VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

A lifetime of help

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February 7, 2005

Bruce F. Jamerson
Clerk of the House of Delegates
House of Delegates
P.O. Box 406
Richmond, VA 23218

Dear Mr. Jamerson:

In compliance with Virginia statute 38.2-5015, paragraph B and 38.2-5016, paragraph F, please find enclosed a complete report regarding the investments of the Virginia Birth-Related Neurological Injury Compensation Fund and a copy of our most recent audit.

For the year 2005, the Program's reserves grew by approximately $19 million to almost $160 million. Unfortunately, as you may already be aware of, the Program is still considered actuarially unsound. The Board of Director's is working hard to correct this situation through the following actions:

- Improvement of investment returns through working with an independent investment advisory group.

- In accordance with HJ646 a funding study has been completed by the Program in conjunction with the State Corporation Commission, other key agencies and the medical community;

If you have any questions please feel free to contact our executive director, George Deebo, or myself.

Sincerely,

Melina Dee Perdue

Melina Dee Perdue, R.N., M.B.A., C.N.A.
Board Chair
Virginia Birth-Related Neurological Injury Compensation Program

Enc: Performance Report, 2004 Audit

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Financial Statements

For Years Ended
December 31, 2004, 2003 and 2002

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Contents

CHERRY BEKAERT & HOLLAND

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

The Board of Directors
Virginia Birth-Related Neurological Injury Compensation Program
Richmond, Virginia

We have audited the accompanying statements of net assets of the Virginia Birth-Related Neurological Injury Compensation Program (the "Program") as of December 31, 2004, 2003 and 2002, and the related statements of revenues, expense and changes in net assets and cash flows for the years then ended, which collectively comprise the Program's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of December 31, 2004, 2003, and 2002 and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated April 7, 2005 on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Management's Discussion and Analysis on pages 3 through 8 and other required supplementary information on pages 20 through 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was made for the purpose of forming our opinion on the basic financial statements taken as a whole. The information listed as supplementary information in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
April 7, 2005

Virginia Birth Related Neurological Injury Compensation Program

Management's Discussion and Analysis

This section of the Virginia Birth Related Neurological Injury Compensation Program's (the "Program") annual financial report represents our discussion and analysis of the Program's financial performance during the fiscal years ended December 31, 2002, 2003, and 2004. Please read it in conjunction with the Program's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The revenue from fees and assessments increased by $1,968,000 or (12%) in 2004. Fees assessed from participating physicians increased $350,000 or (19%), participating hospitals increased $373,000 or (16%), insurance companies increased $955,000 or (11%) and mandated physicians fees increased $288,000 or (9%).

- In 2003 the revenue from fees and assessments increased by $1,256,000 or (8%). Fees assessed from participating physicians increased $306,000 or (20%), participating hospitals increased $102,000 or (5%), insurance companies increased $951,000 or (12%), and mandated physicians fees decreased $104,000 or (3%).

- The Program's total net assets decreased by $22.7 million in 2004 primarily due to the $27.3 million increase in Provision for claims. In 2003 the total net assets increased by $5.4 million primarily due to the $9.7 million earned in investment income.

- Although total assets less total current liabilities does not cover the admitted claims portion of the unpaid claims reserve, the gap continues to close each year. This deficit changed from $21.3 million in 2002 to $11.7 million in 2003 to $5.9 million in 2004 showing a reduction of $9.2 million and $6.2 million respectively.

- Revenue from investment income decreased $2.5 million or (25%) due primarily to the lack of net appreciation on investments.

- The Program sold two of its trust homes in 2004. One located in Falls Church, VA, the other in Fairfax VA. The Program currently owns a total of 18 trust homes occupied by claimants.

- In 2004 the Program provided $4,300,000 in nursing care, $112,000 in therapy, purchased 15 handicapped accessible vans for $461,000, $328,000 for housing benefits, $277,000 for durable medical equipment and technology, $192,000 for hospitals and physician visits, and $174,000 for claimant legal fees. The approximate average value of nursing care provided to the 84 active claimants (99 admitted claimants less 15 deceased at December 2004) was $51,190.

- There are a total of 506 participating physicians in 2004, up 97 from 409 physicians in 2003. Participating Hospitals increased by 6 from 28 in 2003 to 34 in 2004.

- Ten claimants were admitted in 2004 and one claimant became deceased for a total of 99 admitted claimants at December 31, 2004 as compared with 89 at December 31, 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, and other supplemental information.

In the past, the Programs financial statements were prepared according to recommendations of the Financial Accounting Standards Board in its' Statement of Financial Accounting Standards No. 117, Financial Statements for Not for Profits Organizations. After a study of the Program's organizational structure, management determined that the Program's financial statements should be presented in accordance with GAAP applicable to enterprise funds of local government units. This change was adopted January 1, 2004. This change in basis of accounting results in a change in reporting formats and has no significant effect on assets, net assets or changes in net assets reported in prior years.

The financial information for December 31, 2002 is included in the MD&A to show comparative summarized data as required by GASB. When discussing the financial information for 2004 and 2003, part of that analysis is related to the beginning balances from 2003 or December 31, 2002. The financial statements for 2003, as embodied in this report, were restated according to GASB standards and the auditors' opinion extends to the restated 2003 statements. The 2004 financial statements show a three-year comparison, 2002, 2003, and 2004.

FINANCIAL ANALYSIS

Net Assets:

The following table reflects the condensed Net Assets of the Program:

Table 1
Net Assets
As of December 31, 2004, 2003, and 2002
(In millions)

	2004	2003	2002
Current Assets	$ 12.3	$ 24.3	$ 6.9
Non current Assets	$ 134.6	$ 103.7	$ 99.2
Total Assets	$ 146.9	$ 128.0	$ 106.1
Current Liabilities	$ 17.3	$ 16.8	$ 14.9
Unpaid Claims Reserve			
Admitted Claims	$ 135.5	$ 122.9	$ 112.5
Incurred but not reported claims	$ 93.3	$ 64.8	$ 60.6
Total Unpaid Claims Reserve	$ 228.8	$ 187.7	$ 173.1
Total Liabilities	$ 246.1	$ 204.5	$ 188.0
Unrestricted Net Assets	$ (99.2)	$ (76.5)	$ (81.9)
Total Net assets	$ (99.2)	$ (76.5)	$ (81.9)

At December 31, 2004 and 2003, the total assets of the Program were $146.9 and $128.0 million, respectively; total liabilities were $246.0 and $204.5 million, respectively, while combined net assets were negative $99.1 and $76.5 million, respectively. Net assets are negative due to the fact that the amount of unpaid claims reserve exceeds total non current assets set aside to pay for future claims.

The decrease in current assets from 2003 of $24.3 million to 2004 of $12.3 million is due to excess cash being invested. The increase in non current assets consists of the $12.0 in cash from 2003 invested in January 2004, $7.0 million in investment income, and $11.0 million in assessments deposited and invested.

Current liabilities exceed current assets by $4.9 million in 2004. Current assets are comprised of cash and cash equivalents held in the investment brokerage account and checking account. To remain in compliance with the Investment Policy Statement cash in excess of the 5% target must be invested. However the policy states that approximately $1.0 million be held in liquid cash equivalents to meet the short term needs of the fund. The $24.3 million in current assets in 2003 is due to timing; the excess cash was invested in January 2004.

The total unpaid claims reserve for December 31, 2004 and 2003 were $228.8 and $187.7 million respectively. This represents the estimated cost for claimants currently admitted into the Program and an estimated number of not yet admitted claimants (Incurred but not reported, IBNR) with birth dates prior to fiscal year-end that will be admitted to the Program subsequent to fiscal year-end. This reserve is based on a mandated annual actuarial study. A portion of the admitted claims and a portion of the incurred but not reported claims liability remains unfunded. In 2005 a legislatively sanctioned funding study will be performed to study methods to fund the unfunded portion.

Comparison of IBNR to Net Assets

	2004	2003	2002
Incurred but not reported claims	$ 93.3	$ 64.8	$ 60.6
Total Net Assets (Deficit)	$ (99.2)	$ (76.5)	$ (81.9)
Unfunded Portion of Admitted Claims	$ (5.9)	$ (11.7)	$ (21.3)

The above chart shows the comparison of the IBNR claims to the deficit in the total net assets for 2004, 2003, and 2002. Each year there is a reduction in the amount of the unfunded portion of the admitted claims, $9.6 million in 2003 and $6.2 million in 2004. If IBNR was not included in the Statement of Net Assets the asset position related to the liabilities improves each year. The revenues are covering more of the admitted claims but the IBNR grows at a much greater rate.

Accounts payable as of December 31,2004 and 2003 is $691,000 and $120,000 respectively, showing an increase of $571,000. In addition claims expenses increased $900,000 from $6,900,000 in 2004 from $6,000,000 in 2003, (Note 5). The majority of the accounts payable is nursing expense and was paid in January 2005. This increase was, in part, attributed to the ten new claimants awarded into the program in 2004 increasing the number and amounts of invoices. It is important to note that the average monthly claimant expenses for 2004 was around $575,000 and it is not unusual to have one month expenses in accounts payable.

Changes in Net Assets:

The following chart shows the revenue and expenses for the current fiscal year:

Table 2
Changes in Net Assets
As of December 31, 2004, 2003, and 2002
(In millions)

	2004	2003	2002
Revenues			
Fees and Assessments	$ 18.3	$ 16.4	$ 15.1
Net Investment Income	$ 7.1	$ 9.6	$ 3.1
Other	$ -	$ 0.1	$ -
Total Revenues	$ 25.4	$ 26.1	$ 18.2
Expenses			
Provision for claims	$ 48.0	$ 20.6	$ 18.7
General and administration	$ 0.1	$ 0.1	$ 0.2
Total Expenses	$ 48.1	$ 20.7	$ 18.9
Change in net assets	$ (22.7)	$ 5.4	$ (0.7)
Beginning net assets	$ (76.5)	$ (81.9)	$ (81.2)
Ending net assets	$ (99.2)	$ (76.5)	$ (81.9)

REVENUES

Revenues consist of legislatively established assessments placed on participating and non-participating physicians, hospitals, and insurance companies and also investment income. For the fiscal years ended December 31, 2004 and 2003, revenues totaled $25.4 and $26.1 million, respectively. Assessments for 2004 for participating and non-participating physicians were $5,000 and $250 respectively. Participating Hospitals are assessed a fee of $50 per live birth for the prior year, as reported by the Department of Health, not to exceed $150,000. In 2004 liability insurers paid one quarter of one percent on the direct premiums written during the prior year.

The General Assembly has authorized increases in future years assessments according to the following:

Year	Participating	Non-Participating	Hospital
2005	$ 5,100.00	$ 260.00	$50/live birth not to exceed $160,000
2006	$ 5,200.00	$ 270.00	$50/live birth not to exceed $170,000
2007	$ 5,300.00	$ 280.00	$50/live birth not to exceed $180,000
2008	$ 5,400.00	$ 290.00	$50/live birth not to exceed $190,000
2009	$ 5,500.00	$ 300.00	$50/live birth not to exceed $200,000

Net Investment income decreased $2.5 million from $9.6 in 2003 to $7.1 in 2004. This decrease is primarily due to the lack of net appreciation in the value of the investments in 2004. At December 31, 2004, 2003 and 2002 net appreciation totaled $21,000, $7,600,000 and $3,600,000 respectively

(Note 2). Appreciation can fluctuate greatly depending on market conditions and 2003 was an unusual year with a $7.2 unrealized gain in equities. In 2004 both equities and fixed income investments were more stable in value.

EXPENSES

For the fiscal years ended December 31, 2004 and 2003 expenditures totaled $48.1 million and $20.7 million respectively. Expenses are comprised of general administrative and claims related expenses, the latter of which reflects both the increases in claims reserve and the claims paid during the year.

General administrative expenses include the portion of salaries, rent, cost of office equipment, and all other expenses not directly related to claims. Of the total Administrative expenses of $683,000 in 2004 approximately $546,000 or 80% is related to claims according to program management and $137,000 is related to program administration. In 2003 81% or $562,000 of a total of $692,000 in Administrative expenses was related to claims and $129,000 related to program administration.

Provision for claims includes the portion of general administration expenses related to claims and actual and future expenses related to claims. Claimant expenses include nursing, therapy, physician and hospital visits, prescriptions, housing, transportation, and durable medical equipment. Provision for claims increased from $20.6 million in 2003 to $48.0 million in 2004 primarily due to the changes in the assumptions reflected in the actuarial study completed and published in September 2004.

CAPITAL ASSETS

Capital assets consist of computer equipment, office equipment and automobiles. Depreciation is calculated on the straight-line method over the estimated lives of the related assets. The eighteen Trust Homes owned by the Program are recorded as investments because they are considered appreciable.

ECONOMIC FACTORS

On July 1, 2003 legislation became effective that has the potential to significantly increase the costs of the Program but not increase revenues. These changes may result in increased administrative expenses, increased number of claimants, and a new category of claimants eligible for awards up to $100,000. A summary of the legislation is as follows;

- The Office of the Attorney General (OAG) shall provide requested legal services to the Program. The Program shall compensate the OAG for the provision of such legal services.
- Every hospital shall provide for each infant hospitalized in neonatal intensive care an informational brochure prepared and approved by the board of directors of the Program.
- The Workers' Compensation Commission (The Commission) may make an award, at its discretion, for compensation for attorney's fees for unsuccessful claims.
- If The Commission determines an infant has sustained a birth related injury and was delivered by a participating physician or born in a participating hospital, and the infant dies within 180 days, the Commission may make an award up to $100,000 to the infants family.

As of December 31, 2004 there were no petitions submitted or awards granted for compensation for attorney's fees for unsuccessful claims or for any infants deceased within 180 days of birth.

The above legislation has a significant effect on the increase in provision for insured events of prior years, (see note 5). In 2004 the increase in provision for insured events of prior years equals $14.5 million. This provision is a combination of a decrease of $27.4 million due to the reduction in estimated cost per claim as determined by the actuaries and an increase the provision of $41.9 million due to the legislative changes. The increase in the claims reserve is primarily due to the legislative changes.

The legislation that became effective on July 1, 2004 has two effects. It removes the portion of the July 1, 2003 legislation regarding attorneys fees incurred in connection with filing unsuccessful claims and it results in increased assessment income beginning with 2005 program year as described in a previous section of this report.

To further fulfill their fiduciary responsibility to the Program and its recipients, the board of directors has employed CapGroup of Richmond as the Programs Investment Consultant as of February 2005. Maximizing investment income while maintaining acceptable levels of risk will be an important factor in the reduction of the actuarial deficit. The board believes that the advice and expertise provided by CapGroup will improve the overall investment strategy and financial position of the Program.

CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide users (e.g. citizens, taxpayers, claimant families, service providers and creditors) with a general overview of the Program's finances and to demonstrate the Program's accountability for the funds it receives. Questions concerning this report or requests for additional information should be directed to the Deputy Director, 9100 Arboretum Pkwy. Suite 365, Richmond, VA 23236, 804-330-2471 or visit our website at http://www.vabirthinjury.com

Virginia Birth-Related Neurological Injury Compensation Program

Statements of Net Assets

	December 31, 2004	2003	2002
Assets			
Current assets			
Cash and cash equivalents	$ 11,473,661	$ 23,739,498	$ 6,344,130
Accrued interest	789,558	545,196	570,635
Other receivables	-	-	2,709
Total current assets	12,263,219	24,284,694	6,917,474
Investments	129,516,978	97,447,010	92,957,185
Real estate held in trust	5,052,551	6,226,617	6,226,617
Property and equipment, net	26,887	26,632	35,224
Other assets			
Security deposits	3,009	3,009	3,009
Total noncurrent assets	134,599,425	103,703,268	99,222,035
Total assets	$ 146,862,644	$ 127,987,962	$ 106,139,509
Liabilities			
Current liabilities			
Accounts payable	$ 691,137	$ 119,954	$ 159,874
Accrued liabilities	54,069	54,079	54,079
Deferred revenue	16,474,887	16,616,628	14,708,429
Total current liabilities	17,220,093	16,790,661	14,922,382
Unpaid claims reserve			
Admitted claims	135,500,000	122,900,000	112,500,000
Incurred but not reported claims	93,300,000	64,800,000	60,600,000
Total unpaid claims reserve	228,800,000	187,700,000	173,100,000
Total liabilities	246,020,093	204,490,661	188,022,382
Net assets			
Invested in capital assets, net of related debt	26,887	26,632	35,224
Unrestricted (deficit)	(99,184,336)	(76,529,331)	(81,918,097)
Total net assets	$ (99,157,449)	$ (76,502,699)	$ (81,882,873)

See notes to financial statements.

Virginia Birth-Related Neurological Injury Compensation Program

Statements of Revenues, Expenses, and Changes in Fund Net Assets

	Year Ended December 31,		
	2004	2003	2002
Operating revenues			
Participating hospitals	$ 2,730,909	$ 2,357,975	$ 2,256,000
Participating doctors	2,211,184	1,860,843	1,554,790
Mandated physician fees	3,436,378	3,148,690	3,252,200
Insurance fees	9,948,858	8,993,616	8,042,558
Other	100	124,914	-
Total operating revenues	18,327,429	16,486,038	15,105,548
Operating expenses			
Provision for claims	47,963,625	20,621,718	19,600,653
General and administration	136,569	129,397	168,682
Total operating expenses	48,100,194	20,751,115	19,769,335
Operating loss	(29,772,765)	(4,265,077)	(4,663,787)
Nonoperating revenue (expense)			
Net investment income	7,195,687	9,645,251	3,051,090
Gain (loss) on sale of real estate	149,016	-	(20,506)
Revaluation of real estate	(226,082)	-	917,892
Loss on sale of assets	(606)	-	-
Net nonoperating revenue	7,118,015	9,645,251	3,948,476
Change in net assets	(22,654,750)	5,380,174	(715,311)
Net assets at beginning of year	(76,502,699)	(81,882,873)	(81,167,562)
Net assets at end of year	$ (99,157,449)	$ (76,502,699)	$ (81,882,873)

See notes to financial statements.

Virginia Birth-Related Neurological Injury Compensation Program

Statements of Cash Flows

	Year Ended December 31, 2004	2003	2002
Cash flows from operating activities			
Receipts from hospitals	$ 2,519,709	$ 3,017,625	$ 2,119,250
Receipts from participating doctors	2,057,253	2,302,647	1,736,185
Mandated physician fee receipts	3,397,988	3,488,085	3,248,730
Receipts from insurance companies	10,210,638	9,460,966	11,081,052
Other receipts	100	127,623	-
Payments on behalf of claimants	(5,746,164)	(5,499,138)	(5,046,379)
Payments to suppliers of goods and services	(348,210)	(336,337)	(283,789)
Payments to employees	(323,111)	(344,567)	(333,577)
Net cash provided by operating activities	11,768,203	12,216,904	12,521,472
Cash flows used in capital and related financing activities			
Purchase of capital assets	(12,397)	(2,401)	(15,161)
Cash flows from investing activities			
Purchase of investment securities	(62,806,093)	(14,709,199)	(55,577,636)
Proceeds from sale and maturity of investment securitites	33,624,370	16,063,641	26,686,459
Earnings on investment securities	4,063,080	3,826,423	3,917,405
Proceeds from real estate investment properties	1,097,000	-	129,494
Net cash provided by (used in) investing activities	(24,021,643)	5,180,865	(24,844,278)
Net increase (decrease) in cash and cash equivalents	(12,265,837)	17,395,368	(12,337,967)
Cash and cash equivalents			
Beginning of year	23,739,498	6,344,130	18,682,097
End of year	$ 11,473,661	$ 23,739,498	$ 6,344,130
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (29,772,765)	$ (4,265,077)	$ (4,663,787)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	11,536	10,993	10,458
Increase (decrease) in:			
Other receivables	-	2,709	-
Prepaid expenses	-	-	35,558
Accounts payable	571,183	(39,920)	159,574
Accrued liabilities	(10)	-	-
Deferred revenue	(141,741)	1,908,199	3,079,669
Claims reserve	41,100,000	14,600,000	13,900,000
Net cash provided by operating activities	$ 11,768,203	$ 12,216,904	$ 12,521,472
Noncash investing activities			
Net appreciation in fair value of investment securities	$ 20,631	$ 7,567,254	$ (2,751,566)

See notes to financial statements.

Virginia Birth-Related Injury Compensation Program

Notes to Financial Statements
Years Ended December 31, 2004, 2003 and 2002

Note 1 – Summary of significant accounting policies

Nature of organization – The Virginia Birth-Related Neurological Injury Compensation Program (the "Program") was established under the Virginia Birth-Related Neurological Injury Compensation Act (1987,c.540). The Program is a related organization for which the elected officials of the Commonwealth of Virginia are accountable as they appoint a voting majority of the board. The Act creates a compensation program that assures lifetime care of infants with severe neurological injuries. The Program is funded through annual assessments of participating physicians and participating hospitals. Liability insurers and non-participating physicians contribute to the fund, if necessary, based upon actual experience of the fund. The Program receives no federal government funding.

Basis of accounting – The Program operates as an insurance enterprise fund subject to Governmental Accounting Standards Board Statement No. 10 (GASB 10), *"Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,"* Governmental Accounting Standards Board Statement No. 30 (GASB 30), *"Risk Financing Omnibus – An Amendment to GASB Statement No. 10,"* and Financial Accounting Standards Board Statement No. 60 (FAS 60), *"Accounting and Reporting for Insurance Enterprises."*

The financial statements of the enterprise fund are presented on the accrual basis of accounting, using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and collecting fees in connection with the proprietary fund's principal ongoing operations.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* proprietary fund types may follow all applicable GASB pronouncements as well as only those Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989. Under paragraph 7 of GASB Statement No. 20, the Program has elected not to apply FASB pronouncements issued after November 30, 1989.

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash equivalents – For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, the Program considers investments with original maturities of three months or less to be cash equivalents.

Investments - The Program's investments consist of U.S. Government obligations, corporate bonds, and equity securities and are reported fair value based on quoted market prices. The fair value of real estate investments is based on independent appraisals. Purchases and sales of investments are recorded on their trade date.

Note 1 – Summary of significant accounting policies (continued)

Capital assets – Capital assets with a cost of $1,000 or more (threshold implemented in fiscal year 2004) are recorded at cost. The costs of major improvements are capitalized while the cost of maintenance and repairs, which do not improve or extend the life of an asset, are expensed. Depreciation is provided over the assets' estimated useful lives of three to seven years using the straight-line method.

Deferred revenue – Deferred revenue represents amounts for which revenue recognition criteria have not been met. It is the Program's policy to recognize mandated assessments, participating doctor and hospital fees, and insurance fees in the period in which the assessment or coverage is related.

Estimated liability for unpaid claims – The liability for unpaid claims represents management's estimate, developed in conjunction with the assistance of the Program's actuary, of the Program's discounted estimated cost of payments for both claimants admitted to the Program and an estimated number of not-yet-admitted claimants with birth dates prior to the date of the statement of net assets that will be admitted to the Program subsequent to the date of the net assets. Changes in estimates of such costs are recognized in results of operations in the period in which the changes in estimate are made.

Management believes the estimate of the discounted liability for unpaid claims is adequate. The development of liabilities for future benefit requires management to make estimate and assumptions regarding mortality, morbidity, lapse, expense, and investment experience. Such estimates are primarily based on historical experience and future expectations of these assumptions. The Program's actual incurred losses may vary significantly from the estimated amount included in the Program's financial statements. Management monitors actual experience and, if circumstances warrant, revises its assumptions and the related future policy benefit estimates.

Reclassifications – Certain fiscal year 2003 and 2002 amounts have been reclassified for comparative purposes to conform to the fiscal year 2004 presentation.

Note 2 – Deposits and investments

Cash and cash equivalents at December 31, 2004, 2003 and 2002, consist of the following:

	2004	2003	2002
Cash on hand	$ 777	$ 609	$ 609
Deposits with financial institutions - demand deposits	75,019	166,012	258,749
Deposits with financial institutions - money market accounts	11,397,865	23,572,877	6,084,772
	$ 11,473,661	$ 23,739,498	$ 6,344,130

Deposits

A portion of the Program's deposits with financial institutions ($397,024, $425,871, and $491,229 at December 31, 2004, 2003, and 2002, respectively) is fully covered by federal depository insurance or collateralized in accordance with the Virginia Security of Public Deposits Act. Under the Act, financial institutions holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the mount of 50% of the excess of deposits to a collateral pool in the name of the State Treasury Board.

Virginia Birth-Related Injury Compensation Program

Notes to Financial Statements
Years Ended December 31, 2004, 2003 and 2002

Note 2 – Deposits and investments (continued)

The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notification of compliance by financial institution.

The carrying value of the Program's uninsured, uncollateralized deposits with financial institutions was $11,075,860, $23,313,018, and $5,852,292 at December 31, 2004, 2003, and 2002, respectively. The reported bank balance of these deposits was $11,181,827 at December 31, 2004, $23,414,009 at December 31, 2003, and $5,949,976 at December 31, 2002.

Investments

The Program's investments are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the following categories:

(1) Insured or registered, or securities held by the Program or its agent in the Program's name.
(2) Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Program's name.
(3) Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent, but not in the Program's name.

	Risk Category	December 31, 2004 Cost	Unrealized Gains (Losses)	Market Value
U.S. Government obligations	2	$ 67,993,102	$ (267,572)	$ 67,725,530
Corporate bonds	2	21,777,576	244,059	22,021,635
Equity securities	2	31,459,030	8,310,783	39,769,813
		$ 121,229,708	$ 8,287,270	$ 129,516,978

	Risk Category	December 31, 2003 Cost	Unrealized Gains (Losses)	Market Value
U.S. Government obligations	2	$ 43,047,945	$ (229,615)	$ 42,818,330
Corporate bonds	2	17,367,488	817,676	18,185,164
Equity securities	2	28,764,938	7,678,578	36,443,516
		$ 89,180,371	$ 8,266,639	$ 97,447,010

	Risk Category	December 31, 2002 Cost	Unrealized Gains (Losses)	Market Value
U.S. Government obligations	2	$ 47,578,838	$ (684,016)	$ 46,894,822
Corporate bonds	2	16,058,037	974,756	17,032,793
Equity securities	2	28,620,925	408,645	29,029,570
		$ 92,257,800	$ 699,385	$ 92,957,185

Note 2 – Deposits and investments (concluded)

The Program's return on investments for years ending December 31, 2004, 2003, and 2002 is summarized as follows:

	2004	2003	2002
Interest income	$ 3,708,135	$ 3,260,441	$ 3,604,251
Dividend income	892,961	791,610	499,933
Realized gain (loss) on investments	2,867,614	(1,722,987)	1,912,858
Net appreciation in fair value of investments	20,631	7,567,254	(2,751,566)
Investment fees	(210,632)	(175,242)	(141,146)
Fiduciary fees	(83,022)	(75,825)	(73,240)
Net investment income	$ 7,195,687	$ 9,645,251	$ 3,051,090

Note 3 – Investments in real estate

Under guidelines established by the Board of Directors, the Program could, up until 1999, approve the purchase or construction of a home for the family claimant subject to certain restrictions. The home is held in a trust and remains the property of the Program, subject to use by the claimant's family during the term of the trust and subject to conditions imposed by the trust agreement. The trust expires upon the death or institutionalization of the claimant, and stipulates that during occupancy the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations.

Investment properties are stated at original cost plus the cost of any improvements, but not in excess of appraised fair values. The carrying value of the real estate investments amounted to $5,052,551 at December 31, 2004 and $6,226,617 at December 31, 2003 and 2002.

Note 4 – Capital assets

Capital assets at December 31, 2004, 2003, and 2002, and the related changes for the years then ended were as follows:

	January 1, 2004	Increases	Decreases	December 31, 2004
Computer equipment	$ 53,311	12,397	(11,907)	$ 53,801
Office equipment	33,811	-	-	33,811
Automobiles	17,237	-	-	17,237
	104,359	12,397	(11,907)	104,849
Less accumulated depreciation	(77,727)	(11,536)	11,301	(77,962)
Capital assets, net	$ 26,632	861	(606)	$ 26,887

(continued)

Note 4 – Capital assets (concluded)

	January 1, 2003	Increases	Decreases	December 31, 2003
Computer equipment	$ 53,311	-	-	$ 53,311
Office equipment	31,410	2,401	-	33,811
Automobiles	17,237	-	-	17,237
	101,958	2,401	-	104,359
Less accumulated depreciation	(66,734)	(10,993)	-	(77,727)
Capital assets, net	$ 35,224	(8,592)	-	$ 26,632

	January 1, 2002	Increases	Decreases	December 31, 2002
Computer equipment	$ 47,295	6,016	-	$ 53,311
Office equipment	22,264	9,146	-	31,410
Automobiles	17,238	-	-	17,237
	86,797	15,162	-	101,958
Less accumulated depreciation	(56,276)	(10,458)	-	(66,734)
Capital assets, net	$ 30,521	$ 4,704	$ -	$ 35,224

Note 5 – Estimated liability for unpaid claims

The estimated liability for unpaid claims is the discounted estimated cost of payments for both claimants admitted to the Program and an estimated number of not-yet-admitted claimants with birth dates prior to the date of the statement of net assets, that will be admitted to the Program subsequent to the date of the statement of net assets. This discounted cost represents the amount that would need to be invested, as of the date of the statement of net assets, to pay the claimant expenses as they become due. The liability is determined based on an actuarial study, which is mandated to be performed no less frequently than biennially (done annually for 2004, 2003 and 2002). Eligible costs under the Program are costs not otherwise paid by private insurance or other government programs. Costs include nursing, housing, hospitals and physicians, physical therapy, vans, medical equipment, prescription drugs, various other incidental items, loss of earnings, and claim filing expenses.

In very general terms, the estimated liability for unpaid claims is determined as follows:

(1) The total number of claimants is estimated (actual number of admitted claimants plus estimate of the number of not-yet-admitted claimants).
(2) Future payments, by category of expense paid for each claimant, are forecast. These estimates are based on the actual payments made by the Program on behalf of the claimants who had been in the program for three or more years as of December 31, 2003, 2002, and 2001 (taking into consideration each claimant's insurance coverage and eligibility for Medicaid), as well as assumptions regarding future cost of inflation and future increases in the utilization of the benefits and services of the Program.

Note 5 – Estimated liability for unpaid claims (continued)

(3) Projected future payments to each claimant are adjusted to reflect an assumed life expectancy for each claimant and the time value of money.

The estimated liability for unpaid claims is forecast based on actual information through the prior fiscal year. Actuarial assumptions represent estimates that are critical to reported operations. The assumptions used in the forecast are reasonable and management believes the indicated liability is adequate.

Significant actuarial assumptions for each fiscal year include:

	2004	2003	2002
Rate of claims inflation (varies based on category of expense)	1.26% - 5.09%	3.28% - 5.04%	3.27% - 5.00%
Investment earnings / discount rate	6.43%	6.34%	6.50%
Mortality:			
Average life expectancy of claimant at birth	19.2 years	18.7 years	18.2 years
Average life expectancy of claimant that attains the age of three	21.5 years	20.9 years	20.4 years
Average life expectancy of claimant that attains the age of four	21.6 years	N/A	N/A
Estimated number of claimants born on or before December 31, 2003 not yet admitted to the Program. Estimate is based on review of how long it takes for claimants to be admitted to the Program	47 claimants	31 claimants	31 claimants

The increase in the estimated claims reserve amount is based on projected increases for future claims payments due to expected increase in number of claimants as a result of House Bill No. 2048 (this bill provided for certain extended benefits and the payment of certain administrative costs including attorneys fees), which became effective July 1, 2003. The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 148 as of December 31, 2004.

On February 16, 2004, House Bill No.1407 was enacted, and reduces the coverage of additional administrative costs. This legislature repealed a portion of the previous bill mentioned above. This bill is to be effective on January 1, 2005. Management estimates that the effect on the estimated claims reserve will be to reduce the reserve by approximately $28,600,000.

Note 5 – Estimated liability for unpaid claims (concluded)

The following represents changes in the aggregate reserves for the Program during the past two years:

	2004	2003	2002
Unpaid claims and claim adjustment expenses at beginning of year	$ 187,700,000	$ 173,100,000	$ 159,200,000
Incurred claims and claim adjustment expenses:			
Provision for insured events of current year	20,733,333	14,000,000	13,661,290
Increase (decrease) in provision for insured events of prior years	14,485,462	(4,352,822)	(4,408,637)
Total incurred claims and claim adjustment expenses	35,218,795	9,647,178	9,252,653
Interest	12,744,830	10,974,540	10,348,000
Total claims provision	47,963,625	20,621,718	19,600,653
Payments:			
Claims and claim adjustment expenses attributable to insured events of the current year	-	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	6,863,625	6,021,718	5,700,653
Total payments	6,863,625	6,021,718	5,700,653
Total unpaid claims and claim adjustment expenses at year end	$ 228,800,000	$ 187,700,000	$ 173,100,000

The total undiscounted unpaid claims and claim adjustment expenses amount to $723.6 million at December 31, 2004.

Note 6 – Employee benefits

The Program pays each employee an amount equal to 24% of his or her salary in lieu of a benefits package. This additional salary is to be used by the employee to acquire certain benefits, if they so choose, and is subject to income and payroll taxes. Additional benefits paid by the Program to their employees amounted to $62,687, $63,737 and $53,969 for the years ending December 31, 2004, 2003 and 2002, respectively. These benefits are included as salary and benefits expense on the Program's supplementary schedule of general and administrative expenses.

Note 7 – Operating lease commitments

The Program leases its office space under an operating lease expiring on February 29, 2008. Rent expense under this lease amounted to $53,498 and $52,216 for fiscal years 2004 and 2003, respectively. Prior to March 2002, the Program leased office space on a month-to-month basis. Rent expense for 2002 amounted to $48,134.

The future minimum obligations under this lease are as follows:

2005	$	54,832
2006		56,206
2007		57,616
2008		9,642
	$	178,296

The Program leases office equipment on a month-to-month basis. Rent expense for this equipment amounted to $1,512, $1,482 and $1,027 at December 31, 2004, 2003 and 2002, respectively.

Note 8 – Liquidity

The actuarial study performed for the year ended December 31, 2004 determined that the Program was not actuarially sound. The forecasted information for the year ended December 31, 2005 indicates a larger deficit. This increase in deficit is a result of the two House bills mentioned in Note 5. However, the actuarial study did point out that the Program is not in any immediate danger of defaulting on the payment of benefits and that the Program has sufficient assets to continue to pay for claimants' benefits.

At the request of the Commonwealth of Virginia, management is evaluating possible solutions for resolving the deficit over the long-term. Once the evaluation is complete, management will present its recommendations to the legislature.

Note 9 – Contingencies

Various pending and threatened lawsuits claim eligibility for program benefits. Management believes the Program's actuarial assumptions are adequate to provide for the ultimate resolution of these claims.

Required Supplementary Information

Virginia Birth-Related Neurological Injury Compensation Program

Supplementary Schedule of Claims Development Information
As of December 31, 2004
(In Thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1 Premiums and investment revenue:										
Earned	$ 5,034	$ 3,736	$ 5,781	$ 8,477	$ 4,931	$ 6,001	$ 9,378	$ 18,136	$ 26,131	$ 25,445
2 Unallocated expenses	2,888	33,505	15	(199)	(148)	53	(203)	169	129	137
3 Estimated losses and expenses, end of birth year:										
Incurred	8,078	9,674	4,249	4,676	6,880	7,336	12,871	13,661	14,000	20,733
4 Net paid (cumulative) as of:										
End of accident year	-	-	-	-	-	-	-	-	-	
One year later	115	112	78	91	142	143	119	143	159	
Two years later	462	451	311	365	568	574	478	572	-	
Three years later	736	718	495	582	905	914	761	-	-	
Four years later	1,280	1,249	861	1,012	1,574	1,589	-	-	-	
Five years later	1,355	1,323	912	1,072	1,667	-	-	-	-	
Six years later	1,668	1,628	1,122	1,319	-	-	-	-	-	
Seven years later	1,700	1,659	1,144	-	-	-	-	-	-	
Eight years later	2,134	2,083	-	-	-	-	-	-	-	
Nine years later	6,614	-	-	-	-	-	-	-	-	

Virginia Birth-Related Neurological Injury Compensation Program

Supplementary Schedule of Claims Development Information
As of December 31, 2004
(In Thousands)

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
5	Reestimated ceded losses and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	Reestimated net incurred losses and expenses										
	End of birth year	8,078	9,674	4,249	4,676	6,880	7,336	12,871	13,661	14,000	20,733
	One year later	8,608	6,344	4,416	6,495	7,368	11,827	12,357	13,244	15,333	
	Two years later	5,828	6,725	6,069	6,826	11,580	11,533	11,963	14,544	-	
	Three years later	6,146	10,488	6,370	9,689	11,305	11,309	13,188	-	-	
	Four years later	9,287	11,174	8,971	9,502	11,094	12,008	-	-	-	
	Five years later	9,861	17,096	8,801	9,359	11,749	-	-	-	-	
	Six years later	14,805	16,709	8,671	9,804	-	-	-	-	-	
	Seven years later	14,482	16,413	9,076	-	-	-	-	-	-	
	Eight years later	14,236	17,334	-	-	-	-	-	-	-	
	Nine years later	15,005	-	-	-	-	-	-	-	-	
7	Increase (decrease) in estimated net incurred losses and expenses from end of birth year	$ 6,927	$ 7,660	$ 4,827	$ 5,128	$ 4,869	$ 4,672	$ 317	$ 883	$ 1,333	$ -

Virginia Birth-Related Injury Compensation Program

Notes to Required Supplementary Information
Years Ended December 31, 2004 and 2003

Note 1 – Claims development information

The table on the preceding pages illustrates how the Program's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Program as of the end of each of the previous ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross earned premiums and reported investment revenue, amounts of premiums ceded, and reported premiums (net of reinsurance) and reported investment revenue. (2) This line shows each fiscal year's other operating costs of the Program including overhead and loss adjustment expenses not allocable to individual claims. (3) This line shows the Program's gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called *birth year*). (4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each birth year. (5) This line shows the latest reestimated amount of losses assumed by reinsurers for each birth year. (6) This section of ten rows shows how each birth year's net incurred losses increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known losses, reevaluation of existing information on known losses, and emergence of new losses not previously known.) (7) This line compares the latest reestimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought. As data for individual birth years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature birth years. The columns of the table show data for successive birth years.

Supplementary Information

Virginia Birth-Related Neurological Injury Compensation Program

Schedules of General and Administration Expenses

	2004	2003	2002
Advertising and brochures	$ 11,980	$ 35,350	$ 54,139
Computer services	12,758	16,159	13,123
Depreciation and amortization	11,536	10,993	10,458
Office	6,785	7,256	8,455
Other	34,541	39,457	37,917
Payroll taxes	29,659	23,271	1,168
Postage and mailing	49,735	46,970	49,130
Professional fees	137,535	124,697	80,733
Printing	-	-	8,459
Rent	53,498	52,216	48,397
Salaries and benefits	323,111	322,717	333,577
Telephone	11,709	12,811	16,124
	682,847	691,897	663,682
Less claims administration (allocations)	546,278	562,500	495,000
Unallocated expenses	$ 136,569	$ 129,397	$ 168,682

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Virginia Birth-Related Neurological Injury Compensation Program
Richmond, Virginia

We have audited the financial statements of Virginia Birth-Related Neurological Injury Compensation Program (the "Program") as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated April 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial report and its operation that we consider to be material weaknesses. We did note other matters involving internal control over financial reporting that we have reported to management of the Program in a separate letter dated April 7, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Directors, management, and others within the Program, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
April 7, 2005

Market Review &
Fund Performance Analysis

Virginia Birth-Related Neurological Injury Compensation Fund

For Period Ending
December 31, 2005

Capital Advisory Group
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CAPITAL MARKET *review*

a publication of CALLAN

fourth quarter 2005

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Shrug It Off

The economy fared remarkably well in 2005, given the challenges thrown at it over the course of the year. While GDP growth dipped to 1.1% in the fourth quarter, it came in at 3.5% for the year. In short, the U.S. economy seems to have simply shrugged off $70 oil, higher interest rates and the devastation wrought by nature. *see page 11*

Oil Takes a Break; Equities Continue to Rise

The **S&P 1500 Supercomposite** rose 2.12% for the quarter. Basic Materials (+9.47%) topped all sectors. Energy (-6.88%) dropped for the first time in over 12 quarters on lower oil prices and a warmer-than-expected winter. Growth stocks trumped value among small caps, while value reigned within large caps. *see page 2*

The Bond World is Flat

The **Lehman Aggregate** advanced 0.59% for the quarter. Rising short-term interest rates eroded nearly half of the index's yield during the quarter and year. The **U.S. TIPS Index** rose 11 bps for the quarter and 2.84% for the year. In the securitized markets, Mortgages underperformed Treasurys of the same duration by 24 bps in the fourth quarter. *see page 4*

Public REITs Going Private

The public real estate markets, as measured by the **NAREIT Equity Index**, finished the quarter up 1.54%, buoyed by privatization speculation. The leading sector was Lodging/Resorts (+6.44%) with Health Care (-5.31%) coming in last. The private real estate market, as measured by the **NCREIF Total Property Index**, advanced 5.43%, fueled by strong capital flow into the asset class. *see page 9*

Rally Continues Abroad

MSCI EAFE rose 4.1% in dollar terms in the fourth quarter, with the dollar's 2.8% rise tempering returns to U.S.-based investors. The big story was Japan, which gained 11.9%. The **MSCI Europe Index** (+2.0%) lagged the broader benchmark for the second straight quarter. The **MSCI Emerging Markets Free Index** (+7.2%) rocketed higher yet again. *see page 6*

Unhedged Bonds Bid Farewell to Difficult 2005

The unhedged **Citigroup Non-U.S. World Government Bond Index** lost 2.61% over the quarter, as an appreciating dollar eroded the return of non-dollar assets. The **JPMorgan EMBI Plus Index** rose 2.10% for the quarter and 11.86% for the year, far outpacing other fixed-income indices. The market was supported by positive fundamentals, a resilient global economy and high commodity prices. *see page 8*

Private Equity Market

Private equity fundraising for the fourth quarter put in a strong showing with 101 new funds formed and $51.5 billion in new commitments made. According to estimates, private equity fundraising had its second largest year ever. Buyouts were the big news of the year on all fronts: fundraising, investing and distributions. The investment pace by funds into companies continued to be strong, with 2005 setting another record. *see page 10*

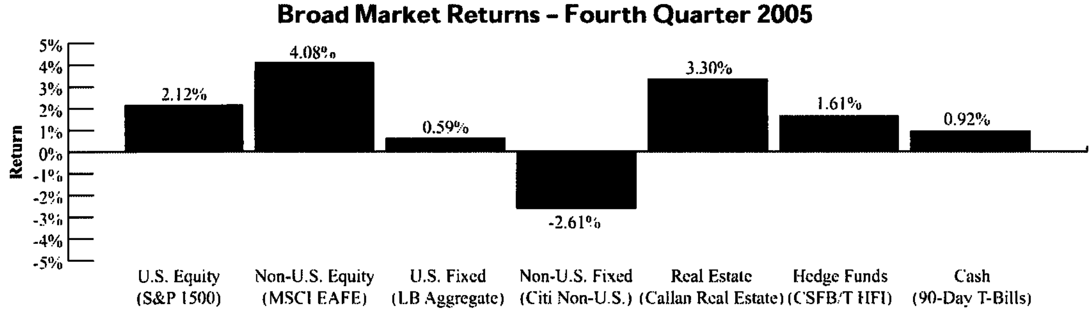
Go East, Young Man?

Callan's **Hedge Fund-of-Fund Database** rose 1.66% last quarter, net of fees. For the full year, the median manager gained 7.14%. The asset-weighted **CSFB/Tremont Hedge Fund Index** advanced 1.61% last quarter. Within *Long-Short Equity* (+2.66%), funds pointing toward Asia sailed particularly well, as the trade winds of its emerging and developed markets were quite profitable. *see page 10*

Fund Sponsors End Year On Positive Note

For the fourth quarter, those fund sponsors with more aggressive asset allocations (i.e., more equity exposure) came out on top. With an average public equity allocation of 64%, the median endowment and foundation (+2.28%) outpaced its institutional counterparts. Weighed down by greater bond allocations, the median Taft-Hartley plan (+2.14%) slightly trailed its peers. *see page 12*

Broad Market Returns – Fourth Quarter 2005



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Oil Takes a Break; Equities Continue to Rise

The fourth quarter was witness to a slight reversal as oil backed down from its recent peak. Interest rates, gold and other major commodities all climbed. Supporting the market were falling unemployment, continued new job growth and a consumer that was content to spend.

The **S&P 1500 Supercomposite** (+2.12%) and its component parts, **S&P 500** (+2.09%), **S&P 400** (+3.34%) and **S&P 600** (+0.39%), all ended the quarter in the black.

Basic Materials (+9.47%) topped all sectors for the quarter as metals (+14.92%) soared on concerns over rising inflation. Paper/forest stocks (+10.15%) and chemicals (+7.74%) strengthened.

Financials (+7.85%) moved up despite continued interest rate increases from the Fed. Good performance was broad based with gains from commercial banks (+7.77%), insurers (+6.63%) and investment services (+8.62%).

Industrials (+4.99%) had a good quarter with transportation (+12.67%) leading the way, and many of its conglomerates such as GE (+4.83%), Tyco (+3.98%) and 3M (+6.21%) not far behind.

Consumer Discretionary (+1.62%) was mixed. Time Warner (-3.43%) and cable giants Comcast (-11.78%) and Viacom (-3.86%) lagged. Support came from the mega retailers Home Depot (+6.39%) and Lowe's (+3.61%).

Health Care (+1.52%) stayed positive on the shoulders of Eli Lilly (+6.52%) and Merck (+18.31%), which came out the winner in several Vioxx lawsuits. Pharmaceuticals (-0.88%) overall fell.

Technology (+1.62%) was hurt by the darlings of the late 1990s, Dell (-12.43%), Qualcomm (-3.54%) and Cisco (-4.46%). Holding up the sector were the familiar names of IBM (+2.71%), Motorola (+2.72%) and Apple (+34.10%).

Consumer Staples (+0.15%) stayed barely positive despite increases from Wal-Mart (+7.12%) and Costco (+15.08%). Consumer product giants Procter & Gamble (-2.17%) and Coca-Cola (-6.06%) lagged.

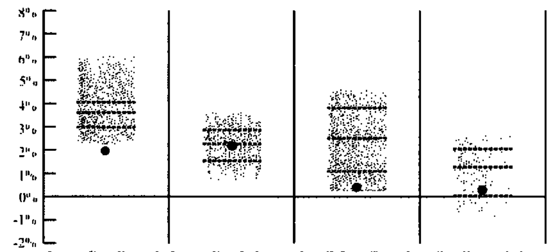
Telecom (-0.31%) fell despite strong results from BellSouth (+4.26%), Qwest (+37.8%) and AT&T (+3.58%). The counterpoint was poor performance from wireless leaders such as Verizon (-6.67%), Sprint (-1.67%) and Alltel (-2.52%).

Utilities (-5.94%) were also hurt by falling energy prices. Gas utilities (-10.78%) fell the hardest. Independent power producers (-8.3%) and electric utilities (-4.50%) were also down.

Energy (-6.88%) dropped for the first time in over 12 quarters on lower oil prices and a warmer-than-expected winter. The major contributors to the decline were oil & gas (-9.37%) stocks.

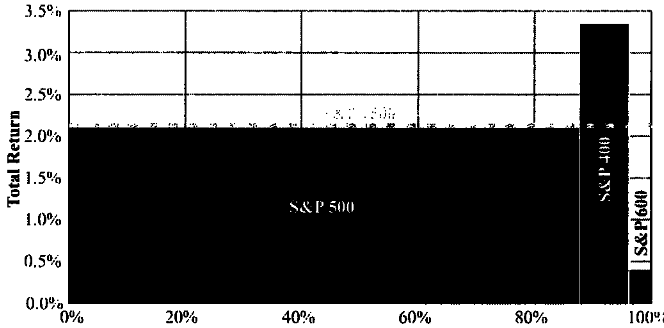
Based upon the S&P/Barra style indices, growth stocks trumped value among small caps, while value reigned within large caps. To compare value and growth, S&P and Barra divide the capitalization indices evenly by price-to-book, creating subsectors of growth and value-oriented stocks. Among smaller stocks, the **S&P/Barra SmallCap Growth Index** (+0.44%) edged its value counterpart (+0.31%) by 12 basis points. In the large stock arena, returns were higher and the performance differences were wider, as the **S&P/Barra Growth Index** (+1.98%) lagged value (+2.21%) by 25 basis points.

Callan Style Group Returns - Fourth Quarter 2005

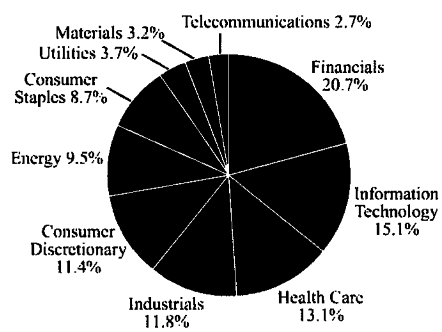


	Large Cap-Growth Style	Large Cap-Value Style	Small Cap-Growth Style	Small Cap-Value Style
10th Percentile	6.06	3.69	4.63	2.66
25th Percentile	4.05	2.85	3.81	2.03
Median	3.60	2.25	2.49	1.26
75th Percentile	2.98	1.51	1.08	0.03
90th Percentile	2.25	0.69	0.26	-1.02
	S&P Growth	S&P Value	S&P 600 Growth	S&P 600 Value
Benchmark ●	1.98	2.21	0.44	0.31

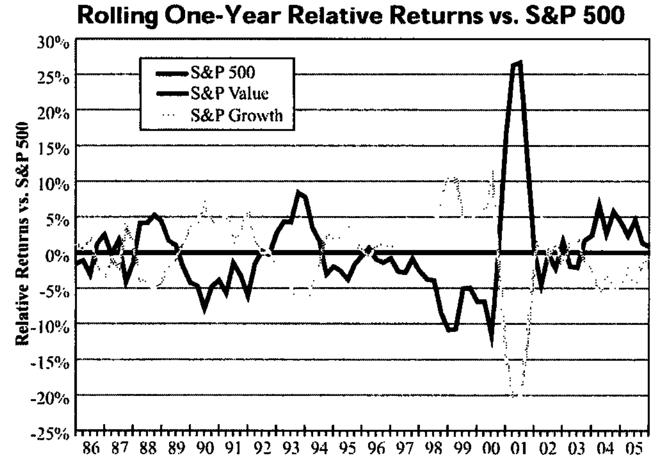
Capitalization Sector Performance Fourth Quarter 2005



Economic Sector Exposure - S&P 1500 Fourth Quarter 2005



Rolling One-Year Relative Returns vs. S&P 500



U.S. EQUITY

Style Median and Index Returns* for Periods ended December 31, 2005

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Large Cap–Broad Style	*2.54*	*7.45*	*15.75*	*1.76*	*10.20*	*12.65*
Large Cap–Growth Style	*3.60*	*6.98*	*13.27*	*-3.16*	*9.05*	*11.99*
Large Cap–Value Style	*2.25*	*8.24*	*17.47*	*5.24*	*10.64*	*12.94*
Aggressive Growth Style	*3.47*	*9.24*	*19.92*	*-0.12*	*9.28*	*14.66*
Contrarian Style	*1.76*	*7.74*	*17.80*	*6.93*	*11.40*	*13.84*
Core Style	*2.31*	*7.07*	*15.15*	*1.40*	*10.20*	*12.14*
Yield Style	*1.61*	*7.80*	*16.38*	*6.27*	*10.51*	*12.70*
S&P 1500	2.12	5.66	15.24	1.48	9.47	11.97
S&P 500	2.09	4.91	14.39	0.54	9.07	11.52
NYSE	2.11	9.39	17.98	4.18	10.34	12.23
Dow Jones Industrials	2.06	1.72	11.14	2.02	9.79	12.32
Mid Cap–Broad Style	*2.58*	*11.43*	*21.53*	*7.62*	*13.26*	*15.59*
Mid Cap–Growth Style	*3.71*	*12.92*	*20.81*	*-0.90*	*10.41*	*14.54*
Mid Cap–Value Style	*1.92*	*9.97*	*21.82*	*11.61*	*13.80*	*16.09*
S&P MidCap 400	3.34	12.56	21.15	8.60	14.36	15.98
Small Cap–Broad Style	*1.69*	*7.55*	*23.08*	*9.88*	*12.50*	*15.54*
Small Cap–Growth Style	*2.49*	*7.39*	*20.07*	*2.70*	*9.61*	*14.84*
Small Cap–Value Style	*1.26*	*9.10*	*24.19*	*15.96*	*15.65*	*17.54*
S&P SmallCap 600	0.39	7.68	22.38	10.76	12.16	15.17
Russell 2000	1.13	4.55	22.13	8.22	9.26	13.04
NASDAQ	2.73	2.13	18.89	-1.75	8.13	13.34
Consumer Staples	0.15	3.58	8.08	1.74	7.16	10.08
Consumer Discretionary	1.62	-4.78	14.65	6.35	9.35	11.69
Industrials	4.99	4.04	17.72	2.10	10.16	11.82
Energy	-6.88	33.68	30.26	13.43	15.38	13.56
Materials	9.47	5.40	18.85	9.80	7.40	9.67
Information Technology	1.62	1.62	15.31	-7.26	6.85	11.49
Utilities	-5.94	15.20	21.60	-0.06	7.99	9.93
Financials	7.85	6.66	16.21	5.39	14.15	17.72
Telecommunications	-0.31	-5.75	6.61	-8.34	—	—
Health Care	1.52	7.47	9.34	-1.92	—	—

U.S. Equity Index Characteristics as of December 31, 2005

	S&P 1500	S&P 500	S&P 400	S&P 600	Russell 3000
Cap Range	46 – 370,344	665 –370,344	423 – 14,582	46 – 3,700	11 – 371,737
Number of Issues	1,500	500	400	600	2,994
% of S&P 1500	100%	87%	9%	4%	—
Wtd Avg Mkt Cap	$77.7B	$88.5B	$4.0B	$1.4B	$72.9B
Price/Book Ratio	2.9	2.9	2.7	2.4	2.9
P/E Ratio (forecasted)	15.0	14.9	16.4	15.8	15.6
Dividend Yield	1.7%	1.8%	1.1%	0.9%	1.7%
5-Yr Earnings (forecasted)	12.2%	11.8%	14.9%	15.0%	12.5%

* Returns less than one year are not annualized.

** Returns prior to 1Q03 are based upon Callan Broad Market's sector returns.

The Bond World is Flat

The investment grade U.S. bond market, as measured by the **Lehman Aggregate**, advanced 0.59% for the quarter. The widely followed benchmark ended the year with a 5.08% yield and a calendar year return of 2.43%. Rising short-term interest rates eroded nearly half of the index's yield during the quarter and year.

During the quarter, the Federal Reserve continued its well-telegraphed tightening policy with two 25 bps rate hikes. As a result, the fed funds rate ended the quarter at 4.25%. While the preceding 13 rate hikes were largely expected, the Fed stated future hikes will be more data dependent. The market, through futures, is predicting another 50 bps of tightening by mid-year 2006.

The persistent increase in short-term interest rates, combined with the inflexible long end of the curve, produced a truly flat, and at times, slightly inverted yield curve. At year's end, only 14 bps separated the yield of a two-year and 30-year Treasury. Long term interest rates were held down by subdued core inflation, a vote of confidence in the Fed's inflation fighting ability, continued demand from foreign investors and a belief that the current tightening regime will soon end. While the two-year Treasury gained 23 bps over the quarter (to 4.40%), the 10-year increased only seven bps (to 4.39%). The 30-year actually fell three bps (to 4.53%).

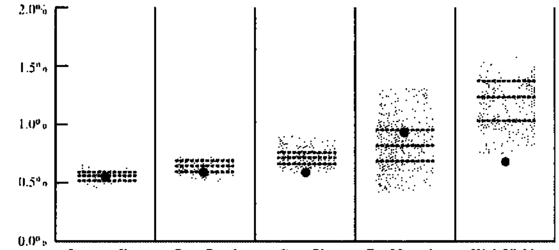
The **U.S. Treasury Inflation Protected Securities (TIPS) Index** rose 11 bps for the quarter and 2.84% for the year. Ten-year breakeven inflation rates narrowed by 22 bps (to 2.34%) and real yields increased by 29 bps over the quarter.

Swap spreads widened by nine bps during the quarter, reflecting the market's hesitation with spread sector risk. Similarly, Agency debt underperformed Treasury bonds of the same duration by 18 bps. During the quarter, Corporate bonds underperformed Treasury bonds by 30 bps, ending a difficult year where Corporate bonds lagged 115 bps. The spread widening was due to investor's unease with increasing event risk and shareholder friendly (bondholder unfriendly) corporate actions. Corporate bonds rated BBB lagged Treasury bonds for the quarter by 49 bps and 233 bps for the year. The struggling U.S. auto sector was a primary contributor to BBB's downdraft.

In a year where Ford and GM were downgraded to junk status, the high yield market produced returns similar to the broad investment grade market, up 68 bps for the quarter and 2.74% for the year. Single B credit outperformed the rest of the high yield market, with a higher level of risk aversion impacting CCC and the fallen angel, auto sector, battering BB returns. High yield default rates remained close to a cyclical low 2%, while mutual fund flows were significantly negative.

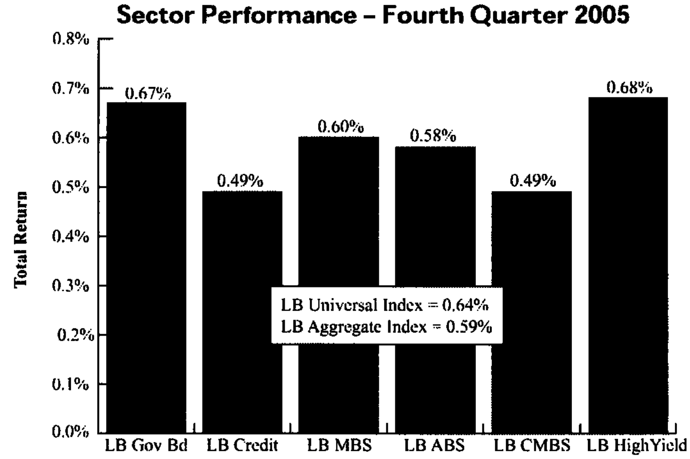
In the securitized markets, Mortgages underperformed Treasurys of the same duration by 24 bps in the fourth quarter. Mortgage spreads widened due to a reduced demand from Government Sponsored Entities, an anticipated increase in interest rate volatility, valuation concerns and a flattening yield curve. Heavy new issue supply contributed to 19 bps in spread widening in the CMBS market. Swap spread widening, concerns over consumer credit and talk of a slowing housing market battered the Asset Backed Securities market. During the quarter, autos, credit cards and home equity loans trailed Treasurys by 5, 18 and 11 bps respectively.

Callan Style Group Returns – Fourth Quarter 2005

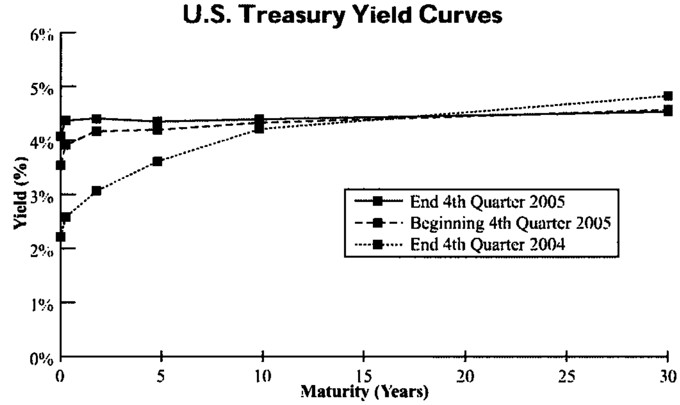


	Intermediate Style	Core Bond Style	Core Plus Style	Ext Maturity Style	High Yield Style
10th Percentile	0.68	0.74	0.91	1.34	1.62
25th Percentile	0.59	0.69	0.76	0.96	1.37
Median	0.56	0.64	0.71	0.82	1.23
75th Percentile	0.52	0.59	0.65	0.68	1.03
90th Percentile	0.45	0.50	0.57	0.42	0.70
	LB Inter Agg	LB Agg	LB Agg	LB G/C Long	LB High Yield
Benchmark ●	0.55	0.59	0.59	0.93	0.68

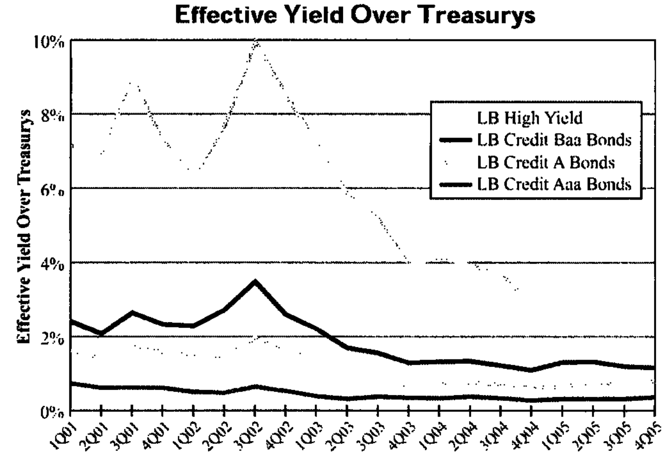
Sector Performance – Fourth Quarter 2005



U.S. Treasury Yield Curves



Effective Yield Over Treasurys



U.S. FIXED INCOME

Style Median and Index Returns* for Periods ended December 31, 2005

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Core Bond Style	*0.64*	*2.78*	*3.98*	*6.04*	*6.33*	*7.61*
Core Bond Plus Style	*0.71*	*2.96*	*5.21*	*6.41*	*6.69*	*8.25*
LB Aggregate	0.59	2.43	3.62	5.87	6.16	7.26
LB Govt/Credit	0.60	2.37	3.74	6.11	6.17	7.37
LB Govt	0.67	2.65	2.83	5.38	5.94	7.07
LB Credit	0.49	1.96	4.94	7.11	6.45	8.00
Citi Broad Investment Grade	0.65	2.57	3.75	5.93	6.19	7.31
Extended Maturity Style	*0.82*	*5.11*	*6.67*	*8.41*	*7.60*	*9.55*
LB Gov/Credit Long	0.93	5.34	6.58	8.32	7.44	9.17
LB Gov Long	1.01	6.61	5.70	7.59	7.40	9.14
LB Credit Long	0.84	3.76	7.81	9.49	7.43	9.13
Intermediate Style	*0.56*	*1.95*	*3.14*	*5.48*	*5.96*	*6.86*
LB Intermediate Aggregate	0.55	2.01	3.18	5.50	5.97	6.85
LB Gov/Credit Intermediate	0.51	1.58	2.97	5.49	5.80	6.73
LB Gov Intermediate	0.59	1.68	2.10	4.82	5.50	6.40
LB Credit Intermediate	0.39	1.42	4.11	6.41	6.20	7.51
Defensive Style	*0.70*	*2.14*	*2.10*	*4.17*	*5.15*	*5.95*
Active Cash Style	*0.89*	*3.06*	*1.96*	*3.02*	*4.47*	*5.04*
Money Market Funds (net of fees)	*0.86*	*2.65*	*1.36*	*1.82*	*3.50*	*3.75*
ML Treasury 1–3 Year	0.68	1.66	1.49	3.66	4.79	5.49
90-day Treasury Bills	0.92	3.07	1.84	2.34	3.84	4.06
High Yield Style	*1.23*	*3.53*	*12.84*	*8.56*	*7.62*	*11.08*
LB High Yield	0.68	2.74	13.77	8.85	6.54	10.39
ML High Yield Master	0.66	2.81	13.15	8.75	6.80	10.15
Mortgages Style	*0.63*	*2.86*	*3.79*	*5.82*	*6.55*	*7.48*
LB MBS	0.60	2.61	3.46	5.44	6.18	7.02
LB ABS	0.58	2.09	3.03	5.45	5.99	—
LB CMBS	0.49	1.82	3.52	6.96	—	—
LB Muni	0.73	3.51	4.43	5.59	5.71	6.74
LB Muni 1–10 Year	0.47	1.68	2.97	4.60	4.91	—
LB Muni 3 Year	0.28	0.87	1.78	3.70	4.18	4.93

U.S. Fixed-Income Index Characteristics as of December 31, 2005

Lehman Brothers Indices	Yield to Worst	Modified Adj. Duration	Average Maturity	% of LB G/C	% of LB Aggregate
LB Aggregate	5.08	4.57	7.11	100.00%	100.00%
LB Govt/Credit	4.84	5.15	7.68	100.00%	59.80%
Intermediate	4.75	3.63	4.38	79.17%	47.34%
Long-Term	5.16	10.92	20.22	20.83%	12.46%
LB Govt	4.55	4.71	6.56	60.85%	36.39%
LB Credit	5.28	5.84	9.42	39.15%	23.41%
LB Mortgage	5.50	3.64	6.46	—	34.94%
LB Asset-Backed	5.02	2.60	2.99	—	1.27%
LB Commercial Mortgage	5.12	4.63	5.62	—	3.99%
LB Corp High Yield	8.25	4.53	8.10	—	—

* Returns less than one year are not annualized.

Rally Continues Abroad

The second half of 2005 was far more interesting for international markets than the first half, with the third quarter rally stretching all the way through the fourth quarter, despite concerns about rising rates and natural disasters. **MSCI EAFE** rose 4.1% in dollar terms in the fourth quarter, with the dollar's 2.8% rise tempering returns to U.S.-based investors. The big story was Japan, which gained 11.9%, as economic and political momentum continued to boost investor confidence. By sector, Energy (-7.3%) and Telecom (-7.7%) fared the worst in the EAFE Index, as the spotlight was taken by Technology (+11.0%), Industrials (+8.6%) and Materials (+7.1%). Growth edged value by 0.5% in the quarter, while small cap (+7.8%) nearly doubled the return of EAFE. Emerging markets continued on its three-year rampage, advancing 7.2%, the sixth consecutive quarter of outperforming developed markets.

Europe

The **MSCI Europe Index** (+2.0%) lagged the broader benchmark for the second straight quarter, due more to investor excitement over Japan than anything amiss on the European continent. Economic news continued to demonstrate a gradual resurgence in European growth during the quarter, with numerous sentiment measures showing promising signs. In response to the strengthening economy, the European Central Bank finally decided to raise interest rates by 0.25%. The UK, meanwhile, eked out a 0.2% gain amid signs of slowing economic growth. Throughout the region, the sector trends reflected the EAFE sector performance for the quarter, with strong earnings results propelling Financials (+6.9%). Telecoms (-8.1%) rounded out the bottom.

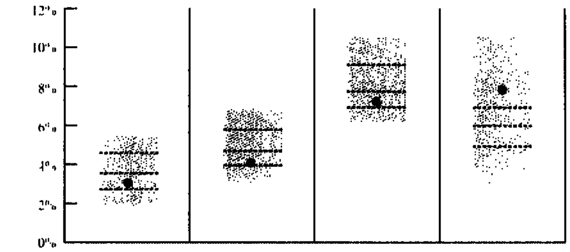
Asia

The **MSCI Pacific Index** (+8.6%) enjoyed a broad rally in the fourth quarter, its second straight quarter of trouncing Europe by a large margin. Japan (+11.9%) was again the major story of the quarter, as clear signs of Prime Minister Koizumi's commitment to reform sent a strong message to the marketplace, propelling banks and even real estate stocks higher. The planned privatization of the postal savings system, though years off, convinced investors of the seriousness of the current leadership. Technology (+19.2%) and Financials (+15.9%) were the big winners in Japan for the quarter. In the rest of Asia, results were mixed—Australia (-0.4%) failed to produce further gains from the continued commodity boom and Hong Kong slipped 3.0%.

Emerging Markets

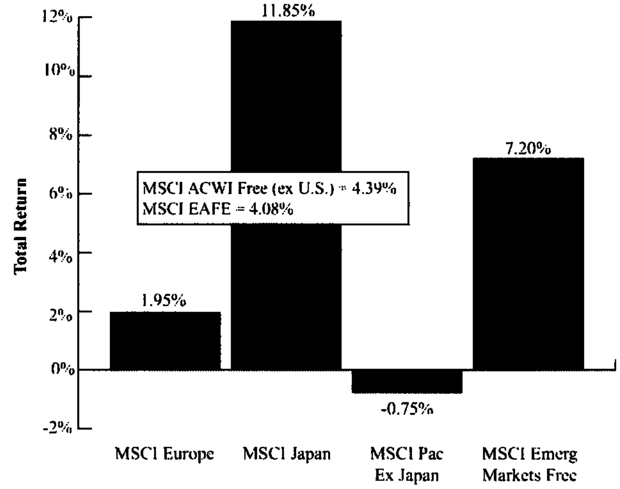
The **MSCI Emerging Markets Free Index** (+7.2%) rocketed higher yet again in the fourth quarter, but for different reasons than in previous quarters. Energy (-1.5%) and Materials (+3.8%) were actually drags on the index returns, as oil prices reversed and markets shrugged off higher metals prices in most regions. Enthusiasm for Technology stocks (+13.9%) led investors into Asia (+8.7%), with memory maker Samsung assisting Korea in its 15.4% surge. Latin America climbed 3.5% as signs of continued growth and fiscal reform led the market. Elsewhere, South Africa jumped 9.1% as the materials stocks remained in favor in that country.

Callan Style Group Returns – Fourth Quarter 2005

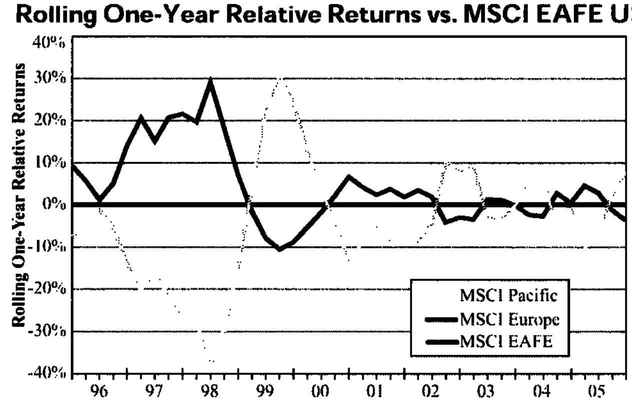


	Global Equity Style	Non-U.S. Equity Style	Emerging Markets Eq Style	Small Cap Style
10th Percentile	5.53	6.89	10.63	10.65
25th Percentile	4.57	5.79	9.10	6.91
Median	3.52	4.67	7.72	5.98
75th Percentile	2.72	3.90	6.88	4.89
90th Percentile	1.73	3.03	6.16	2.86
	MSCI World	MSCI EAFE	MSCI Emg Mkts Free	MSCI EAFE Small Cap
Benchmark ●	3.06	4.08	7.20	7.82

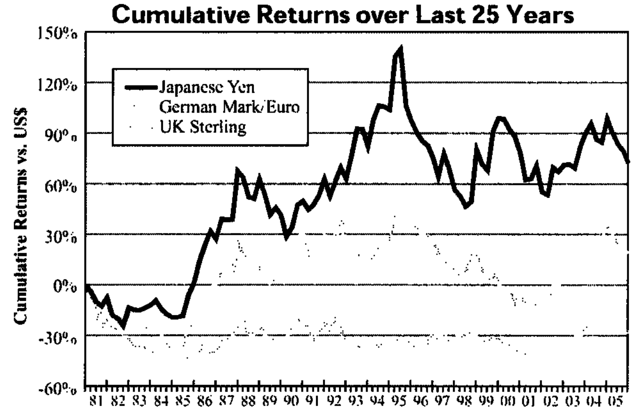
Regional Performance (based on US$) Fourth Quarter 2005



Rolling One-Year Relative Returns vs. MSCI EAFE US$



Major Currencies vs. US$ Cumulative Returns over Last 25 Years



INTERNATIONAL EQUITY

Style Median and Index Returns* for Periods ended December 31, 2005

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Global Style	*3.52*	*10.27*	*19.13*	*3.32*	*9.24*	*11.15*
Non-U.S. Style	*4.67*	*15.26*	*23.59*	*5.83*	*9.00*	*10.25*
Core Style	*4.25*	*14.78*	*22.69*	*5.77*	*8.98*	*10.25*
MSCI EAFE–Unhedged	4.08	13.54	23.68	4.55	5.84	7.00
MSCI EAFE–Local	7.11	29.00	20.46	1.59	6.62	6.80
MSCI EAFE Growth Index	4.34	13.28	20.19	1.92	3.33	4.75
MSCI EAFE Value Index	3.82	13.80	27.15	7.09	8.21	9.16
MSCI World–Unhedged	3.06	9.49	18.69	2.18	7.04	8.58
MSCI World–Local	4.43	15.77	17.20	0.95	7.59	8.54
MSCI AC World Free ex-U.S.–Unhedged	4.39	17.11	26.20	6.66	6.70	7.76
MSCI AC World Free–Unhedged	3.43	11.37	20.18	3.41	7.44	9.09
Pacific Basin Style	*7.67*	*25.31*	*27.63*	*8.56*	*3.48*	*7.17*
Japan Style	*13.34*	*30.46*	*27.21*	*6.29*	*5.07*	*4.51*
Pacific Rim Style	*5.76*	*21.76*	*29.49*	*13.21*	*3.93*	*10.32*
MSCI Pacific–Unhedged	8.60	22.64	26.42	6.46	1.11	3.16
MSCI Pacific–Local	12.63	37.70	24.07	5.79	2.01	2.16
MSCI Japan–Unhedged	11.85	25.52	25.50	4.60	-0.16	1.72
MSCI Japan–Local	16.48	44.58	25.27	5.29	1.19	0.77
Europe Style	*2.49*	*10.67*	*22.50*	*4.64*	*12.01*	*12.12*
MSCI Europe–Unhedged	1.95	9.42	22.37	3.68	9.38	10.12
MSCI Europe–Local	4.56	24.93	18.87	-0.16	10.08	11.17
Emerging Markets Database	*7.72*	*36.07*	*40.14*	*21.32*	*10.64*	*14.00*
MSCI Emerging Markets Free–Unhedged	7.20	34.54	38.35	19.44	6.98	11.86
MSCI Emerging Markets Free–Local	7.00	35.81	32.40	18.39	11.42	27.63
Small Cap Style	*5.98*	*25.19*	*36.96*	*13.41*	*13.41*	*10.62*
MSCI EAFE Small Cap	7.82	26.19	38.60	16.52	—	—

Return Attribution for EAFE Countries
Fourth Quarter 2005

Country	Total	Local	Currency	Weighting
Australia	-0.69%	3.39%	-3.94%	5.23%
Austria	3.08%	5.36%	-2.16%	0.41%
Belgium	4.19%	6.50%	-2.16%	1.15%
Denmark	6.52%	8.82%	-2.12%	0.79%
Finland	3.12%	5.40%	-2.16%	1.43%
France	0.65%	2.87%	-2.16%	9.32%
Germany	4.44%	6.76%	-2.16%	6.77%
Greece	5.66%	8.00%	-2.16%	0.62%
Hong Kong	-2.99%	-3.04%	0.05%	1.65%
Ireland	4.91%	7.23%	-2.16%	0.78%
Italy	-0.25%	1.96%	-2.16%	3.79%
Japan	11.85%	16.48%	-3.97%	25.65%
Netherlands	8.10%	10.49%	-2.16%	3.40%
New Zealand	-3.79%	-2.04%	-1.78%	0.19%
Norway	-4.48%	-0.86%	-3.65%	0.72%
Portugal	5.03%	7.36%	-2.16%	0.28%
Singapore	4.27%	2.64%	1.61%	0.83%
Spain	-2.57%	-0.42%	-2.16%	3.69%
Sweden	2.46%	5.50%	-2.88%	2.39%
Switzerland	7.29%	9.67%	-2.18%	6.91%
UK	0.19%	3.24%	-2.96%	23.99%

* Returns less than one year are not annualized.

Unhedged Bonds Bid Farewell to Difficult 2005

The unhedged **Citigroup Non-U.S. World Government Bond Index (WGBI)** lost 2.61% over the quarter, as an appreciating dollar eroded the return of non-dollar assets. The trade-weighted dollar appreciated 1.7% over the quarter, capping an impressive 12.7% rise for the year, as rising U.S. short-term interest rates continued to attract foreign capital. The hedged version of the **Citigroup Non-U.S. WGBI** advanced 0.23% for the quarter. Similar to the U.S., most interest rate changes were subdued, and yield curves generally flattened over the quarter.

In a widely anticipated move, the European Central Bank raised short-term interest rates by 25 bps to 2.25%. The first rate increase in two years was motivated by concerns over building inflationary pressures attributable to high energy prices. The 10-year German government bund increased a modest 15 bps to 3.31% over the quarter. The euro lost 1.5% against the dollar, compounding a 12-month depreciation of 12.6%.

The Bank of England held short rates at 4.50% throughout the quarter, while concerns over slowing economic growth fueled speculation of an approaching rate cut. The growth forecast and expected rate cut led to a modest decrease in 10-year yields, which fell 18 bps to 4.10%. Against the dollar, the pound shed 2.3% for the quarter and over 10% for the year. UK pension fund demand for inflation linked bonds drove the real yield for the 50-year Linker down to a mere 77 bps.

Canadian government bonds were largely unchanged over the quarter. The 10-year closed the year at 4.98%. Due to the comparatively high interest rates and the commodity-rich economy, the Canadian dollar bucked the strong dollar trend and was essentially flat for the quarter, but up 3.43% for the year. Australia's central bank left short rates unchanged at 5.5%, while the 10-year declined 16 bps to 5.22%.

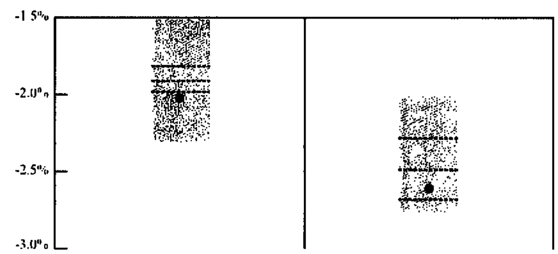
The Bank of Japan also left interest rate policy unchanged during the quarter, unresponsive to the apparent return of growth and surging stock market. Political influence likely played some role in maintaining the interest rate policy. The 10-year JGBs were unchanged over the quarter, ending 2005 with a yield of 1.48%. The yen depreciated 3.6% over the quarter, contributing to a calendar year loss of 12.9%.

A global abundance of liquidity in search for higher yielding investments continued to propel emerging market debt during the quarter. The **JPMorgan EMBI Plus Index** rose 2.10% for the quarter and 11.86% for the year, far outpacing other fixed-income indices. The market was supported by positive fundamentals, a resilient global economy and high commodity prices.

Return Attribution for Non-U.S. Govt Indices
Fourth Quarter 2005

Country	Total	Local	Currency**	Weighting
Australia	-2.03%	1.99%	-3.94%	0.40%
Austria	-2.29%	-0.13%	-2.16%	1.74%
Belgium	-2.33%	-0.17%	-2.16%	3.35%
Canada	0.43%	1.08%	-0.65%	2.53%
Denmark	-2.58%	-0.48%	-2.12%	0.94%
Finland	-2.58%	-0.42%	-2.16%	0.65%
France	-2.23%	-0.07%	-2.16%	10.22%
Germany	-2.30%	-0.14%	-2.16%	11.89%
Greece	-2.45%	-0.29%	-2.16%	2.41%
Ireland	-2.32%	-0.16%	-2.16%	0.52%
Italy	-2.24%	-0.08%	-2.16%	10.96%
Japan	-3.76%	0.22%	-3.97%	36.18%
Netherlands	-2.32%	-0.16%	-2.16%	2.89%
Norway	-3.60%	0.05%	-3.65%	0.33%
Poland	-0.16%	0.15%	-0.31%	0.76%
Portugal	-2.47%	-0.31%	-2.16%	1.00%
Singapore	0.65%	-0.94%	1.61%	0.36%
Spain	-2.20%	-0.04%	-2.16%	4.13%
Sweden	-3.66%	-0.80%	-2.88%	0.96%
Switzerland	-2.64%	-0.48%	-2.18%	0.96%
UK	-0.28%	2.76%	-2.96%	6.83%

Callan Style Group Returns – Fourth Quarter 2005



	Global Fixed Style	Non-U.S. Fixed Style
10th Percentile	-1.51	-2.01
25th Percentile	-1.82	-2.28
Median	-1.91	-2.49
75th Percentile	-1.98	-2.68
90th Percentile	-2.31	-2.76
	Citi World Gov Unhedged	Citi Non-U.S. World Gov Unhedged
Benchmark ●	-1.92	-2.61

INTERNATIONAL FIXED INCOME
***Style Median* and Index Returns* for Periods ended December 31, 2005**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Global Style	*-1.91*	*-6.56*	*6.60*	*7.48*	*5.70*	*7.64*
Citi World Govt–Unhedged	-1.92	-6.87	5.70	6.92	4.99	6.96
Citi World Govt–Local	0.33	3.70	3.57	4.81	5.64	7.23
Non-U.S. Style	*-2.49*	*-8.79*	*7.51*	*7.77*	*5.36*	*7.83*
Citi Non-U.S. World Govt–Unhedged	-2.61	-9.21	6.47	7.27	4.42	6.94
Citi Non-U.S. World Govt–Local	0.23	3.91	3.74	4.61	5.57	—
Citi Euro Govt Bond Index–Unhedged	-2.28	-8.48	9.95	11.54	—	—
Citi Euro Govt Bond Index–Local	-0.12	5.46	5.68	6.53	—	—
JPM Emerg Mkts Bond Index Plus	2.10	11.86	17.22	12.79	13.62	14.77

* Returns less than one year are not annualized.
** Derived from MSCI EAFE data.

Public REITs Going Private

During the early 1990s, private real estate companies rushed to become public REITs to achieve greater access to investment capital. Recently, that trend has reversed. Historically low cap rates have prompted aggressive private investors to purchase large portfolios of real estate through the acquisition of public REITs. In the fourth quarter of 2005, three public REITs were sold to private investors, accounting for over $9 billion in market capitalization. While the high demand for institutional quality real estate continues to make core real estate investment challenging, it is providing a pricing floor for the public REIT market.

The public real estate markets, as measured by the **NAREIT Equity Index**, began the quarter down 2.37%, but rallied to finish up 1.54% for the quarter buoyed by privatization speculation. The index gained 12.15% for the year. The leading sector for the quarter was Lodging/Resorts (+6.44%), with Health Care (-5.31%) coming in last.

The private real estate markets continue to be fueled by strong capital flow into the asset class. Strong demand for core real estate has driven uninvested commitments for institutional core commingled funds to approximately $10 billion dollars as of quarter end. This current backlog of allocated capital waiting to be invested is exerting downward pressure on yields. This is encouraging many pension funds to shift core investment into value-added strategies where less competition for investment is perceived.

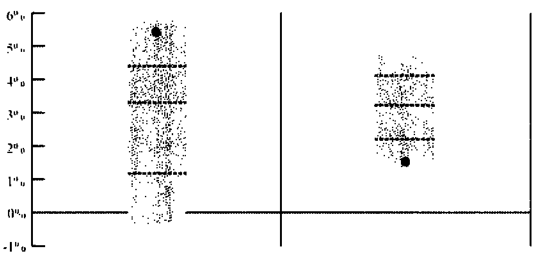
The private real estate market, as measured by the **NCREIF Total Property Index**, advanced 5.43% for the quarter and 20.06% for the trailing 12 months. Hotels (+6.24%), representing only 2% of the index, led all property types. Retail (+5.99%) was the strongest of the four core sectors. Industrial (+4.92%) was the "weakest" property type. Mountain (+6.92) was the top-performing region, riding the strength of hefty appreciation gains in the Denver market. East North Central (+3.77) lagged the broader index by 166 basis points.

Overall Capitalization Rates

Sector	4th Quarter 2005	One Year Ago
Industrial	7.29%	8.12%
Apartment	6.13%	7.01%
CBD Office	7.35%	8.40%
Suburban Office	8.02%	8.73%
Strip Shopping Center	7.42%	8.10%

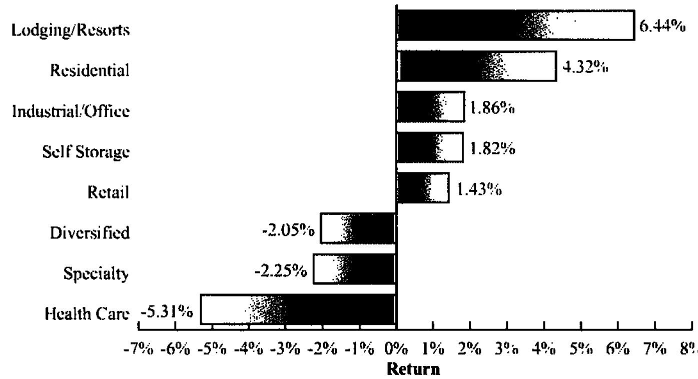
Source: *Korpacz Real Estate Investor Survey®*
Rates based on unleveraged, all-cash transactions.

Callan Style Group Returns – Fourth Quarter 2005

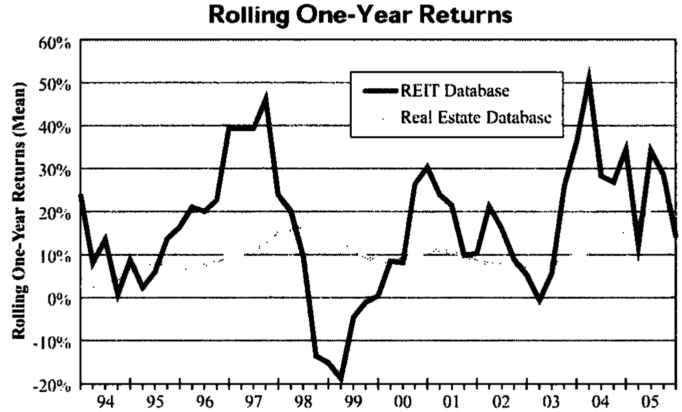


	Real Estate Database	REIT Database
10th Percentile	5.75	4.74
25th Percentile	4.35	4.11
Median	3.30	3.24
75th Percentile	1.15	2.20
90th Percentile	-0.39	1.37
	NCREIF Total Index	NAREIT Equity
Benchmark ●	5.43	1.54

NAREIT Equity Sector Performance – Fourth Quarter 2005



Rolling One-Year Returns



REAL ESTATE

***Style Median* and Index Returns* for Periods ended December 31, 2005**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Real Estate Database (net of fees)	*3.30*	*18.78*	*13.62*	*11.15*	*11.63*	*9.09*
NCREIF Total Index	5.43	20.06	14.42	11.40	12.09	8.25
REIT Database	*3.24*	*14.54*	*29.14*	*20.20*	*16.75*	*17.24*
NAREIT Equity	1.54	12.15	26.49	19.07	14.50	15.39

* Returns less than one year are not annualized.

Private Equity Market

According to preliminary figures from *The Private Equity Analyst*, private equity fundraising had its second largest year ever. The 317 funds and $151.8 billion raised in 2005 (see table) was still shy of the 448 funds and $163.8 billion raised in 2000. The fourth quarter put in a strong showing with 101 new funds formed and $51.5 billion in new commitments made.

Buyouts were the big news for the year on all fronts: fundraising, investing and distributions. Venture capital continued to shrink as a percentage of the private equity market's total capitalization, with other strategy categories holding steady with historical percentages.

The investment pace by funds into companies continued to be strong, with 2005 setting another record. According to the *Buyouts* newsletter, buyout-sponsored acquisitions with announced values totaled $197.8 billion with 845 deals closing. This is up from 2004's previous record of $137 billion and 733 transactions. The quarterly deal record was also shattered during fourth quarter of 2005, with $59 billion and 195 deals (including the $15 billion Hertz transaction).

Please see our upcoming issue of *Private Markets Trends* for more in-depth coverage.

Funds Closed January 1 through December 31, 2005

Strategy	# of Funds	$ Amt (mil)	%
Venture Capital	118	22.4	15
Acquisition/Buyouts	132	102.1	67
Subordinated Debt	14	3.3	2
Distressed Debt	3	4.3	3
Other	12	6.0	4
Fund-of-funds	38	13.7	9
Totals	**317**	**151.8**	**100**

Source: *The Private Equity Analyst*

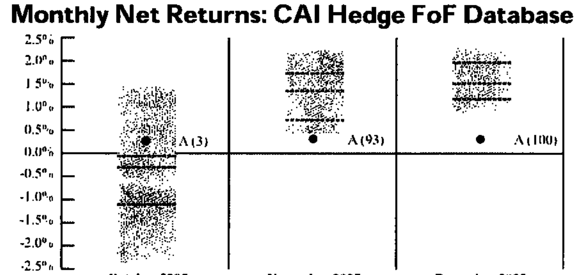
Go East, Young Man?

Strong economic growth in Asia attracted wild-eyed investors, as the MSCI Pacific Index jumped 8.6% last quarter, topping off its 22.64% run-up last year. Although the major developed markets elsewhere were much more tempered, discerning investors, however hedged, still managed to make some money. As the proxy for well-diversified hedge fund programs, the median manager in **Callan's Hedge Fund-of-Fund Database** rose 1.66% last quarter, net of fees. For the full year, the median manager gained 7.14%, or 4.07% over three-month Treasury bills.

Representing an unmanaged hedge fund universe of open and closed funds, the asset-weighted **CSFB/Tremont Hedge Fund Index** advanced 1.61% last quarter. Within this broad index, discrete holders of equity and credit risk got paid well last quarter. *Long-Short Equity* (+2.66%) tactfully managed to outpace the S&P 500 (+2.09%). In this long-biased peer group, those funds pointing toward Asia sailed particularly well, as the trade winds of its emerging and developed markets were quite profitable. *Distressed* (+3.28%) also performed well last quarter, despite tight credit spreads.

Of the relative value strategies, *Market Neutral Equity* (+2.47%) finished the year strong, while *Convertible Arb* (+0.46%) and *Fixed-Income Arb* (+0.14%) sorely missed yesterday's cheap volatility and financing. Slipping modestly last quarter were *Managed Futures* (-0.47%) and *Short Bias* (-0.63%).

Monthly Net Returns: CAI Hedge FoF Database



	October 2005	November 2005	December 2005
10th Percentile	-0.30	2.24	2.30
25th Percentile	-0.63	1.73	1.97
Median	-1.11	1.35	1.51
75th Percentile	-1.52	0.72	1.19
90th Percentile	-2.36	0.44	0.88
3-Month T-Bill ●	0.26	0.33	0.32

ALTERNATIVE INVESTMENTS

***Style Median* and Index Returns* for Periods ended December 31, 2005**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Convertibles Database	*1.12*	*3.80*	*10.76*	*4.69*	*10.02*	*12.14*
ML Convertible Index, All Qualities	0.46	1.01	12.08	4.22	8.84	—
Hedge Fund-of-Funds Database	*1.66*	*7.14*	*8.29*	*6.58*	*11.38*	*11.42*
Market Neutral Equity Style	*0.76*	*3.64*	*2.43*	*4.54*	*5.64*	*6.58*
CSFB/Tremont Equity Market Neutral	2.46	6.13	6.56	7.28	11.07	—
CSFB/Tremont Long/Short Equity	2.66	9.68	12.80	6.35	13.05	—
CSFB/Tremont Event-Driven	0.88	8.95	14.39	10.82	11.90	—
CSFB/Tremont Convertible Arb	0.46	-2.55	3.91	5.99	9.66	—
CSFB/Tremont Fixed-Income Arb	0.14	0.63	5.10	5.81	6.29	—
90-Day T-Bills	0.92	3.07	1.84	2.34	3.84	4.06
VE Post Venture Cap Index	10.42	4.13	27.90	-2.45	5.09	12.03
GS Commodity Index	-11.30	25.55	21.14	9.83	11.31	8.02
MLM Managed Futures Index	0.44	3.74	3.73	2.62	6.34	6.34

* Returns less than one year are not annualized.

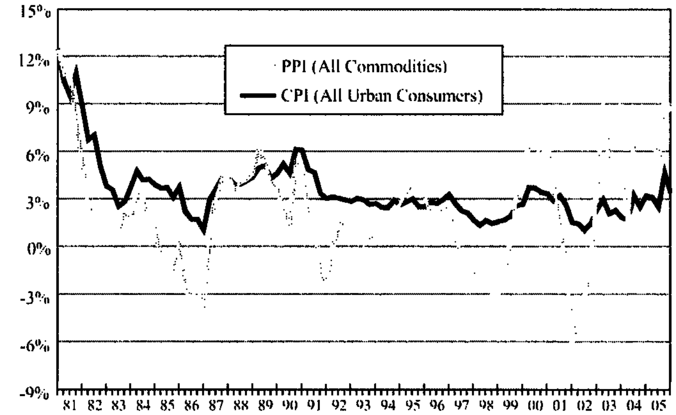
Shrug It Off

The economy fared remarkably well in 2005, given the challenges thrown at it over the course of the year. When a tsunami ravaged southern Asia just as 2004 ended, little did we know it was our turn in the extreme weather barrel in the forms of Hurricanes Katrina and Rita. Energy prices spiked in September, with a barrel of oil reaching the lofty heights of $70; the Fed jacked up interest rates by 200 basis points; and the dollar staged an unexpected climb in the face of all odds, including a record current account deficit. The result of all this headwind? GDP grew 4.1% in the third quarter and dipped to 1.1% in the fourth quarter, when the impact of the hurricanes and the oil price spike really hit. The economy finished the year with an annual gain of 3.5%, below last year's 4.2%, but still well above trend. The GDP data for the third and fourth quarters will be subject to substantial revision, as collection and reporting were seriously impaired by the hurricanes. The CPI came in at 3.4% year-over-year, the biggest annual increase since 2000, but up only slightly from the 3.3% rate in 2004. The job market enjoyed a year of strong growth, adding over two million jobs. Corporations experienced a year of record profits. Capacity was stretched and inventories were reduced, suggesting we are in for a long-awaited round of capital spending that will keep the party going.

In short, the U.S. economy seems to have simply shrugged off $70 oil, higher interest rates and the devastation wrought by nature. We are far less reliant on energy as an input to our national production function—one of the happier aspects of our relentless march to a service economy. The consumer has carried the economy since 2000, fueled by low interest rates, tax cuts and a housing boom that has triggered a substantial "wealth effect" on spending and encouraged the extraction of vast quantities of home equity. Just the spending immediately attached to the housing boom—construction, real estate services, retail and finance—has fueled a large portion of our economic growth. This engine of consumer spending may be running out of gas, however, as mortgage rates climb and interest-only loans reset and drag borrowers into the harsh light of debt repayment. For those in the gloom and doom business, the bursting of the housing bubble has replaced deflation as the next impending disaster.

In the short run, the higher gas prices caused consumers to substitute gas for other purchases. If prices remain high, consumers will adjust their travel and their taste in autos, causing trouble for the makers of three-ton SUVs. In the long run, higher energy prices seem to have two enduring effects: 1) a seemingly miraculous increase in the supply of oil (new technology and previously uneconomic oil sources becoming viable); 2) the replacement of older, less efficient capital across the economy with newer, more efficient capital, resulting in productivity gains to go along with the enhanced energy efficiency.

Inflation – Year Over Year



Profits are at record levels and corporations are flush with cash. Some observers are convinced that the next leg of the expansion will come from capital investment. In the current expansion, corporations have been conservative by restricting new hiring, until recently directing excess funds into efforts to buy back stock, increasing dividends and generally burnishing their balance sheets rather than investing in their operations. The Institute for Supply Management (ISM) report on manufacturing remains above 50—the dividing line between expansion and contraction—but has fallen to 54.2 after peaking at 59.1 in September. The same ISM measure for non-manufacturing also tailed off in the fourth quarter of 2005. The argument for business spending points to capacity utilization approaching 80% (the rate at which expansion becomes necessary), global competition, depleted inventories, and the notion that after holding back for so long it "must be time" for business spending. Those with a more skeptical eye will suggest that if consumer spending is tapped out and economic growth in our trading partners is much weaker, why would anyone expand capacity now? Keep those shareholders happy.

The Federal Reserve raised short-term interest rates by 200 basis points over the course of 2005, yet longer-term rates barely budged, and we ended the year with 10-year yields lower than two-year. This inversion of the yield curve is often a bad sign for the economy, but it doesn't actually "cause" anything. The bond market demands a risk or liquidity premium. Therefore long-term rates typically average more than short-term rates (the 10-year/three-month spread averaged 145 basis points between 1960 and 2005). When the spread turns negative, it signals that the market expects a downturn that will force the Fed to cut rates significantly. Investors rush into longer-dated debt to capture the higher expected price appreciation from falling rates. Greenspan has argued that the yield curve predictor is less reliable than in the past because bond markets are global. Exceedingly strong overseas demand is holding down long-term yields, clouding the yield curve's crystal ball.

U.S. ECONOMY
Recent Quarterly Indicators

	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05
CPI–All Urban Consumers (year over year)	1.7%	3.3%	2.5%	3.3%	3.2%	2.5%	4.7%	3.4%
PPI–All Commodities (year over year)	1.4%	6.7%	6.6%	7.7%	7.4%	4.8%	9.6%	8.5%
Employment Cost–Total Compensation Growth	4.3%	3.8%	4.0%	3.2%	2.5%	2.5%	3.2%	4.1%
Non-Farm Business–Productivity Growth	3.7%	4.4%	1.5%	2.4%	3.0%	2.4%	4.5%	2.2%
GDP Growth	4.5%	3.5%	4.0%	3.3%	3.8%	3.3%	4.1%	3.6%
Manufacturing Capacity Utilization (level%)	75.6	76.5	77.0	77.6	78.1	78.1	78.2	79.6
Consumer Sentiment Index (1966=1.000)	0.980	0.933	0.956	0.939	0.941	0.902	0.875	0.824

Fund Sponsors End Year On Positive Note

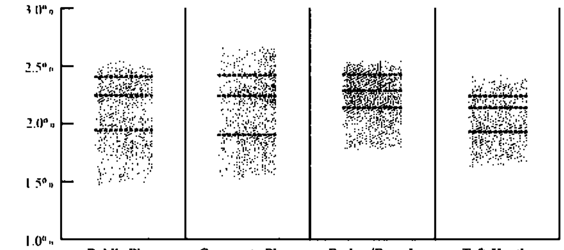
World stock markets continued to advance in the fourth quarter with international (developed and emerging) markets outpacing the U.S., despite a rising dollar. Emerging markets (MSCI Emerging Markets Free: +7.20%) led the charge overseas, while mid cap stocks (S&P MidCap 400: +3.34%) took first place honors here at home. Bond markets didn't fare as well as the Fed continued to tighten, raising rates twice during the quarter. As a result, those fund sponsors with greater equity exposure, especially to overseas markets, surpassed their more conservatively invested counterparts.

Using the median manager returns from the latest quarter and ending asset allocations from the prior quarter, Callan estimates the recent total returns of the institutional investor community.

The adjacent graph—illustrating the range of returns for public, corporate, and Taft-Hartley pension plans, as well as endowments/foundations—shows modest increases across the board. The table below compares the returns of four types of institutional fund sponsors to several benchmarks over longer time periods. Choices in asset allocation explain much of the difference in performance. For the fourth quarter, those fund sponsors with more aggressive asset allocations (i.e., more equity exposure) came out on top. With an average public equity allocation of 64%, the median endowment and foundation (+2.28%) outpaced its institutional counterparts. With slightly lower public equity allocations, public and corporate plans were not far behind, both advancing 2.24% in the median case. Weighed down by greater bond allocations, the median Taft-Hartley plan (+2.14%) slightly trailed its peers in the fourth quarter.

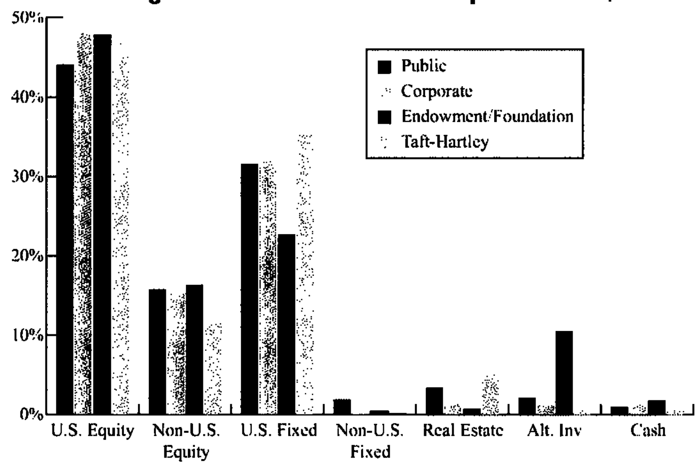
Callan's balanced manager groups generally maintain well-diversified portfolios and attempt to add value by underweighting or overweighting asset classes, as well as through stock selection. In the recent quarter, both global and domestic balanced managers beat their static 60% equity and 40% fixed-income benchmarks.

Callan Style Group Returns – Fourth Quarter 2005



	Public Plan Database	Corporate Plan Database	Endow/Found Database	Taft-Hartley Database
10th Percentile	2.55	2.68	2.55	2.43
25th Percentile	2.41	2.42	2.43	2.24
Median	2.24	2.24	2.28	2.14
75th Percentile	1.95	1.90	2.14	1.93
90th Percentile	1.47	1.52	1.78	1.61

Average Asset Allocation as of September 30, 2005



DIVERSIFIED ACCOUNT DATABASE

***Style Median* and Index Returns* for Periods ended December 31, 2005**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Public Database	*2.24*	*7.43*	*13.15*	*5.33*	*8.61*	*9.92*
Corporate Database	*2.24*	*7.05*	*13.44*	*5.03*	*9.22*	*10.63*
Endowment/Foundation Database	*2.28*	*7.77*	*14.25*	*5.14*	*9.64*	*10.96*
Taft-Hartley Database	*2.14*	*7.41*	*11.94*	*4.96*	*8.08*	*9.70*
Asset Allocator Style	*2.22*	*6.63*	*13.55*	*4.53*	*9.52*	*11.22*
Domestic Balanced Database	*1.85*	*5.69*	*11.63*	*4.22*	*8.78*	*10.62*
Global Balanced Database	*2.05*	*7.29*	*16.50*	*6.89*	*9.73*	*11.98*
60% S&P 500 + 40% LB Aggregate	1.49	3.94	10.14	3.17	8.37	10.14
60% MSCI World + 40% Citi World Govt	1.07	2.74	13.50	4.61	6.70	8.29

* Returns less than one year are not annualized.

The *Capital Market Review* is published quarterly for members of the institutional investment community, both domestic and international. The *Capital Market Review* focuses primarily on the latest quarterly performance of market indices and Callan style groups for each of the major asset classes used by institutional investors. *Capital Market Review* contributors are as follows:

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Bob Shaw, U.S. Equity
Greg DeForrest, U.S. Fixed Income, Non-U.S. Fixed Income
Brian Zeiler, Non-U.S. Equity
Matt Costello, Real Estate
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Julia Moriarty, Diversified Accounts, CMR Performance Data
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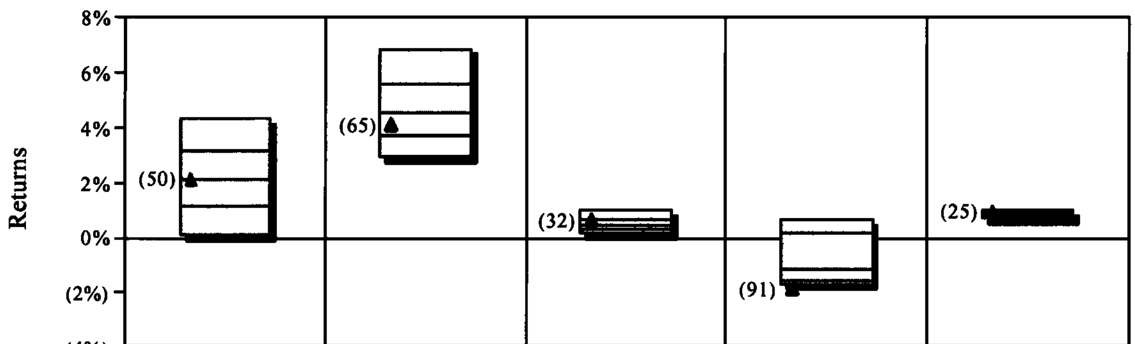
Callan Associates Inc. is a privately-held and 100 percent employee-owned firm whose sole business is strategic asset management consulting as an independent, objective third party. Headquartered in San Francisco, Callan also has regional offices in Chicago, New Jersey, Atlanta, and Denver.

MARKET OVERVIEW
ACTIVE MANAGEMENT VS INDEX RETURNS

Market Overview

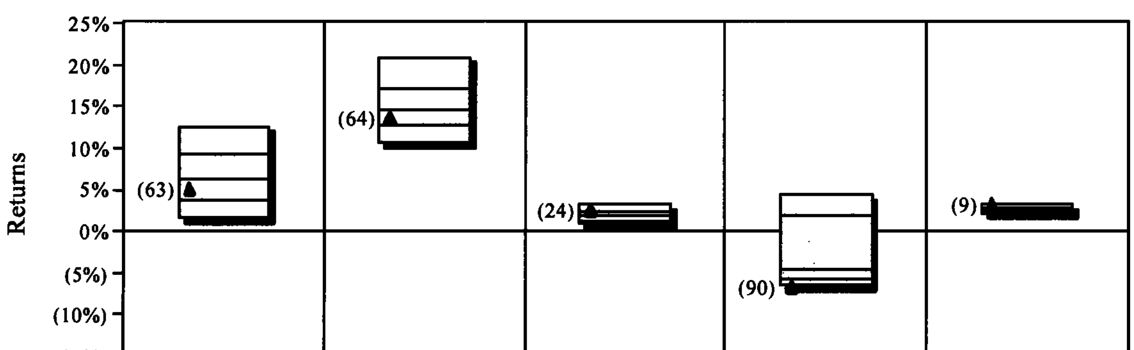
The charts below illustrate the range of returns across managers in Callan's Mutual Fund database over the most recent one quarter and one year time periods. The database is broken down by asset class to illustrate the difference in returns across those asset classes. An appropriate index is also shown for each asset class for comparison purposes. As an example, the first bar in the upper chart illustrates the range of returns for domestic equity managers over the last quarter. The triangle represents the S&P 500 return. The number next to the triangle represents the ranking of the S&P 500 in the domestic equity manager database.

Range of Mutual Fund Returns by Asset Class
One Quarter Ended December 31, 2005



	Domestic Equity vs S&P 500	Non-US Equity vs MSCI EAFE	Domestic Fixed-Income vs LB Aggr Bd	Global Fixed-Income vs LB Wld Gov Bd	Money Market vs 3 Mon T-Bills
10th Percentile	4.31	6.82	0.95	0.63	0.96
25th Percentile	3.17	5.61	0.66	0.20	0.92
Median	2.10	4.53	0.47	(1.17)	0.86
75th Percentile	1.16	3.72	0.29	(1.57)	0.78
90th Percentile	0.05	2.89	0.09	(1.73)	0.69
Index ▲	2.09	4.08	0.59	(1.92)	0.92

Range of Mutual Fund Returns by Asset Class
One Year Ended December 31, 2005



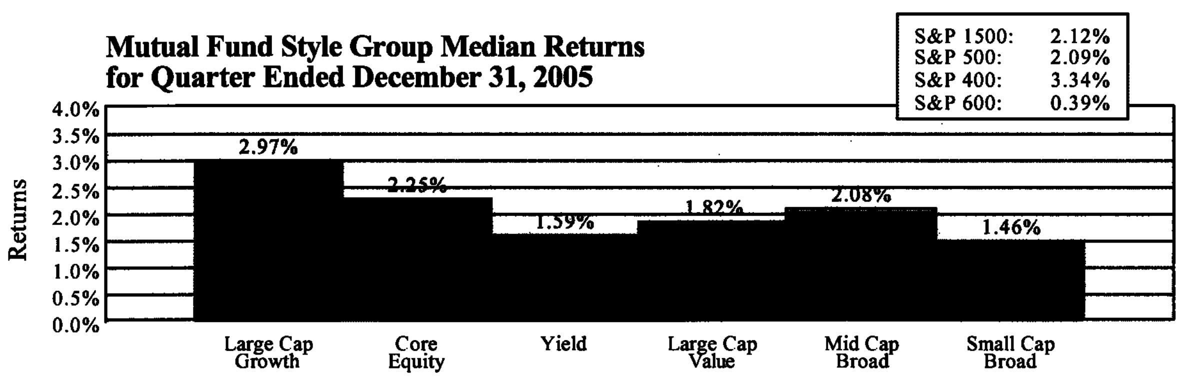
	Domestic Equity vs S&P 500	Non-US Equity vs MSCI EAFE	Domestic Fixed-Income vs LB Aggr Bd	Global Fixed-Income vs LB Wld Gov Bd	Money Market vs 3 Mon T-Bills
10th Percentile	12.46	20.81	3.17	4.20	3.06
25th Percentile	9.32	17.16	2.41	1.79	2.88
Median	6.24	14.61	1.82	(4.65)	2.65
75th Percentile	3.83	12.79	1.26	(5.74)	2.37
90th Percentile	1.43	10.57	0.79	(6.63)	2.03
Index ▲	4.91	13.54	2.43	(6.87)	3.07

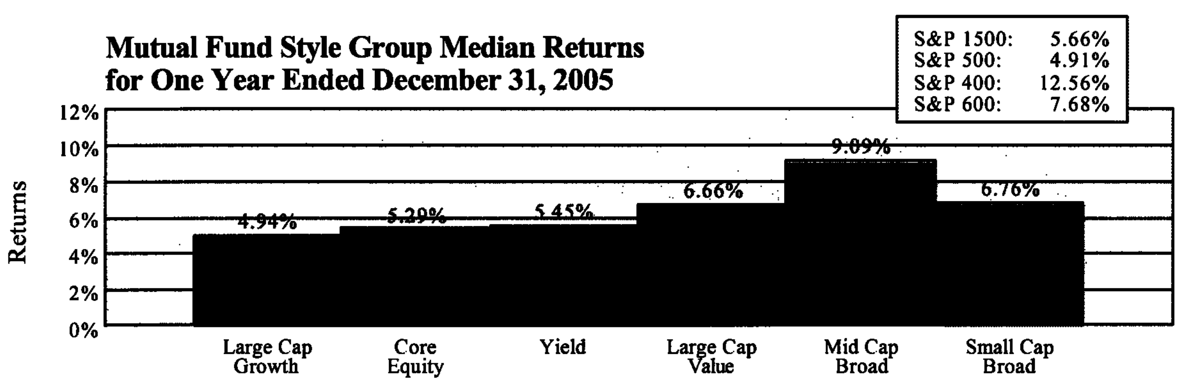
DOMESTIC EQUITY
Active Management Overview

Active vs the Index
The stock market indexes posted modest returns for the fourth quarter, as high energy prices and continued interest rate increases tempered other signs of economic growth. With a quarterly return of 2.09%, the S&P 500 lifted its yearly return to 4.91% but failed to grow as much as any of the mutual fund medians for the year. The median Large Cap Core fund slightly outpaced the S&P 500 for the quarter, with a return of 2.25%, as well as for the year, with a return of 5.29%. The S&P 1500, representing the broad equity market, returned 2.12% and 5.66% for the quarter and the year, respectively.

Large Cap vs Small Cap
Bucking recent trends, median Large Cap funds beat out the median Small Cap funds for the quarter, with the median Large Cap Core manager gaining 2.25% and the median Small Cap Broad fund posting a return of 1.46%. For the year, Mid Cap funds set the pace with the median Mid Cap manager earning a healthy 9.09%, which was nonetheless well below the S&P 400 return of 12.56%. The median Small Cap fund returned 6.76% over the year, and the median Large Cap Value fund trailed that figure by only 10 basis points with a return of 6.66%. Despite a strong fourth quarter return of 2.97%, the median Large Cap Growth manager posted the lowest 2005 median return, 4.94%, among its mutual fund peers.

Growth vs Value
Funds following growth and core models outpaced more conservative value funds for the quarter, but for the most part trailed the value funds for the year. For the quarter, the median Large Cap Growth fund returned 2.97%, much better than the median Large Cap Value fund that grew only 1.82%. Over the year, however, the median Large Cap Value fund grew 6.66% versus its growth counterpart's gain of 4.94%. In Small Cap funds, a similar trend emerged in which the median Growth fund returned 1.34% for the quarter, while the median Value fund returned only 1.04%. For all of 2005, the median Small Cap Value manager posted a 8.40% gain, while the median Small Cap Growth return was up just 5.90%. For Mid Cap funds, the median growth manager outperformed the median value manager for the quarter, 3.12% vs. 1.60%, as well as for the year, with returns of 9.89% and 7.41%, respectively.



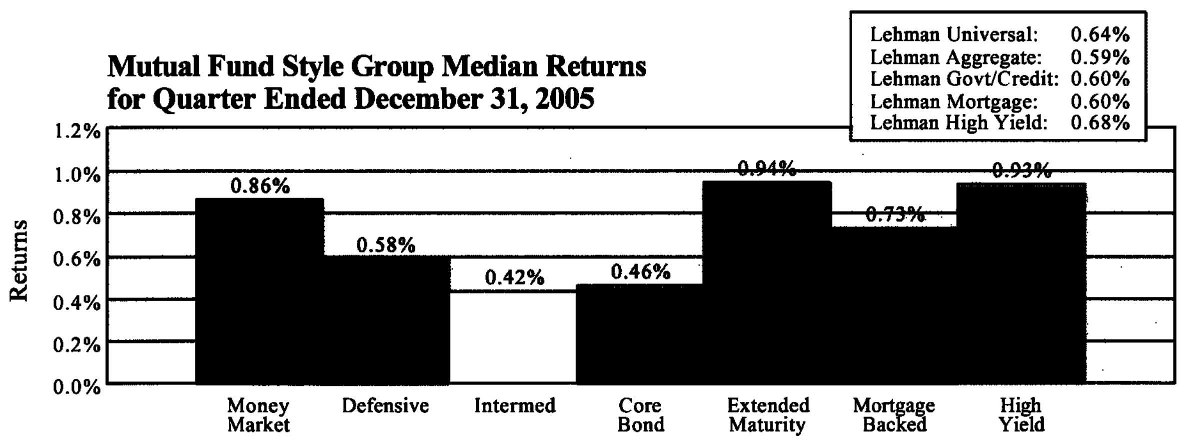


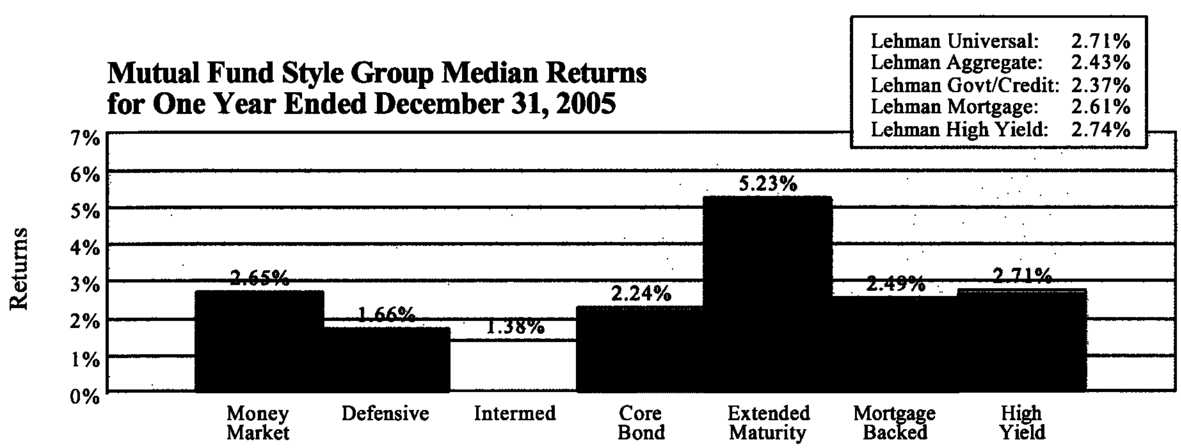
DOMESTIC FIXED-INCOME
Active Management Overview

Active vs the Index
The performance of the Domestic Fixed-Income market was somewhat anemic in an environment of rising interest rates. Additionally, increased defaults and credit concerns weighed down the performance of the mortgage backed bond market. The Lehman Aggregate and Lehman Govt/ Credit Index, which both had negative returns in the third quarter, finished the fourth quarter 2005 with returns of 0.59% and 0.60%, respectively. The Core Bond style group posted a fourth quarter return of 0.46%, underperforming the Lehman Aggregate by 13 basis points. The High Yield style group outperformed the Lehman High Yield Index by 25 basis points, yielding a return of 0.93%. Money Markets ended the quarter up 0.86%, 14 basis points ahead of its third quarter return while still underperforming the 90-day Treasury Bill rate of 0.92%. Mortgage Backed funds outperformed their index by 13 basis points, achieving a fourth quarter return of 0.73%.

Short vs Long Duration
Extended Maturity mutual funds outpaced other duration specific style groups, as well as all other domestic Fixed-Income style groups, with the median fund yielding 0.94% for the three months ended December 31, 2005. For the year, the median Extended Maturity fund gained 5.23%, the highest return among the groups shown. The Defensive and Intermediate style groups returned 0.58% and 0.42% for the fourth quarter, resulting in returns of 1.66% and 1.38% for the year ended December 31, 2005, respectively.

Mortgages and High Yield
High Yield turned in a relatively strong quarter with a median fund return of 0.93%, the second highest Fixed-Income group return. Mortgage Backed funds ended the fourth quarter 2005 up 0.73%, 90 basis points ahead of its third quarter return and outperforming its benchmark by 13 basis points. With a return of 2.49% for the twelve months ended December 31, 2005, the median Mortgage Backed fund lagged the Lehman Mortgage benchmark by 12 basis points.





INTERNATIONAL EQUITY
Active Management Overview

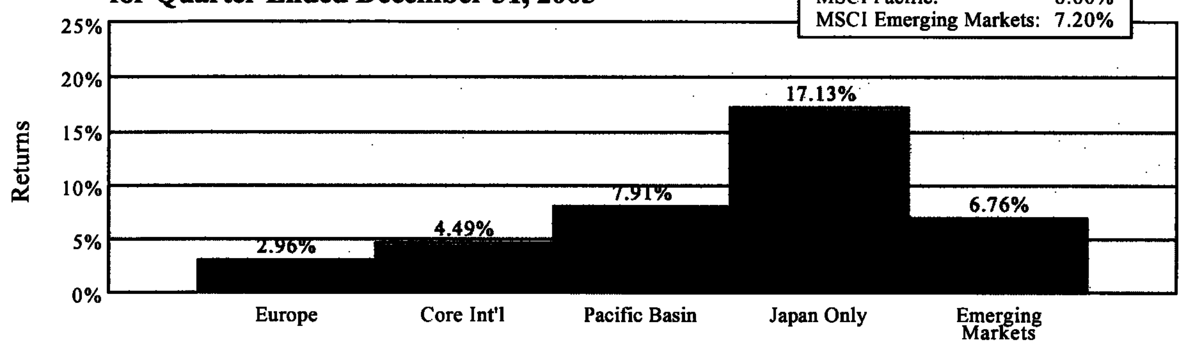
Active vs. the Index
The median Core International mutual fund ended the fourth quarter of 2005 with a return of 4.49%, outperforming the MSCI EAFE index return of 4.08%. For the twelve months ending December 31, 2005, the median Core International fund and the MSCI EAFE index had identical returns of 13.54%. The median Emerging Markets fund was up 6.76% for the quarter, trailing the MSCI Emerging Markets benchmark return of 7.20%. For the year ending December 31, 2005 the returns for the median manager and the index were nearly identical, with the Emerging Markets group median return of 34.53% and the MSCI Emerging Markets benchmark at 34.54%.

Europe
As the region exhibited continuing signs of economic growth, the European mutual fund group and the MSCI Europe Index both increased modestly over the recent period. For the quarter ending December 31, 2005, the median European fund returned 2.96%, down from last quarter's median return of 8.20%, but still ahead of the MSCI Europe index return of 1.95%. The group's median return for the one-year period ending December 31, 2005 was 10.13%, beating the MSCI Europe benchmark of 9.42% by 71 basis points.

Pacific
Driven by Japan's nascent recovery and positive inflation numbers, the median Pacific Basin fund ended the fourth quarter of 2005 up 7.91%, trailing the MSCI Pacific benchmark return of 8.60%. For the one-year period ending December 31, 2005, the median Pacific Basin fund yielded a return of 23.90%, outperforming the MSCI Pacific benchmark return of 22.64%. For the quarter, the Japan Only style group remained the standout among all groups, with the median fund returning 17.13%. For the 12-month period ending December 31, 2005, the median Japan Only fund returned 32.53%.

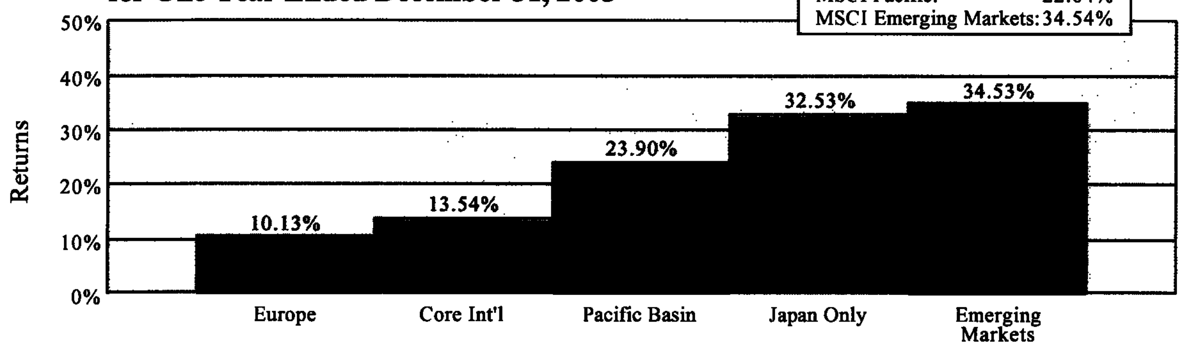
MSCI ACW ex US Free:	4.39%
MSCI EAFE:	4.08%
MSCI Europe:	1.95%
MSCI Pacific:	8.60%
MSCI Emerging Markets:	7.20%

Mutual Fund Style Group Median Returns for Quarter Ended December 31, 2005



MSCI ACW ex US Free:	17.11%
MSCI EAFE:	13.54%
MSCI Europe:	9.42%
MSCI Pacific:	22.64%
MSCI Emerging Markets:	34.54%

Mutual Fund Style Group Median Returns for One Year Ended December 31, 2005



MARKET PERFORMANCE HIGHLIGHTS

4th Quarter Market Review

- The Russell 1000 Large Cap Index was up 2.1% in the 4th Quarter, bringing the gain for 2005 to 6.3%. This was the lowest calendar year return for U.S. stocks since the loss years of 2000-2002.

- The Russell 2000 Small Cap Index was up 1.1% for the 4th quarter and 4.6% for the year, coming in behind large caps for both periods.

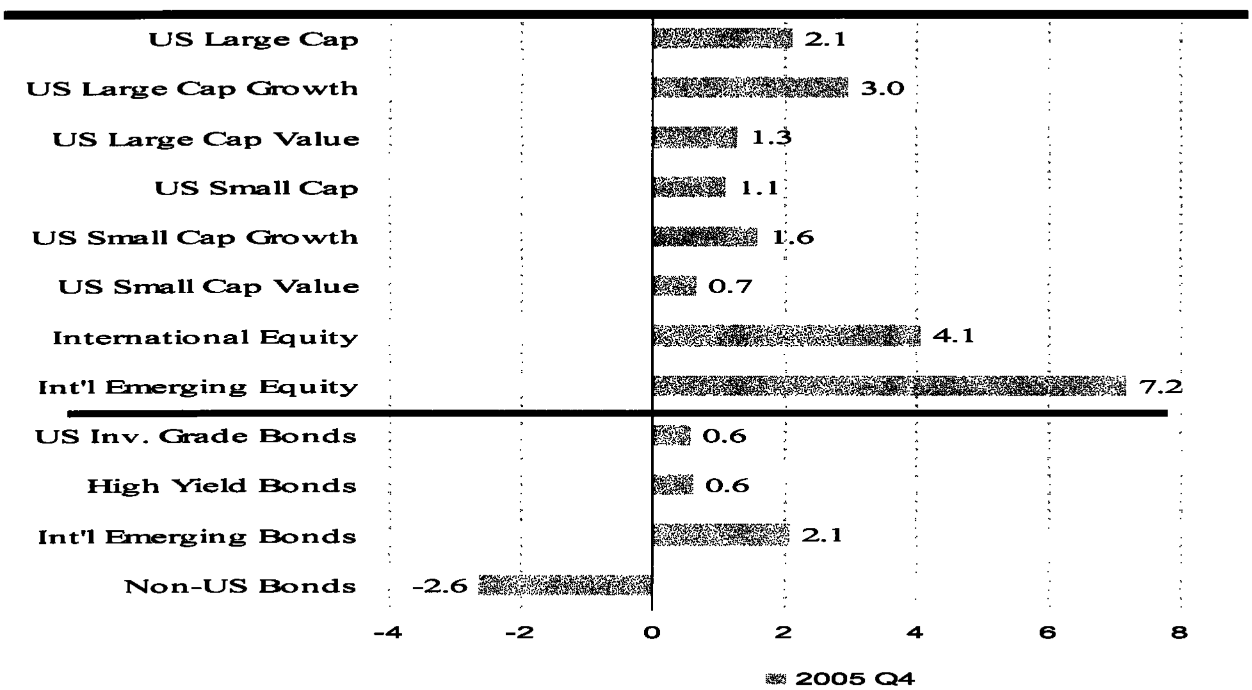
- As represented by the S&P /BARRA value and growth indices, large cap value stocks outperformed their growth counterparts for an unprecedented 6th year in a row.

- Despite renewed strength of the dollar, the EAFE Index 2005 gain of 13.5% pushed foreign stocks of developed countries to the top of major global asset class performance for the first time since 1994.

- Fed tightening and low coupon rates anchored high grade bonds at the bottom of the major asset class performance race for the 3rd year in a row as the Lehman Aggregate gained only 2.4% for 2005.

- High yield bonds barely edged out high grade as the Merrill Lynch High Yield Master II Index recorded a gain of 2.7% for 2005.

- The MSCI Emerging Markets Index was up 7.2% for the 4th quarter and 34.5% for the year to lead all major index categories. The JP Morgan Emerging Bond Index was also atop the leader board in fixed income with returns of 2.1% and 11.9% for the 4th quarter and one year periods respectively.



US Large Cap = R1000, US Large Cap Growth = R1000 Growth, US Large Cap Value = R1000 Value, US Small Cap = R2000, US Small Cap Growth = R2000 Growth, US Small Cap Value = R2000 Value, International Equity = MSCI EAFE, Emerging Equity = MSCI Emerging Market Index, US Inv. Grade Bonds = Lehman US Aggregate Index, High Yield = Merrill Lynch Master II Constrained, Emerging Debt = JP Morgan EMBI, Non-US Bonds = Salomon Non-US Bond Index

MARKET VALUE STATEMENT

Asset Distribution Across Investment Managers

	December 31, 2005 Market Value	December 31, 2005 Percent	September 30, 2005 Market Value	September 30, 2005 Percent
Domestic Equity	**$ 56,312,692.36**	**35.2%**	**$ 49,296,283.51**	**34.8%**
Vanguard Large Cap Index	$ 49,190,198.19	30.8%	$ 42,258,621.63	29.8%
Vanguard Small Cap Index	$ 7,122,494.17	4.5%	$ 7,037,661.88	5.0%
International Equity	**$ 19,605,871.02**	**12.3%**	**$ 17,908,947.92**	**12.6%**
Vanguard Developed Markets Index	$ 19,605,871.02	12.3%	$ 17,908,947.92	12.6%
Emerging Markets	**$ 4,921,678.56**	**3.1%**	**$ 4,577,954.31**	**3.2%**
Vanguard Emerging Markets VIPERS	$ 4,921,678.56	3.1%	$ 4,577,954.31	3.2%
Domestic Fixed Income	**$ 69,859,624.20**	**43.7%**	**$ 63,648,320.95**	**44.9%**
Vanguard Total Bond Index	$ 69,859,624.20	43.7%	$ 63,648,320.95	44.9%
Cash Equivalents	**$ 9,104,901.26**	**5.7%**	**$ 6,173,150.69**	**4.4%**
STI Classic Instl Cash Management	$ 9,104,901.26	5.7%	$ 6,173,150.69	4.4%
Total Fund	**$ 159,804,767.40**	**100.0%**	**$ 141,604,657.38**	**100.0%**

Account Activity (as of 12/31/05)

Current Quarter		Since Inception (07/27/05)
$ 141,604,657.38	Beginning Market Value	**$ 141,001,604.75**
$ 16,252,801.31	Additions	$ 16,252,801.31
($350,000.00)	Withdrawals	($1,420,000.00)
$ 2,297,308.71	Total Investment Gains/Income	$ 3,970,361.34
$ 159,804,767.40	**Ending Market Value**	**$ 159,804,767.40**

PERFORMANCE SUMMARY

Total Fund Results (as of 12/31/05)

	4th Quarter	Since Inception* [1]
Return	+ 1.61%	+2.73%

* Inception date 8/4/05

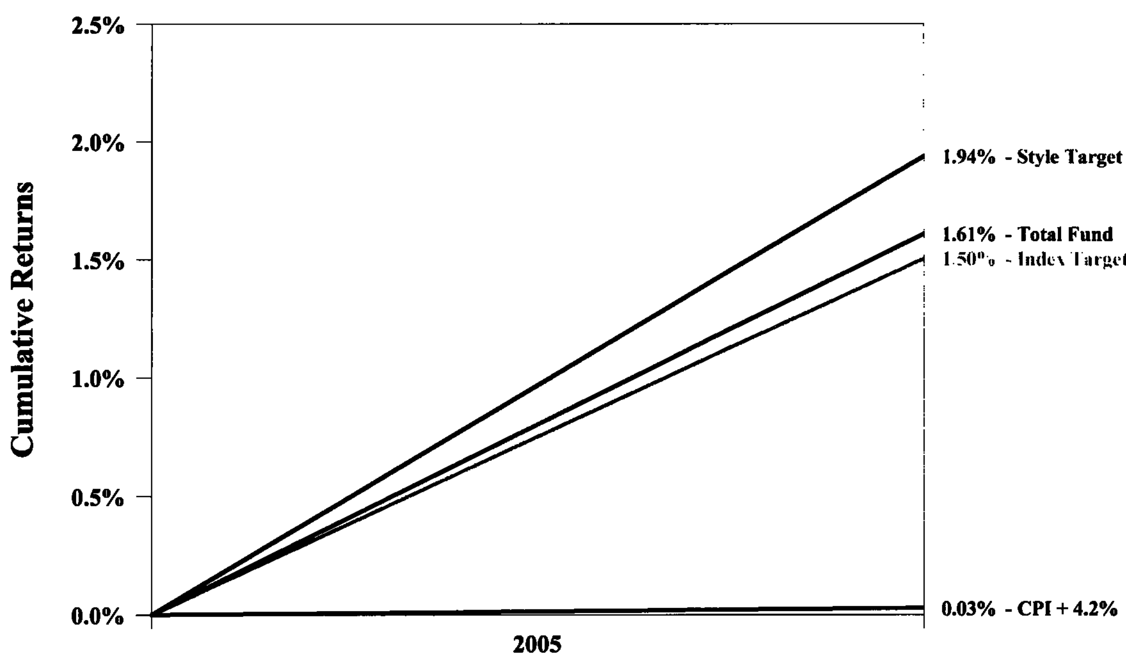
Factors Helping Performance

- Allocations to international stocks, especially emerging markets
- Allocations to large cap stocks

Factors Hindering Performance

- Large allocations to cash and bonds

Cumulative Return: Actual vs Targets



FUND PERFORMANCE HIGHLIGHTS

Returns for Periods Ended December 31, 2005

	Last Quarter	Last Year	Last 3 Years	Last 5 Years
Domestic Equity				
*Vanguard Large Cap Index**	*2.3%*	--	--	--
MSCI:US Prime Mkt 750	2.4%	6.3%	15.3%	0.8%
Vanguard Sm-Cp Indx;Inst	*1.2%*	*7.6%*	*23.5%*	*9.3%*
MSCI:US Small Cap 1750	1.2%	7.5%	23.9%	9.9%
International Equity				
Vanguard Instl Dev Mkt	*3.9%*	*13.6%*	*23.8%*	*4.5%*
MSCI:EAFE US$	4.1%	13.5%	23.7%	4.6%
*Vanguard EM VIPER***	*7.2%*	--	--	--
MSCI:Emer Markets	7.2%	34.5%	38.4%	19.4%
Domestic Fixed Income				
Vanguard Tot Bd;Inst	*0.7%*	*2.5%*	*3.7%*	*5.6%*
LB:Aggr Bd	0.6%	2.4%	3.6%	5.9%

*The Vanguard Large Cap Index Fund is benchmarked to the MSCI Prime Market 750 Index with an inception date of 6/30/05.

**The Vanguard Emerging Market VIPER's inception date was 3/4/05.

ITEMS OF INTEREST

Cash Flows

Date	Activity	Fund/Manager	Amount
10/05/05	Withdrawal	Checking/Savings	($350,000)
10/25/05	Deposit	From Legg Mason	$52,801
10/27/05	Deposit	Checking/Savings	$400,000
11/14/05	Deposit	Checking/Savings	$1,300,000
11/17/05	Deposit	Checking/Savings	$1,500,000
12/19/05	Deposit	Checking/Savings	$13,000,000
12/22/05	Bought	Vanguard Large Cap Index	$6,000,000
12/22/05	Bought	Vanguard Developed Markets Index	$1,000,000
12/22/05	Bought	Vanguard Total Bond Index	$6,000,000
12/22/05	Sold	STI Classic Instl Cash Management	($13,000,000)
	4th Quarter Net Contributions/(Withdrawals)		$15,902,801

QUARTERLY OUTLOOK SUMMARY – January 15, 2006

A number of economic, political and psychological factors influence emerging trends in the domestic stock and bond markets. The following chart summarizes our reading of the primary factors that are presently driving expectations for the next six to twelve months.

INFLUENCING FACTOR	PRESENT CONDITION	IMPACT ON BONDS	IMPACT ON STOCKS
Economic Fundamentals			
Inflation/Trend	Low/Moderating ↓	Neutral ↑	Positive ↑
Fed Policy/Liquidity	Tightening	Negative	Negative
Fiscal Environment	Stimulative	Neutral	Positive
Consumer Spending	Weakening	Positive	Negative
Capital Spending	Stable	Neutral	Neutral
GDP Growth Forecast	3%-3.5%	Neutral	Neutral
Recent/Long-Term Dollar Trend	Stable/Down	Mixed	Mixed
Interest Rate Conditions			
Short-Term Rates	Rising	Negative	Negative
Long-Term Rates	Stable ↓	Neutral ↑	Neutral ↑
Yield Curve	Flat	Neutral	Neutral
Stock Market Fundamentals			
Earnings Growth	Positive	Neutral	Positive
Earnings Expectations	Moderating	Neutral	Neutral
Valuation Level/Risk Trend	Fair/Moderating	Neutral	Positive
Current Issues			
Consumer Confidence	Improving ↑	Neutral ↓	Positive ↑
Employment	Steady	Neutral ↓	Neutral ↑
Geopolitical Risks	Normal ↓	Neutral ↓	Positive ↑
Insider Sell-Buy Ratio	Bearish	Neutral	Negative

Conclusion: Despite a recovery in domestic equities during the second half of the year, the overall results for U. S. stocks and bonds during 2005 were well below historic averages. However, many investors were relieved to realize positive results for the year, given the extraordinary challenges presented by persistent monetary tightening, soaring energy prices, unprecedented hurricane destruction, avian flu concerns and the exceptionally negative geopolitical backdrop. As summarized in our factor judgments above, several of our concerns from last quarter appear to be abating, led by the imminent end to monetary tightening, moderating inflation expectations, continuing global economic growth and improving investor sentiment. In general, the macro-economic backdrop and market valuation fundamentals are more promising for the global financial markets in 2006.

↓↑↕ *Denotes changes from the preceding Markets Outlook Summary.*

IMPORTANT DISCLOSURE

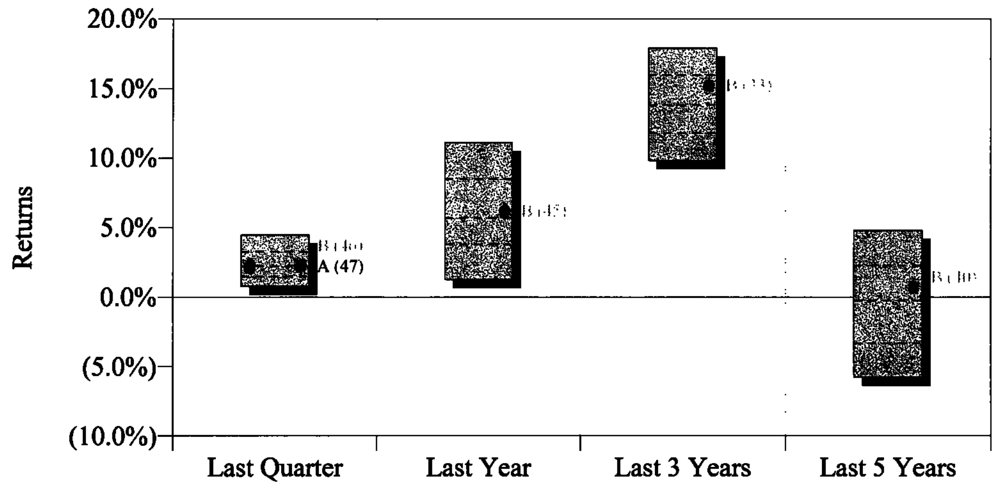
In reviewing this information, you should remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific asset class, investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this piece serves as the receipt of, or as a substitute for, personalized investment advice from Capital Advisory Group. A copy of our current written disclosure statement discussing our advisory services and fees remains available for your review upon request.

Vanguard Large Cap Index Fund Institutional

Return Analysis

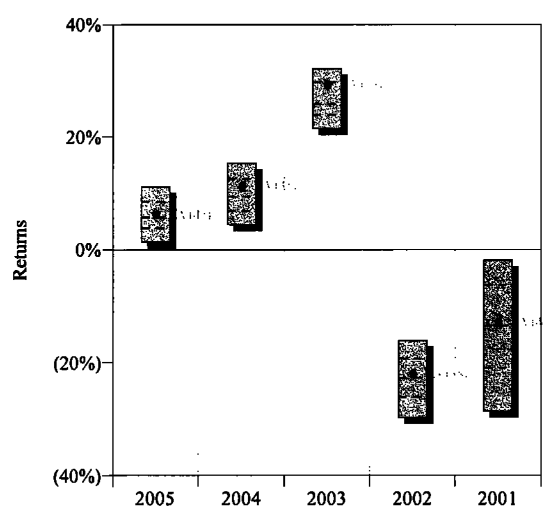
The charts below plot the fund's return over different periods versus the appropriate index and Callan style group.

Performance vs CAI MF:Lg Cap Broad Style
Periods ended December 31, 2005



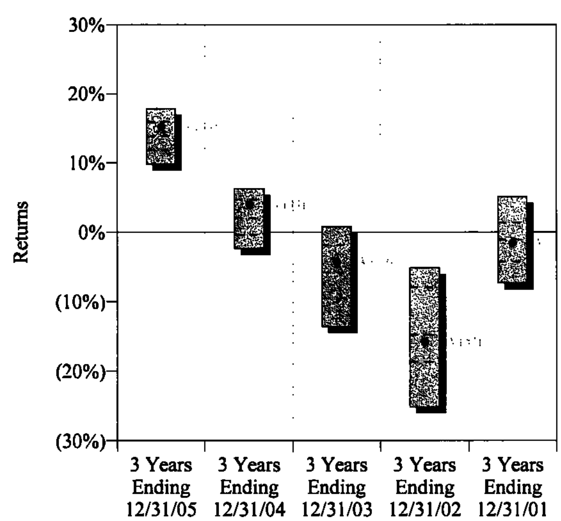
		Last Quarter	Last Year	Last 3 Years	Last 5 Years
10th Percentile		4.49	11.12	17.90	4.81
25th Percentile		3.30	8.52	15.98	2.29
Median		2.23	5.70	13.85	(0.22)
75th Percentile		1.51	3.79	11.82	(3.32)
90th Percentile		0.78	1.27	9.82	(5.76)
Vanguard Large Cap Index*	● A	2.30	--	--	--
MSCI:US Prime Mkt 750	● B	2.35	6.27	15.29	0.84

Returns vs. Group: CAI MF:Lg Cap Broad Style for Calendar Years



		2005	2004	2003	2002	2001
10th Percentile		11.12	15.39	32.17	(16.14)	(1.91)
25th Percentile		8.52	12.58	29.81	(19.38)	(6.29)
Median		5.70	9.42	25.91	(22.78)	(13.51)
75th Percentile		3.79	6.85	24.03	(26.16)	(20.94)
90th Percentile		1.27	4.39	21.48	(29.84)	(28.66)
MSCI:US Prime Mkt 750	●	6.27	11.41	29.45	(21.93)	(12.84)

Performance vs CAI MF:Lg Cap Broad Style 3 Year Rolling Periods ended December 31, 2005



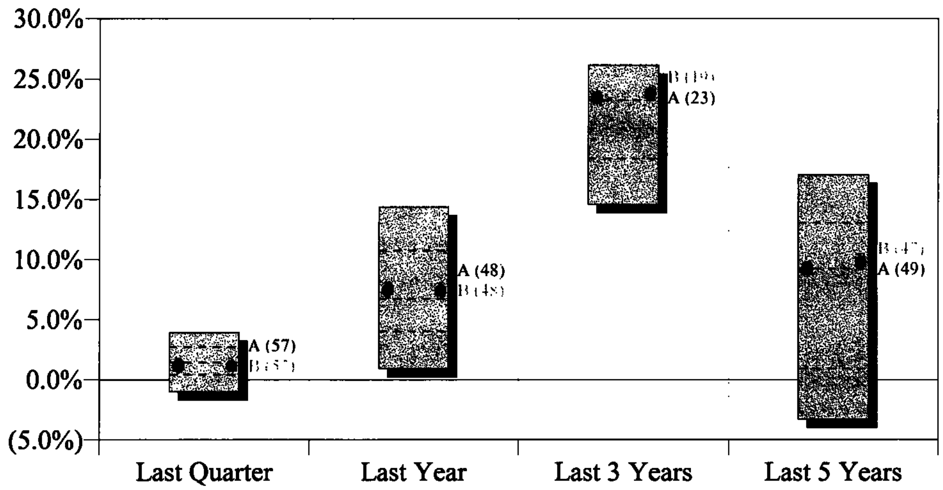
		3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02	3 Years Ending 12/31/01
10th Percentile		17.90	6.30	0.80	(5.12)	5.14
25th Percentile		15.98	4.72	(1.81)	(7.92)	1.43
Median		13.85	2.05	(5.79)	(14.76)	(1.04)
75th Percentile		11.82	(0.36)	(9.54)	(18.68)	(4.23)
90th Percentile		9.82	(2.35)	(13.58)	(25.17)	(7.34)
MSCI:US Prime Mkt 750	●	15.29	4.03	(4.14)	(15.68)	(1.47)

Vanguard Small-Cap Index Fund

Return Analysis

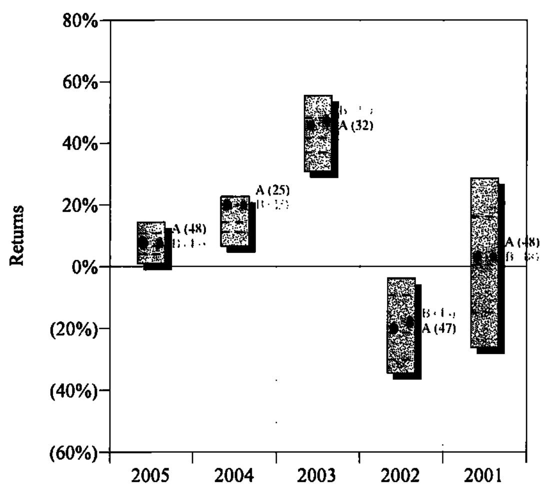
The charts below plot the fund's return over different periods versus the appropriate index and Callan style group.

Performance vs CAI MF:Sm Cap Broad Style
Periods ended December 31, 2005



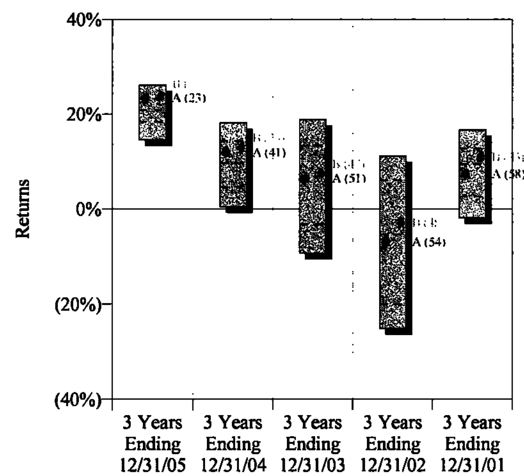
		Last Quarter	Last Year	Last 3 Years	Last 5 Years
10th Percentile		3.95	14.39	26.17	17.07
25th Percentile		2.71	10.76	23.25	13.05
Median		1.46	6.76	20.90	9.27
75th Percentile		0.41	4.04	18.39	0.92
90th Percentile		(1.01)	0.92	14.56	(3.29)
Vanguard Sm-Cp Indx;Inst	● A	1.21	7.57	23.51	9.28
MSCI:US Small Cap 1750	● B	1.21	7.49	23.88	9.88

Returns vs. Group: CAI MF:Sm Cap Broad Style for Calendar Years



		2005	2004	2003	2002	2001
10th Percentile		14.39	22.76	55.53	(3.83)	28.62
25th Percentile		10.76	19.89	48.21	(9.25)	16.18
Median		6.76	14.31	41.71	(21.40)	0.52
75th Percentile		4.04	11.16	37.07	(30.11)	(14.86)
90th Percentile		0.92	6.57	30.78	(34.53)	(26.19)
Vanguard Sm-Cp Indx;Inst	● A	7.57	20.06	45.88	(19.89)	3.27
MSCI:US Small Cap 1750	● B	7.49	20.01	47.38	(18.37)	3.22

Performance vs CAI MF:Sm Cap Broad Style
3 Year Rolling Periods ended December 31, 2005



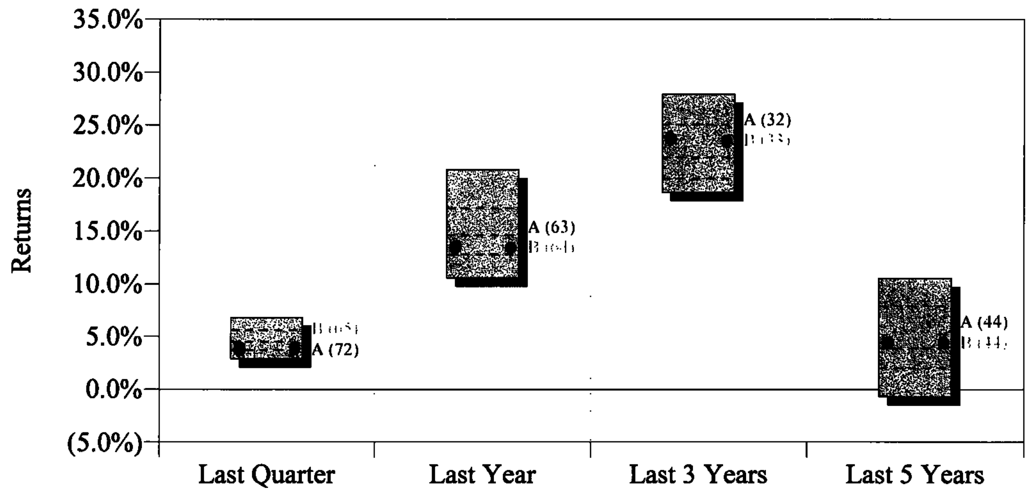
		3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02	3 Years Ending 12/31/01
10th Percentile		26.17	18.12	18.87	11.18	16.65
25th Percentile		23.25	14.36	13.32	5.99	12.79
Median		20.90	9.63	6.86	(5.33)	9.43
75th Percentile		18.39	4.72	(3.24)	(20.00)	2.67
90th Percentile		14.56	0.50	(9.35)	(25.14)	(1.85)
Vanguard Sm-Cp Indx;Inst	● A	23.51	11.95	6.47	(6.93)	7.46
MSCI:US Small Cap 1750	● B	23.88	13.03	7.49	(2.89)	11.01

Vanguard Institutional Developed Markets Index Fund

Return Analysis

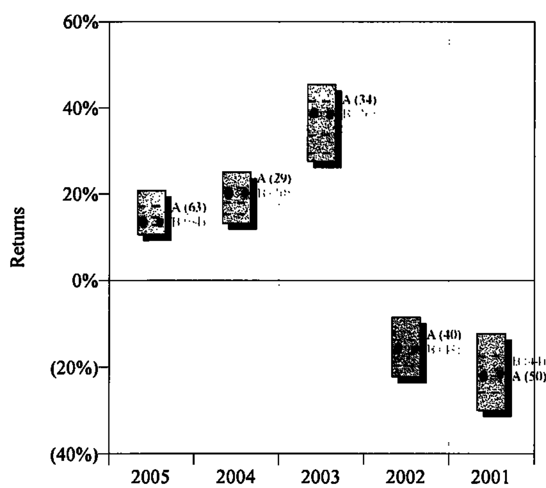
The charts below plot the fund's return over different periods versus the appropriate index and Callan style group.

Performance vs CAI MF:Intl Eq Non US Sty
Periods ended December 31, 2005



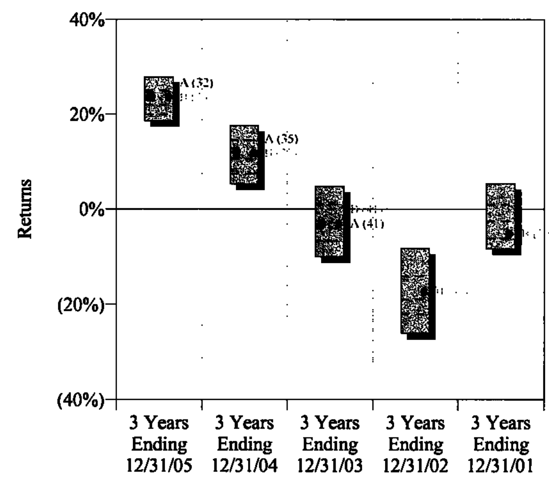
		Last Quarter	Last Year	Last 3 Years	Last 5 Years
10th Percentile		6.82	20.81	27.95	10.54
25th Percentile		5.61	17.16	25.09	7.89
Median		4.53	14.61	21.95	3.91
75th Percentile		3.72	12.79	19.97	2.00
90th Percentile		2.89	10.57	18.66	(0.69)
Vanguard Instl Dev Mkt	● A	3.89	13.58	23.80	4.55
MSCI:EAFE US$	● B	4.08	13.54	23.68	4.55

Returns vs. Group: CAI MF:Intl Eq Non US Sty for Calendar Years



		2005	2004	2003	2002	2001
10th Percentile		20.81	25.04	45.41	(8.49)	(12.30)
25th Percentile		17.16	21.35	41.53	(13.69)	(17.43)
Median		14.61	17.97	33.67	(16.84)	(22.05)
75th Percentile		12.79	15.30	29.45	(19.75)	(25.85)
90th Percentile		10.57	13.17	27.47	(22.28)	(30.06)
Vanguard Instl Dev Mkt	● A	13.58	20.30	38.87	(15.54)	(22.06)
MSCI:EAFE US$	● B	13.54	20.25	38.59	(15.94)	(21.44)

Performance vs CAI MF:Intl Eq Non US Sty 3 Year Rolling Periods ended December 31, 2005



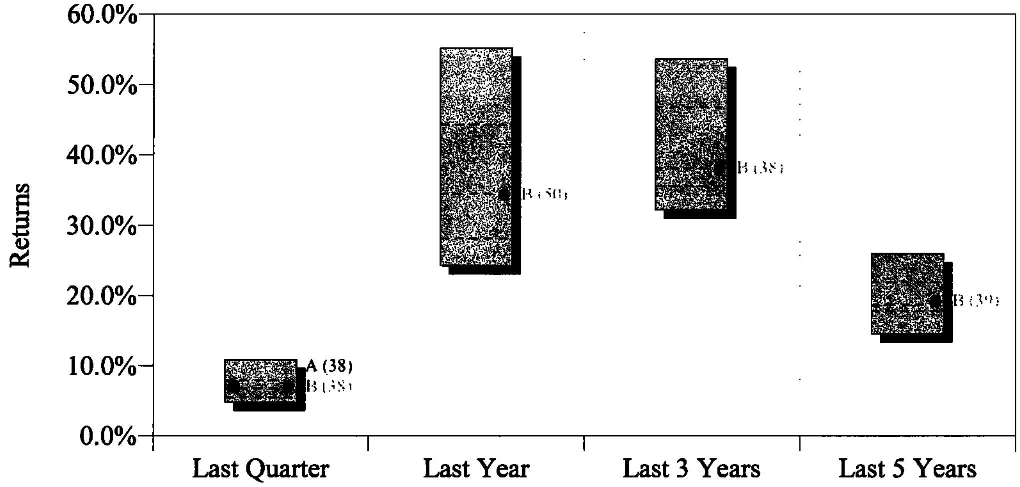
		3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02	3 Years Ending 12/31/01
10th Percentile		27.95	17.59	4.81	(8.20)	5.41
25th Percentile		25.09	14.52	0.96	(14.07)	0.94
Median		21.95	10.56	(3.98)	(18.94)	(2.48)
75th Percentile		19.97	7.40	(6.68)	(22.06)	(6.13)
90th Percentile		18.66	5.31	(9.98)	(26.04)	(8.30)
Vanguard Instl Dev Mkt	● A	23.80	12.16	(2.95)	--	--
MSCI:EAFE US$	● B	23.68	11.89	(2.91)	(17.24)	(5.05)

Vanguard Emerging Markets ETF Fund

Return Analysis

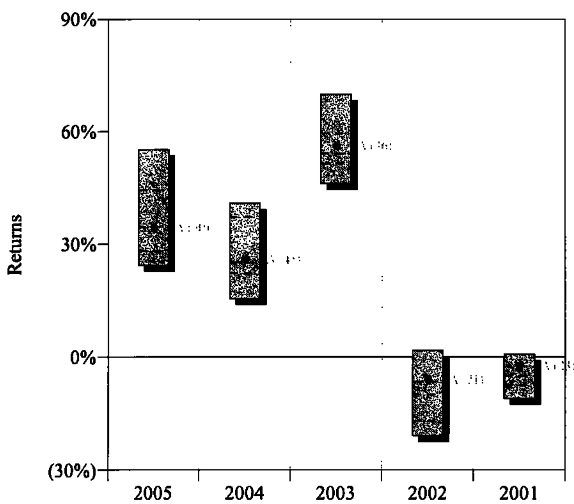
The charts below plot the fund's return over different periods versus the appropriate index and Callan style group.

Performance vs CAI MF:Emerging Mkts Sty
Periods ended December 31, 2005



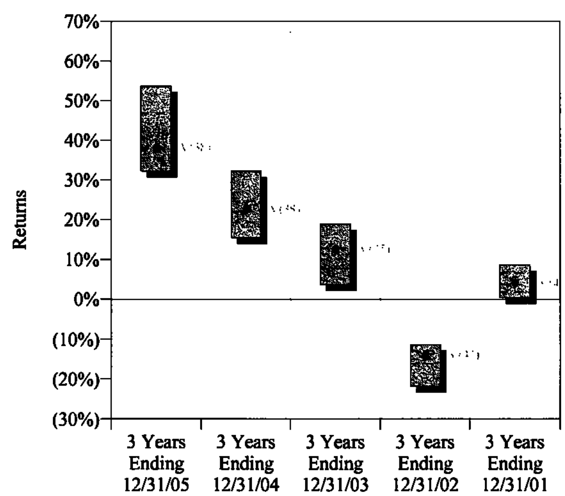
		Last Quarter	Last Year	Last 3 Years	Last 5 Years
10th Percentile		10.93	55.17	53.68	25.97
25th Percentile		7.94	44.32	46.84	21.97
Median		6.76	34.53	38.13	18.73
75th Percentile		5.51	28.19	35.55	17.83
90th Percentile		4.79	24.27	32.21	14.56
Vanguard EM VIPER**	●A	7.20	--	--	--
MSCI:Emer Markets	●B	7.20	34.54	38.35	19.44

Returns vs. Group: CAI MF:Emerging Mkts Sty for Calendar Years



	2005	2004	2003	2002	2001
10th Percentile	55.17	40.91	69.98	1.73	0.69
25th Percentile	44.32	37.23	59.45	(6.50)	(2.51)
Median	34.53	25.07	54.18	(9.97)	(5.00)
75th Percentile	28.19	22.19	51.46	(16.97)	(7.52)
90th Percentile	24.27	15.46	46.18	(20.87)	(11.06)
MSCI:Emer Markets ●	34.54	25.95	56.28	(6.00)	(2.37)

Performance vs CAI MF:Emerging Mkts Sty 3 Year Rolling Periods ended December 31, 2005



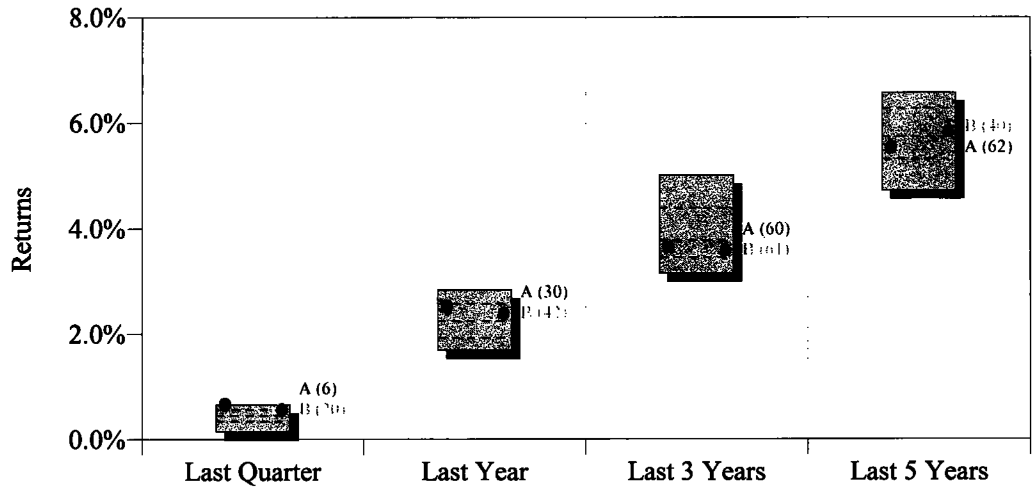
	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02	3 Years Ending 12/31/01
10th Percentile	53.68	32.16	18.94	(11.39)	8.67
25th Percentile	46.84	24.61	12.86	(13.00)	6.65
Median	38.13	22.06	10.10	(15.02)	3.69
75th Percentile	35.55	19.31	7.71	(16.20)	1.79
90th Percentile	32.21	15.46	3.65	(21.88)	0.38
MSCI:Emer Markets ●	38.35	22.77	12.77	(13.97)	4.08

Vanguard Total Bond Market Index Fund

Return Analysis

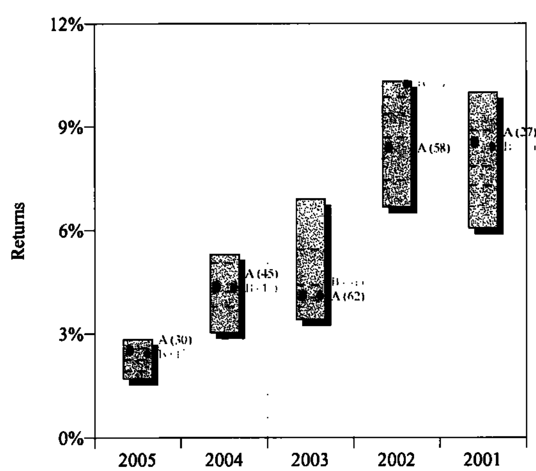
The charts below plot the fund's return over different periods versus the appropriate index and Callan style group.

Performance vs CAI MF:Core Bond Style
Periods ended December 31, 2005



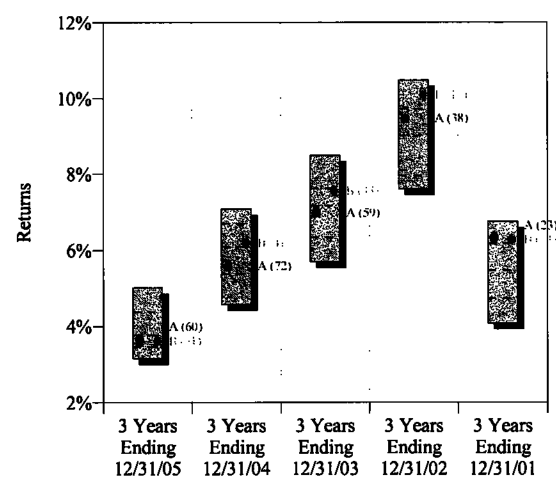
		Last Quarter	Last Year	Last 3 Years	Last 5 Years
10th Percentile		0.66	2.84	5.02	6.58
25th Percentile		0.57	2.57	4.39	6.28
Median		0.46	2.24	3.78	5.74
75th Percentile		0.35	1.92	3.46	5.32
90th Percentile		0.14	1.69	3.16	4.72
Vanguard Tot Bd;Inst	● A	0.69	2.53	3.66	5.56
LB:Aggr Bd	● B	0.59	2.43	3.62	5.87

Returns vs. Group: CAI MF:Core Bond Style for Calendar Years



		2005	2004	2003	2002	2001
10th Percentile		2.84	5.30	6.90	10.32	10.00
25th Percentile		2.57	5.05	5.44	9.86	8.88
Median		2.24	4.22	4.40	8.68	7.85
75th Percentile		1.92	3.79	4.05	7.44	7.29
90th Percentile		1.69	3.03	3.41	6.67	6.06
Vanguard Tot Bd;Inst	● A	2.53	4.36	4.10	8.39	8.56
LB:Aggr Bd	● B	2.43	4.34	4.10	10.26	8.43

Performance vs CAI MF:Core Bond Style 3 Year Rolling Periods ended December 31, 2005



		3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02	3 Years Ending 12/31/01
10th Percentile		5.02	7.09	8.50	10.48	6.76
25th Percentile		4.39	6.70	7.63	9.72	6.18
Median		3.78	6.10	7.17	9.01	5.46
75th Percentile		3.46	5.37	6.35	7.96	4.74
90th Percentile		3.16	4.58	5.70	7.61	4.08
Vanguard Tot Bd;Inst	● A	3.66	5.60	7.00	9.48	6.35
LB:Aggr Bd	● B	3.62	6.20	7.57	10.10	6.28

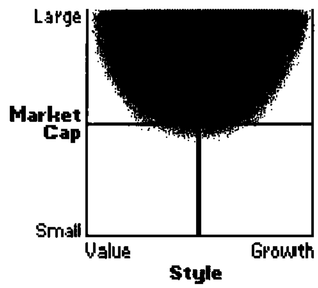
Vanguard Large-Cap Index Fund Institutional Shares

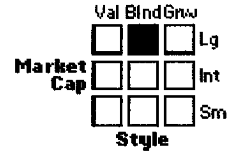
Product Summary

- Seeks to track the performance of the MSCI® US Prime Market 750 Index.
- Predominantly U.S. large-cap stocks, diversified across growth and value styles.
- Passively managed, full-replication approach.
- Fund remains fully invested.
- Low expenses minimize net tracking error.

Vanguard Style View

How to interpret this display





- Expected range of fund holdings
- Central tendency

Index portfolio of large-capitalization U.S. stocks diversified across investment styles.

Average Annual Returns — Period Ending –

Create custom report | Performance ranking

Name	1 year	3 year	5 year	10 year	Since Inception (6/30/2005)
Large-Cap Index Fund Inst	–	–	–	–	–
MSCI US Prime Market 750 Index	–	–	–	–	–

– This fund does not have a long enough history to provide annualized performance data.

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so that investors' shares, when sold, may be worth more or less than their original cost. Current performance updated to the most recent month-end, which may be higher or lower than that cited.

Fund Facts	
Ticker	VLISX
Designation	Domestic Large Blend
All share classes	426 million (as of 12/31/2005)
This share class	83 million (as of 12/31/2005)
Inception	6/30/2005
Expense Ratio	0.08% Fees (as of 12/31/2005)
Yield	1.71% Important Yield Note

Advisors
Vanguard Quantitative Equity Group

Characteristics — As of 12/31/2005

Create custom characteristics report

	Fund	MSCI US Prime Market 750 Index
Number of Stocks	751	751
Median Market Cap	$45.0 billion	$45.0 billion
P/E Ratio	18.0x	18.0x
P/B Ratio	2.9x	2.9x
Return on Equity	18.1%	18.1%
Earnings Growth Rate	13.5 %	13.4%
Short-term reserves	0.0%	NA
Foreign Holdings	0.1%	NA
Turnover Rate (Fiscal Year End 12/2005)	11.0%	NA

Vanguard® Small-Cap Index Fund

Institutional Shares

Aggressive Growth Stock Fund

stocks · cash investments · balanced · BONDS

Who Should Invest

- Investors seeking long-term growth of capital.
- Investors seeking a simple, low-cost way to invest in small-capitalization stocks.
- Investors with a long-term investment horizon (at least five years).

Who Should Not Invest

- Investors unwilling to accept significant fluctuations in share price.
- Investors seeking significant dividend income.

Assets: $2,088,664,999

Expenses: 0.08%*

Ticker Symbol: VSCIX

Newspaper Listing: SmCapInst

Inception: July 7, 1997

Overall Risk Level:

Conservative · Moderate · Aggressive

1 2 3 4 **5**

Investment Objective

Vanguard Small-Cap Index Fund seeks to track the performance of a benchmark index that measures the investment return of small-capitalization stocks.

Investment Strategy

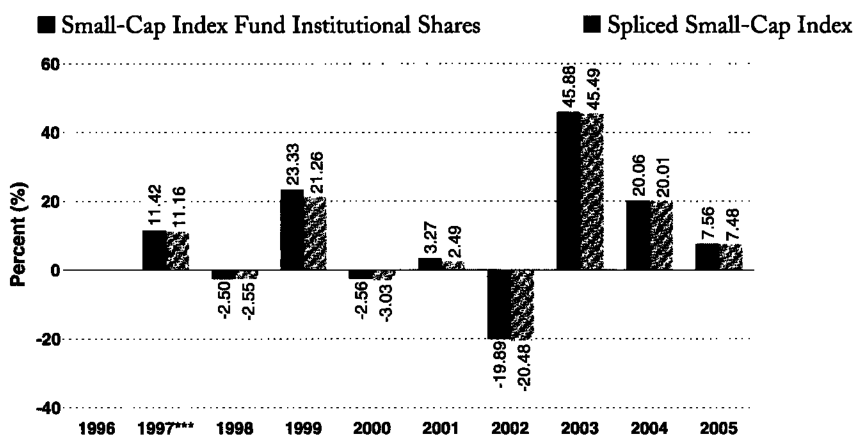
The fund employs a "passive management"—or indexing—investment approach designed to track the performance of the MSCI® US Small Cap 1750 Index, a broadly diversified index of stocks of smaller U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index.

See reverse side for Fund Profile.

Note on Frequent Trading Restrictions: Frequent trading policies may apply to those funds offered as investment options within your plan. Please log on to Vanguard.com® for your Employer Plans or contact Participant Services at 800-523-1188 for additional information.

Performance

Annual Returns 1997–2005— Small-Cap Index Fund Institutional Shares vs. Spliced Small-Cap Index**



Total Returns for Periods Ended December 31, 2005†	Year to Date	1 Year	3 Years	5 Years	Since Inception
Small-Cap Index Fund Institutional Shares	7.56%	7.56%	23.50%	9.28%	8.73%
Spliced Small-Cap Index	7.48%	7.48%	23.34%	8.87%	8.21%

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at www.vanguard.com.

*For most recent fiscal year.
**Russell 2000 Index through May 16, 2003, MSCI US Small Cap 1750 Index thereafter.
***Partial return since fund started, July 7, 1997.
†Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns.

INDEXED TO MSCI

THE Vanguard GROUP®

F0857_122005

Vanguard Small-Cap Index Fund

Institutional Shares

Fund Profile

As of December 31, 2005

Top Sector Holdings—Stocks

Consumer Discretionary	15.5%
Consumer Staples	2.4
Energy	6.6
Financials	22.3
Health Care	11.8
Industrials	15.5
Information Technology	15.1
Materials	5.3
Telecommunication Services	1.2
Utilities	4.3

Largest Stock Holdings*

1. Joy Global Inc.
2. Western Digital Corp.
3. AMR Corp.
4. Intuitive Surgical, Inc.
5. CB Richard Ellis Group, Inc.
6. The Corporate Executive Board Co.
7. Martin Marietta Materials, Inc.
8. Conseco, Inc.
9. Aqua America, Inc.
10. BorgWarner, Inc.

Top Ten as % of Total Net Assets	2.3%

*Fund holdings are subject to change. "Ten Largest Holdings" excludes any temporary cash investments and index products.

A Few Words About Risk

When investing in stock funds, short-term losses (or gains) are common, largely as a result of sudden movements in stock prices as views change about the economy and individual companies. However, over extended periods the market's ups have tended to outweigh its downs. There is no guarantee this will continue. Usually, the longer you hold your investments, the lower your chances of losing money.

Overall Risk Level:

Conservative — Moderate — Aggressive

1 2 3 4 **5**

The Small-Cap Index Fund holds stocks of small U.S. companies, which historically have been more volatile in price than larger-company stocks. As a result, the fund carries a higher level of risk than most funds that hold large stocks.

Investment Terms

Dividends: Payments made by companies to investors in their stock. The payments typically depend on economic conditions and the company's financial health.

Expenses: The costs of running a fund, expressed as a percentage of the fund's assets. For example, a fund may have expenses that total 0.30% (less than half of 1%) of its assets.

Index Funds: Mutual funds that try to track as closely as possible the performance of a target index (e.g., a large group of U.S. stocks, foreign stocks, or bonds). Index funds may invest in all or a representative sampling of the stocks included in the target index.

Market Risk: The chance that the value of an investment will change because of rising (or falling) stock or bond prices.

Mutual Fund: An investment company that combines the money of thousands of people and invests it in a number of securities (stocks, bonds, short-term reserves) to achieve a specific objective over time.

Total Return: The change in the value of an investment, plus any income from interest or dividends. The standard measure of a mutual fund's performance.

The funds or securities referred to herein that are offered by The Vanguard Group and track an MSCI index are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds or securities. For such funds or securities, the prospectus contains a more detailed description of the limited relationship MSCI has with The Vanguard Group.

For more information about Vanguard funds, visit www.vanguard.com, or call 800-523-1188, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

Intermediary clients: For more information about Vanguard funds, contact your financial advisor to obtain a prospectus.

F0857_122005

International Stock Fund

stocks

cash investments

balanced

BONDS

Vanguard®
Institutional Developed Markets Index Fund

Investment Objective

Vanguard Institutional Developed Markets Index Fund seeks long-term growth of capital.

Investment Strategy

The fund does not buy securities directly; instead, it invests in two Vanguard international index funds: Vanguard® European Stock Index Fund Institutional Shares and Vanguard® Pacific Stock Index Fund Institutional Shares. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

Note: The fund is subject to trading restrictions. Please read the fund's prospectus for more information.

See reverse side for Fund Profile.

Who Should Invest

- Investors seeking to further diversify a portfolio of U.S. securities.
- Investors seeking long-term growth of capital.
- Investors with a long-term investment horizon (at least five years).

Who Should Not Invest

- Investors unwilling to accept significant fluctuations in share price.
- Investors seeking significant dividend income.

Assets: $1,874,495,235

Expenses: 0.14%*

Ticker Symbol: VIDMX

Newspaper Listing: DevMktInst

Inception: June 1, 2000

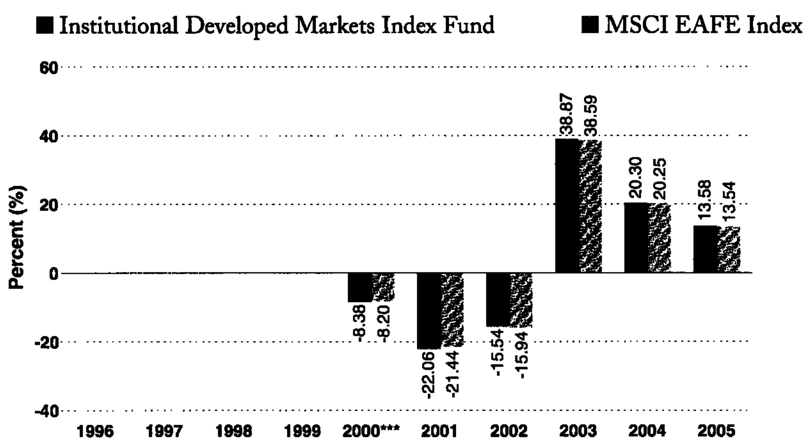
Overall Risk Level:

Conservative — Moderate — Aggressive

1 2 3 4 **5**

Performance

Annual Returns 2000–2005 — Institutional Developed Markets Index Fund vs. MSCI EAFE Index**



Total Returns for Periods Ended December 31, 2005†	Year to Date	1 Year	3 Years	5 Years	Since Inception
Institutional Developed Markets Index Fund	13.58%	13.58%	23.80%	4.55%	2.44%
MSCI EAFE Index	13.54%	13.54%	23.68%	4.55%	2.50%

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. For performance data current to the most recent month-end, which may be higher or lower than that cited, visit our website at www.vanguard.com.

*Average weighted expense ratio, based on expenses incurred by the Vanguard funds that make up the Institutional Developed Markets Index Fund.

**Morgan Stanley Capital International Europe, Australasia, Far East Index, an unmanaged measure of stock market performance.

***Partial return since fund started, June 1, 2000.

†Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns.

THE Vanguard GROUP®

Fund Profile

As of December 31, 2005

Allocation of Underlying Vanguard Funds*

Vanguard® European Stock Index Fund Institutional Shares	66.5%
Vanguard® Pacific Stock Index Fund Institutional Shares	33.4

**Fund holdings are subject to change.*

A Few Words About Risk

When investing in stock funds, short-term losses (or gains) are common, largely as a result of sudden movements in stock prices as views change about the economy and individual companies. However, over extended periods the market's ups have tended to outweigh its downs. There is no guarantee this will continue. Usually, the longer you hold your investments, the lower your chances of losing money.

International investments are also influenced by other factors. For instance, changes in the relative values of currencies—whether the U.S. dollar, the British pound, or the Japanese yen—will either add to or subtract from the returns earned by U.S. investors in international markets. One simple rule to remember: When the U.S. dollar falls in value, international returns to U.S. investors increase; and when the U.S. dollar rises in value, international returns to U.S. investors decline.

Investing internationally increases the chance that an investment may decline as a result of political unrest or economic changes in foreign countries. (This risk is particularly relevant in emerging markets.) Because the Institutional Developed Markets Index Fund is broadly diversified across many nations, industries, and companies, these risks will generally be lower than those associated with less diversified international stock funds.

Given these added risks, most investors should limit their international investments to no more than 20% of their overall investment savings.

Overall Risk Level:

Conservative Moderate Aggressive

1 2 3 4 5

Investment Terms

Dividends: Payments made by companies to investors in their stock. The payments typically depend on economic conditions and the company's financial health.

Expenses: The costs of running a fund, expressed as a percentage of the fund's assets. For example, a fund may have expenses that total 0.30% (less than half of 1%) of its assets.

Market Risk: The chance that the value of an investment will change because of rising (or falling) stock or bond prices.

Mutual Fund: An investment company that combines the money of thousands of people and invests it in a number of securities (stocks, bonds, short-term reserves) to achieve a specific objective over time.

Total Return: The change in the value of an investment, plus any income from interest or dividends. The standard measure of a mutual fund's performance.

For more information about Vanguard funds, visit www.vanguard.com, or call 800-523-1188, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

Intermediary clients: For more information about Vanguard funds, contact your financial advisor to obtain a prospectus.

F0234_122005

A Quarterly Portfolio Update

Fourth Quarter 2005

Vanguard® Emerging Markets VIPERs® (VWO)

Specialist: LaBranche & Co., Inc.
Exchange: The American Stock Exchange
Inception Date: March 4, 2005

CUSIP Number: 922042858
Ticker Symbol: VWO
IOV (Intra-day Ticker): HVO

Objective

Emerging Markets VIPERs seek to track the performance of a benchmark index that measures the investment return of stocks issued by companies located in emerging market countries.

Investment Strategy

Emerging Markets VIPERs employ a "passive management"—or indexing—investment approach by investing substantially all (normally about 95%) of its assets in the common stocks included in the Select Emerging Markets Index. The Select Emerging Markets Index includes common stocks of companies located in emerging markets around the world. The largest markets covered in the Index are South Korea, South Africa, Taiwan, Brazil, and China. Other countries represented in the Index include Argentina, Chile, the Czech Republic, Hungary, India, Indonesia, Israel, Mexico, Peru, the Philippines, Poland, Thailand, and Turkey. MSCI administers the Select Emerging Markets Index exclusively for Vanguard.

Total Returns* for Periods Ended December 31, 2005

Fund Name (Inception Date)	Quarter	Since Inception
Vanguard Emerging Market VIPERs *(03/04/2005)*		
Net Asset Value Return**	7.15%	21.62%
Market Price Return***	7.87	22.89
Select Emerging Markets Index**	7.53	22.09

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, visit our website at **www.vanguard.com.**

* Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures assume the reinvestment of dividends and capital gains distributions; the figures are pre-tax and net of expenses. The above widely used comparative index represents unmanaged or average returns on various financial assets that can be compared with the fund's total returns for the purpose of measuring relative performance.
** As of 4 p.m., Eastern time, when the regular trading session of the New York Stock Exchange closes.
*** Market price returns are calculated using the midpoint between the bid and offer prices at the time NAV is calculated, typically 4 p.m., Eastern time.

Except for a few authorized institutions, investors may not purchase or redeem Vanguard Emerging Markets VIPERs directly from the issuing fund. Instead, investors must buy or sell VIPER® Shares in the secondary market with the assistance of a stock broker. In doing so, the investor will incur brokerage commissions and may pay more than NAV when buying and receive less than NAV when selling.

All VIPER products are subject to stock market risk, which may result in the loss of principal. VIPER products that invest in emerging markets are generally more risky than those that invest in developed countries.

For more information about Vanguard VIPER Shares, visit www.vanguard.com, call 866-499-VIPER, or contact your broker to obtain a product description and prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in these documents; read and consider them carefully before investing.

F0964_122005

THE Vanguard GROUP®

Vanguard Emerging Markets VIPERs

Fund Total Net Assets

	Emerging Markets Index Fund
Assets (in millions)	$7,102

Share Class Attributes

	Emerging Markets VIPERs
Expense Ratio*	0.30%

Fund Attributes

	Emerging Markets Index Fund
Number of Stocks	745
Median Market Capitalization	$9.9B
Price/Earnings Ratio	13.1x
Price/Book Ratio	2.3x
Return on Equity	21.5%
Earnings Growth Rate	22.2%
Turnover Rate**	22.0%
Short-Term Reserves	1.0%

Ten Largest Stocks***

Samsung Electronics Co., Ltd.	
Taiwan Semiconductor Manufacturing Co., Ltd.	
Teva Pharmaceutical Industries Ltd.	
China Mobile (Hong Kong) Ltd.	
Kookmin Bank	
Petroleo Brasileiro SA Pfd.	
America Movil SA de CV	
Sasol Ltd.	
Cemex SA CPO	
Petroleo Brasileiro SA	
Top Ten as % of Total Net Assets	19.0%

Country Diversification (% of Common Stock)

	Emerging Markets Index Fund
Argentina	0.7%
Brazil	11.6
Chile	1.9
China	8.0
Czech Republic	1.0
Hong Kong	1.6
Hungary	1.4
India	6.6
Indonesia	1.6
Israel	3.8
Mexico	7.1
Other	0.1
Peru	0.4
Philippines	0.5
Poland	1.9
South Africa	12.0
South Korea	20.6
Taiwan	15.9
Thailand	2.1
Turkey	2.5

* For most recent fiscal year.

** For most recent fiscal year. Turnover rate excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the fund's capital shares, including VIPER Creation Units.

*** "Ten Largest Stocks" excludes any temporary cash investments and index products.

Bond Fund

bonds

cash investments

balanced

STOCKS

Vanguard® Total Bond Market Index Fund

Institutional Shares

Investment Objective

Vanguard Total Bond Market Index Fund seeks a high level of interest income.

Investment Strategy

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities, with a total market value exceeding $4 trillion. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

See reverse side for Fund Profile.

Note on Frequent Trading Restrictions: Frequent trading policies may apply to those funds offered as investment options within your plan. Please log on to Vanguard.com® for your Employer Plans or contact Participant Services at 800-523-1188 for additional information.

Who Should Invest

- Investors seeking a high level of income.
- Investors seeking a low-cost, broadly diversified, fixed income investment to balance the risks of a portfolio containing stocks.

Who Should Not Invest

- Investors unwilling to accept moderate fluctuations in share price.
- Investors seeking long-term growth of capital.

Assets: $7,325,058,198

Expenses: 0.07%*

Ticker Symbol: VBTIX

Newspaper Listing: TotBdInst

Inception: September 18, 1995

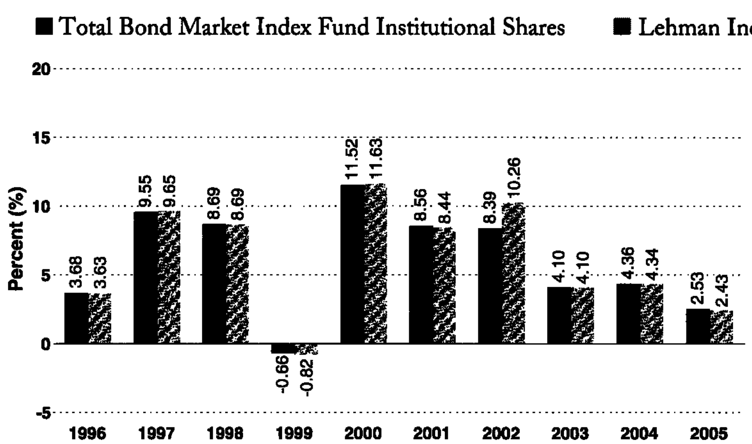
Overall Risk Level:

Conservative — Moderate — Aggressive

1 **2** 3 4 5

Performance

Annual Returns 1996–2005 — Total Bond Market Index Fund Institutional Shares vs. Lehman Index**



Total Returns for Periods Ended December 31, 2005***	Year to Date	1 Year	3 Years	5 Years	10 Years
Total Bond Market Index Fund Institutional Shares	2.53%	2.53%	3.66%	5.56%	6.01%
Lehman Index	2.43%	2.43%	3.62%	5.87%	6.16%

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at www.vanguard.com.

*For most recent fiscal year.

**Lehman Aggregate Bond Index, an unmanaged measure of bond market performance.

***Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns.

THE Vanguard GROUP®

F0222_122005

Vanguard
Total Bond Market Index Fund

Institutional Shares

Fund Profile

As of December 31, 2005

Top Sector Holdings—Bonds

Asset-Backed	1.3%
Commercial Mortgage-Backed	3.3
Finance	8.3
Foreign	3.7
Government Mortgage-Backed	34.3
Industrial	10.4
Treasury/Agency	36.6
Utilities	1.9
Other	0.2

A Few Words About Risk

Bond funds rise and fall in value with changes in interest rates. When rates rise, the bonds held by the fund fall in value, and the fund's share price drops. The opposite is also true. When rates fall, the fund's share price increases. Long-term bond funds (those with average maturities of 10 years or more) are most sensitive to rate changes, while short-term bond funds (those with average maturities of 2 to 5 years) experience only modest price movements. Intermediate-term bond funds, such as the Total Bond Market Index Fund, fall somewhere in between. Bond fund investors should also consider credit risk, the possibility that a bond issuer may be unable to make interest payments or to pay back the amount of the original investment on time—or at all. Bonds issued by the U.S. government and its agencies carry the highest level of credit protection.

One final risk to consider is inflation risk, the possibility that, over time, the returns on a bond fund investment will fail to keep up with the rising cost of living. For example, a 4% rate of inflation reduces a 6% return to a 2% real return.

Overall Risk Level:

Conservative — Moderate — Aggressive

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Investment Terms

Bond: An investment in which you lend money to a company, a government, or a government agency. The bond issuer agrees to pay back the loan by a certain date and also to pay interest during that period.

Expenses: The costs of running a fund, expressed as a percentage of the fund's assets. For example, a fund may have expenses that total 0.30% (less than half of 1%) of its assets.

Index Funds: Mutual funds that try to track as closely as possible the performance of a target index (e.g., a large group of U.S. stocks, foreign stocks, or bonds). Index funds may invest in all or a representative sampling of the stocks included in the target index.

Interest: Payments made by a company, a government, or a government agency to investors who lend them money. For example, an investor buys a bond from a company, which agrees to pay back the loan by a certain date at a set rate.

Market Risk: The chance that the value of an investment will change because of rising (or falling) stock or bond prices.

Mutual Fund: An investment company that combines the money of thousands of people and invests it in a number of securities (stocks, bonds, short-term reserves) to achieve a specific objective over time.

Total Return: The change in the value of an investment, plus any income from interest or dividends. The standard measure of a mutual fund's performance.

For more information about Vanguard funds, visit www.vanguard.com, or call 800-523-1188, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

Intermediary clients: For more information about Vanguard funds, contact your financial advisor to obtain a prospectus.

F0222_122005

Virginia Birth-Related
Neurological Injury Compensation Fund

EXECUTIVE SUMMARY

Current Assets $141,307,994.20 (12/31/04)

Investment Time Horizon 10 + years

Target Annual Return 6.8% nominal return (CPI plus 4.2%)*

Risk Tolerance 95% confidence that losses will not exceed 7.1% in a given year

Asset Allocation	Lower Limit	**Normal Allocation**	Upper Limit
Total Equities		**50%**	
Total Fixed Income/Cash		**50%**	
		100%	
Domestic Equities		**35%**	
Large Cap	*25%*	*30%*	*35%*
Small Cap	*2 %*	*5%*	*8%*
International Equities		**15%**	
Developed International	*9%*	*12%*	*15%*
Emerging Market	*1%*	*3%*	*5%*
Fixed Income		**45%**	
Domestic Fixed Income	35%	*45%*	*55%*
Cash	3%	**5%**	15%

Total Fund Evaluation Benchmarks

Short Term - Performance will be measured against a weighted blend of market and/or median manager benchmarks based upon the strategic asset allocation policy of the Fund.
Long Term – Inflation (CPI) plus 4.2%

**CPI assumption = 2.6% (2005 Capital Markets Projections of Callan Associates, Inc)*

Benchmarks

Asset Class	Market Index	Callan Database
Total Portfolio	Custom Weighted Blend	CAI Corporate Plan-Mid
Large Cap U.S. Equities	S&P 500	CAI Large Cap Broad
	MSCI US Prime Market 750	
	Russell 1000	
	Russell 1000 Growth	CAI Large Cap Growth MF
	Russell 1000 Value	CAI Large Cap Value MF
Small Cap U.S. Equities	S&P 600	CAI Small Cap Broad MF
	MSCI US Small Cap 1750	
	Russell 2000	
	Russell 2000 Growth	CAI Small Cap Growth MF
	Russell 2000 Value	CAI Small Cap Value MF
Developed International Equities	MSCI EAFE	CAI International Equity MF
	MSCI EAFE Growth	
	MSCI EAFE Value	
Emerging Market Equity	MSCI Emerging Markets	CAI Emerging Market Equity MF
Domestic Fixed Income	Lehman Aggregate	CAI Core Fixed Income MF
	Lehman Intermediate Aggregate	

Manager Structure History

Current Managers	Asset Class	Inception
Vanguard Large-Cap Index Fund	Large Cap	8-4-2005
Vanguard Small-Cap Index Fund	Small Cap	8-4-2005
Vanguard Developed Markets Index Fund	International Equity	8-4-2005
Vanguard Emerging Markets VIPER/ETF	Emerging Markets	8-4-2005
Vanguard Total Bond Market Index	Fixed Income	8-4-2005

Terminated Managers/Funds	Asset Class	Inception	Termination
MerrillLynch Equity	Large Cap	9-30-00	7-27-05
MerrillLynch Fixed Income	Fixed Income	9-30-00	7-27-05