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Financial and Metals Portfolio Undergoes Portfolio Composition Changes

About the Financial and Metals Portfolio (F&M)

F&M is John W. Henry & Company, Inc.'s (JWH[®]) largest and second longest running program. The program seeks to identify and capitalize on intermediate-term price movements in four worldwide market sectors: interest rates, currencies, non-U.S. stock indices and metals. This program primarily uses the three-phase investment style (variable position size, long, short or neutral positions).

Adjustments to F&M

JWH, through the Investment Policy Committee (IPC), completed a review of the portfolio composition of F&M on February 18, 2000. The IPC analyzed liquidity, risk diversification and trending opportunities with the intention of developing the best portfolio given the program's objective. Based on that review the IPC made changes to F&M including:

Equities

The equities index portion of F&M added German DAX Index Futures. This addition will provide increased exposure to equities outside of the United States through a liquid market representing continental Europe which has a high correlation to other European stock indices.

Cross Rates

The program added exposure to cross rates which represent exchange rate relationships between currencies other than the U.S. dollar. For example, contracts representing the exchange relationship between the euro and the yen is included in F&M. This addition will provide F&M with increased currency sector exposure through major crosses with the euro, Japanese yen, British pound and Australian dollar.

Short Rates

The program eliminated Australian bank bills which have faced price process jumps not conclusive to a systematic approach and limited liquidity. Furthermore, Euribor, a core European short rate closely tied to the actions of the European Central Bank, has been added for short-term interest rate diversification.

Long Rates

First, the program reduced British Gilt exposure due to decreases in supply and declining liquidity. Second, F&M increased its Euro Bund exposure because it is the European benchmark bond rate and the most liquid futures contract in the world by volume. Lastly, there was a change in signals for U.S. bonds from 2-phase (static position size, always long or short) to two 3-phase (variable position size, long, short, or neutral positioning) based on long- and short-term trends. This may be more effective in picking up changes in interest rate behavior.

Metals

Gold exposure was reduced to 60% of average position size in order to address liquidity issues. In addition, the program temporarily eliminated silver trading since the market has seen lower trading opportunities and less liquidity. Additionally, base metals – copper, aluminum, zinc and nickel – were included in order to add diversification.

JWH believes that the changes described may improve the risk and return characteristics of F&M. JWH will continue to examine ways to improve this and all other JWH investment programs.



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Notes

Investment Policy Committee (IPC) Members

John W. Henry – Chairman

Verne O. Sedlacek – President and Chief Operating Officer

Mark Rzepczynski – Senior Vice President, Research and Trading

Kevin Koshi – Senior Vice President, Proprietary Trading

Matthew Driscoll – Vice President, Trading and Chief Trader

Jules Staniewicz – Vice President, Senior Strategist

The IPC meets at least monthly. Composition of the IPC, and participation in its discussions and decisions by non-members, may vary over time.

This report does not constitute an offer to sell or a solicitation for any managed account and cannot disclose all risks and significant elements of the JWH investment programs. Solicitations can only be made with JWH's current disclosure document, which is available at the offices of JWH upon request. Further details of past performance and definitions of terms used to state past performance are presented in the disclosure document. Read and examine the disclosure document before seeking JWH's services.