of dividends and capital gain distributions. Past performance is not a guarantee of future results. Investment return and principal value will vary so that, when redeemed, an investor's share may be worth more or less than when purchased.
The Dow Jones Industrial Average, S&P 500 and Lehman Index are unmanaged indexes considered to be representative of the stock or bond markets in general. Federally tax-exempt income may be subject to state or local taxes, or to the federal Alternative Minimum Tax.
***As of 02/28/1999. Yields were calculated according to current SEC regulations.*

As of 02/28/1999

	Morningstar[2] International Equity Category	Lipper European Region Funds Category[3]
1 year	n/a	14 of 96
3 year	★★★★★ (out of 897)	5 of 53
5 year	★★★★★ (out of 430)	6 of 27
10 year	★★★★★ (out of 115)	4 of 8

[2]Morningstar's proprietary ratings reflect historical risk-adjusted performance and are subject to change every month. Ratings are calculated from the fund's three-, five-, and ten-year average annual total return (based upon available track records) in excess of 90-day Treasury bill returns. The top 10% of funds in an investment category receive 5 stars; the next 22.5% receive 4 stars; the next 36% receive 3 stars; the next 22.5% receive 2 stars; and the next 10% receive 1 star.

[3]Rankings by independent mutual fund analyst Lipper Analytical Services are based on total return unadjusted for commissions, and are provided for one-, three-, five-, and ten-year periods.

Top 10 Holdings

Name	*% of Total Net Assets*
Nokia OYJ Series A Shrs	3.84 %
Mannesmann AG	3.77
Roche Holdings AG Ltd Genusscheine Non Voting Shrs	3.47
Orange PLC	3.46
Telefonaktiebolaget LM Ericsson Series B Shrs	3.23
Tele Pizza SA	3.20
Vodafone Group PLC	3.12
MobilCom AG	2.94
TNT Post Group Ltd	2.88
Pinault-Printemps-Redoute SA	2.33

Holdings and composition of holdings are subject to change.

[illegible]

	% Total Net Assets
Cash & Cash Equivalents	(4.23) %
Finland	6.97
France	13.82
Germany	15.87
Greece	0.65
Ireland	2.83
Italy	5.66
Luxembourg	0.60
Netherlands	6.47
Norway	2.01
Portugal	2.19
Spain	8.27
Sweden	7.12
Switzerland	7.23
United Kingdom	24.42
United States	0.12
Total	**100%**

Holdings and composition of holdings are subject to change.

[illegible]

	% of Total Net Assets
Cash & Cash Equivalents	(4.23) %
Common Stocks, Rights & Warrants	100.88
Preferred Stocks	3.35
Total	**100%**

Holdings and composition of holdings are subject to change.

[illegible]

To help put this investment in perspective, here's how the Fund's risk and return potential relates to other INVESCO Funds.

Some funds include fixed-income holdings which are subject to both market and credit risk. In addition, some INVESCO Funds may invest in foreign securities, which are subject to special risks, including differences in securities regulation and accounting, as well as currency fluctuations.

Portfolio Manager Commentary

Market/Background Conditions

European markets reversed earlier gains and are now in negative territory year to date. Although a stronger US dollar is good for earnings and therefore market appreciation, this relationship was offset in the month by the weakness in bond markets. Bonds fell, despite news of continued economic slowdown in parts of Europe, pushing German yields back over 4% levels. Economic growth remains strong in the periphery of Europe but weak in the UK and Germany. The German market in particular was weak following moves by the government to further tighten tax loopholes. The threat of higher wage demands also led to a loss of confidence in the market. Elsewhere, indicators remained relatively upbeat. Earnings results for the Fiscal Year 98 continued to come in at or slightly above expectations, and messages emanating from companies told of continued expectations of a tough competitive environment, but one within which management sees room for growth.

Fund Performance Analysis

In February the Fund lost much of its earlier gains, due mainly to the setback in bond yields on the continent. This also resulted in a relatively stronger showing in the UK market, where we remain underweight. It also caused growth stocks, with their higher price-to-earnings ratios, to underperform as real long-term yields rose. Indeed, it was the cyclicals, oils and banks that saw the best gains-all areas where we have relatively little exposure. We believe that this rally in cyclicals will again be premature and that most value will be created for investors by continuing to add to quality growth companies with excellent growth prospects. On this basis, we continued to add to quality growth stock names including new acquisitions in Securitas (armed gaurding and CIT operations), Autogrille (motorway services) and Numico (specialised nutrition products).

Strategy/Tactics for Next 3-6 Months

We continue to focus on growth stocks where we believe the company is in a good position to continue to deliver above-average earnings growth and high returns on equity (of course, this cannot be guaranteed). Less than 20% is invested in financial companies. Emphasis is given to those that have a strong retail franchise, and which are well positioned to grow income, cut costs, re-allocate capital. Our "unproven" growth focus remains on those companies with strong potential to grow rapidly, but which as yet do not possess a "proven" record (eg; cellular mobile phone operators).

Holdings and composition of holdings are subject to change.

For More Information

For additional assistance about how to incorporate this fund into your portfolio, please call our Registered Representatives at **1-800-675-1705**. Or, you may wish to contact your Investment Advisor.

You can contact us to receive a prospectus or view the prospectus and application on-line. or, select Invest Now! to purchase this fund now!