Market Review & Fund Performance Analysis

Virginia Birth-Related Neurological Injury Compensation Fund

For Period Ending
December 31, 2007

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Executive Summary

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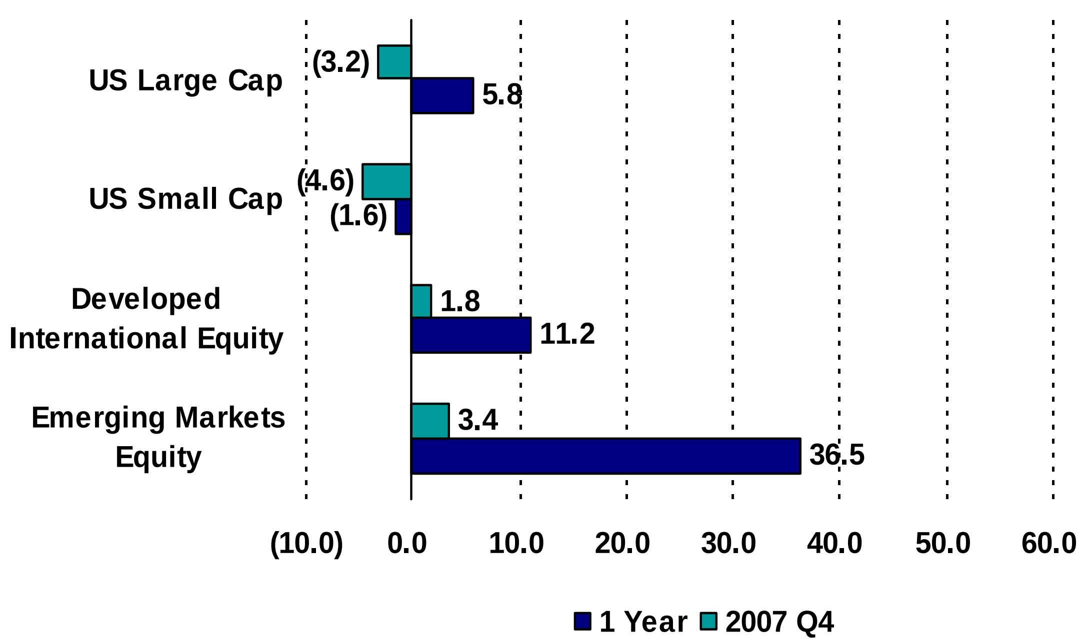
MARKET PERFORMANCE HIGHLIGHTS

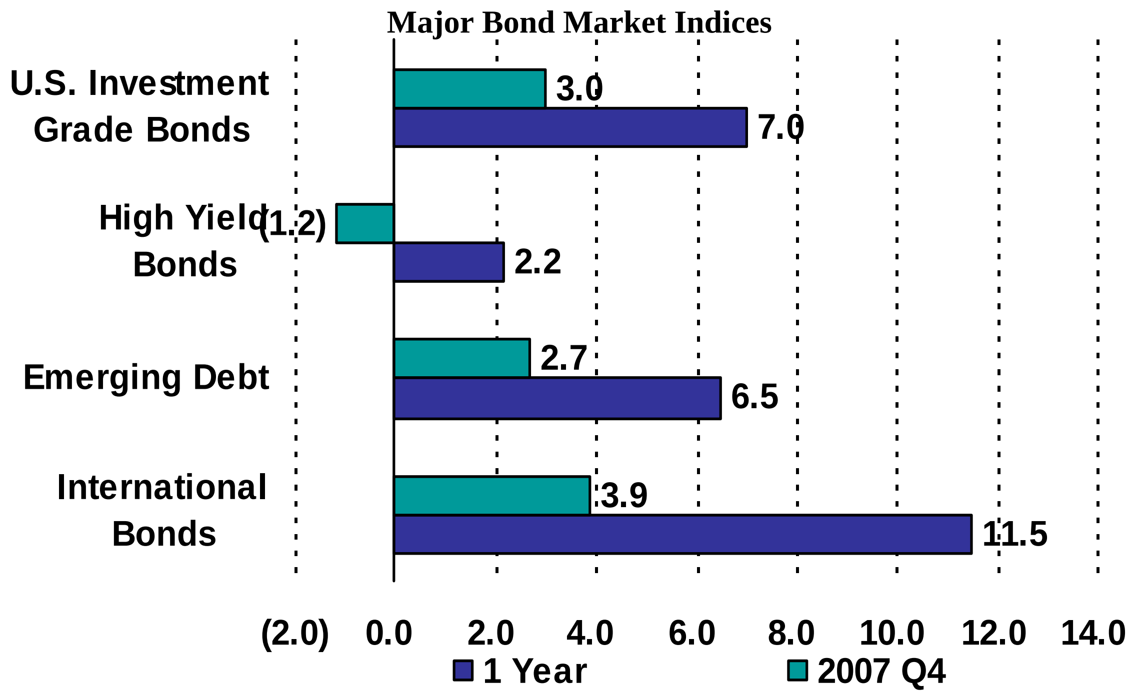
- ✓**Subprime mortgage** woes touched nearly every corner of world financial markets in the 4th quarter, as a nearly unprecedented loss of liquidity significantly reduced the appetite for risk taking. In the domestic equity market, **losses in Financials and Consumer Discretionary** sectors, due to concerns over the impact of mortgage defaults and consequent reductions in consumer spending, more than offset **gains in Utilities, Energy and Consumer Staples** sectors.
- ✓The threat of a slowing economy and the reduced appetite for risk **favored large cap stocks over small caps** during the quarter. The shift in sentiment **favoring growth stocks over value** that started in the 2nd quarter continued through the year end as well.
- ✓From a global perspective, the **developed international equity markets continued to outperform domestic equities**, aided by weakness in the dollar. Thanks to an 11% gain in October, **international emerging markets outperformed** all other sectors.
- ✓The **U.S. investment grade bond market posted a gain** for the quarter, getting a boost from the equity market turmoil and falling interest rates. **Treasuries led** all other categories, boosted by credit concerns and a flight to quality. These same factors pushed **high yield bonds into negative territory** for the quarter.
- ✓In general, **alternative investments produced gains** and meaningful diversification benefits in a volatile period.

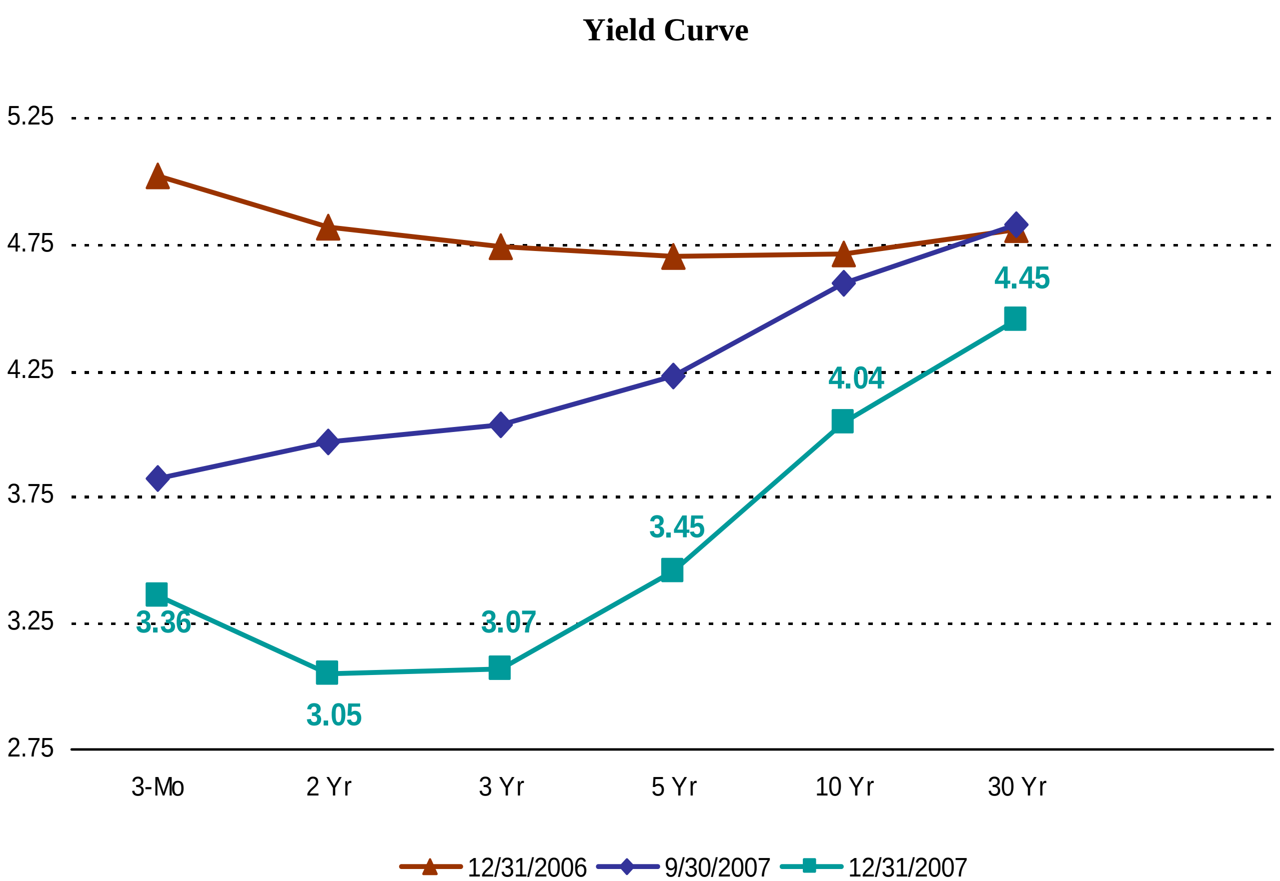
Major Equity Market Indices



Source: Callan Associates, Inc
US Large Cap = Russell 1000, US Small Cap = Russell 2000, Dev. Int'l Equity = MSCI EAFE, Emerging Mkts Equity = MSCI EM net

MARKET PERFORMANCE HIGHLIGHTS





Source: Callan Associates, Inc.; SEI
U.S. Investment Grade Bonds = Lehman US Aggregate Index, High Yield Benchmark = Merrill Lynch High Yield Master II Constrained, Emerging Debt = JPM Emerging Markets Bond Index+, International Bonds=Citigroup Non US Unhedged

MARKET VALUE STATEMENT

Asset Distribution Across Investment Managers

	December 31, 2007			September 30, 2007		
		Market Value	Percent		Market Value	Percent
Domestic Equity	**$**	**78,689,000**	**36.8%**	**$**	**73,505,365**	**36.7%**
INTECH Large Cap Growth	$	11,914,289	5.6%	$	11,777,671	5.9%
Rainier Large Cap Growth	$	15,813,928	7.4%	$	11,731,429	5.8%
Vanguard Large Cap Index	$	22,452,850	10.5%	$	20,151,490	10.0%
AllianceBernstein Diversified Value	$	8,997,200	4.2%	$	9,832,023	4.9%
Great Lakes Large Cap Value	$	9,381,524	4.4%	$	9,804,913	4.9%
Eagle Asset Mgmt	$	5,438,149	2.5%	$	5,470,979	2.7%
TAMRO Capital Partners	$	4,691,060	2.2%	$	4,736,861	2.4%
International Equity	**$**	**30,573,881**	**14.3%**	**$**	**29,988,382**	**15.0%**
Artisan International Fund	$	14,922,012	7.0%	$	14,509,261	7.2%
Harbor International Fund	$	15,651,869	7.3%	$	15,479,120	7.7%
Emerging Markets	**$**	**7,364,008**	**3.4%**	**$**	**7,186,490**	**3.6%**
SSgA Emerging Markets Fund	$	7,364,008	3.4%	$	7,186,490	3.6%
Domestic Fixed Income	**$**	**89,104,670**	**41.7%**	**$**	**82,013,664**	**40.9%**
Vanguard Total Bond Index	$	51,972,299	24.3%	$	45,499,240	22.7%
Western Asset Mgmt	$	17,198,194	8.1%	$	17,100,477	8.5%
Richmond Capital Management	$	9,975,141	4.7%	$	9,692,467	4.8%
Atlantic Asset Management	$	9,959,036	4.7%	$	9,721,478	4.8%
Cash Equivalents	**$**	**7,892,670**	**3.7%**	**$**	**7,848,819**	**3.9%**
STI Classic Instl Cash Management	$	7,892,670	3.7%	$	7,848,819	3.9%
Total Fund	**$**	**213,624,230**	**100.0%**	**$**	**200,542,720**	**100.0%**

PERFORMANCE SUMMARY

Total Fund Returns
for Periods Ended December 31, 2007

	Last Quarter	Last Year	Last 2 1/4 Years
VBIF Total Fund	0.5	9.8	10.3
VBIF Total Fund (net)	0.5	9.4	10.0
VBIF Index Target	0.1	7.9	9.5
VBIF Style Target	0.1	7.9	9.1

Fourth Quarter Overview

♦ **In a market where the average institutional fund lost ground for the quarter, the VBIF recorded a slight gain of 0.5%.**

♦ **Assets in the investment account surpassed the $213 million mark as of December 31, 2007.**

♦ **The Fund remains in compliance with all guidelines and policies.**

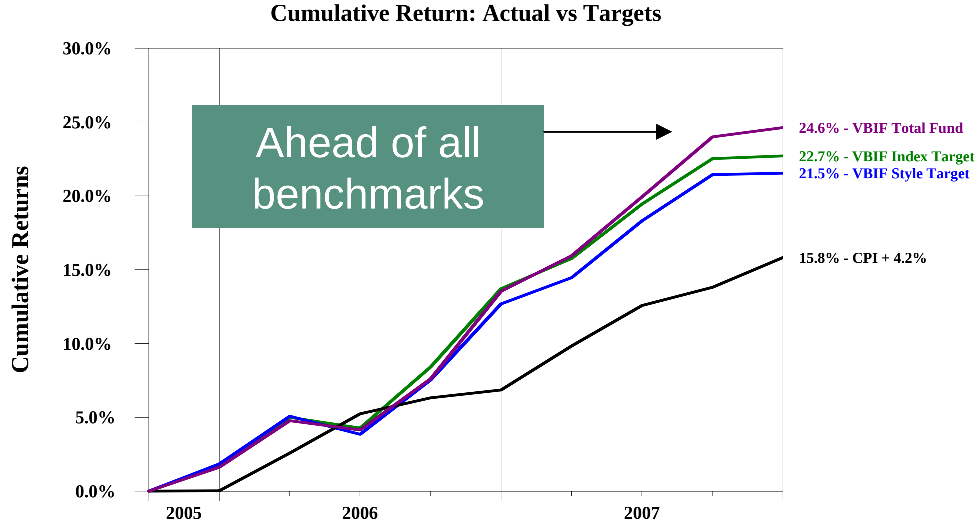
♦ **The Fund's performance outpaced all of its custom benchmarks for all periods measured.**

♦ **Even with a significantly more conservative asset allocation plan than most benefit or non-profit funds, the VBIF account's results again exceeded 90% of the funds in the Callan institutional account databases.**

♦ **All of the Fund's active U.S. equity managers except Bernstein large cap value and all of its international equity funds except SSGA emerging markets outpaced their peer group median returns.**

♦ **3 out of 4 of the Fund's bond managers also matched or beat their peer median results.**

♦ **Western Asset's core plus bond fund gained 0.6% but lagged the median bond manager as the ripple effect from the sub-prime issue continued to hurt some of the manager's strategies.**



FUND PERFORMANCE HIGHLIGHTS

Returns
for Periods Ended December 31, 2007

	Last Quarter	Last Year	Last 2 1/4 Years
Domestic Equity			
INTECH Large Cap Growth	*1.3%*	*8.3%*	--
S&P:500 Growth	(1.3%)	9.1%	9.8%
Rainier Large Cap Growth	*0.7%*	*22.1%*	--
Russell 1000 Growth	(0.8%)	11.8%	10.7%
Vanguard Large Cap Index	*(3.0%)*	*6.4%*	*10.8%*
MSCI:US Prime Mkt 750	(3.0%)	6.4%	10.8%
Bernstein Divers. Value	*(8.4%)*	*(3.7%)*	--
Great Lakes Large Value	*(4.2%)*	*7.3%*	--
Russell 1000 Value	(5.8%)	(0.2%)	9.9%
Eagle Asset Management	*(0.4%)*	*17.0%*	--
TAMRO Capital Partners	*(0.6%)*	*1.0%*	--
MSCI:US Small Cap 1750	(5.0%)	1.2%	7.9%
Russell 2000 Index	(4.6%)	(1.6%)	7.6%
International Equity			
Artisan International	*2.8%*	*19.7%*	--
Harbor International	*1.1%*	*21.8%*	--
MSCI:EAFE US$	(1.8%)	11.2%	18.4%
SSgA Emerging Markets	*2.5%*	*41.0%*	--
MSCI:Emer Markets	3.7%	39.8%	35.7%
Domestic Fixed Income			
Atlantic Asset Management	*2.5%*	*6.3%*	--
Richmond Capital Mgmt	*3.0%*	*6.6%*	--
Western Asset Core Plus	*0.6%*	*2.6%*	--
Vanguard Total Bond	*3.1%*	*7.1%*	*5.4%*
LB:Aggr Bond	3.0%	7.0%	5.3%
VBIF Total Fund	***0.5%***	***9.8%***	***10.3%***
VBIF Total Fund (net)	*0.5%*	*9.4%*	*10.0%*
VBIF Style Target	*0.1%*	*7.9%*	*9.1%*
VBIF Index Target	*0.1%*	*7.9%*	*9.5%*

Style Target = 30% CAI: Lg Cap Broad Style; 5% CAI: Sm Cap Broad Style; 12% CAI: Intl Core Equity Style; 3% CAI: Emerging Markets Style; 45% CAI: Core Bond Style; 5% CAI: Cash Management

Index Target = 30% MSCI U.S. Prime Market 750; 5% Russell 2000; 12% MSCI EAFE; 3% MSCI Emerging Markets; 45% LB Aggregate; 5% 90-day T-Bill

MARKETS OUTLOOK SUMMARY – January 23, 2008

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	Moderate/**Increasing?**	Neutral ↓	Neutral ↓
Fed Policy/Liquidity	Easing/Increasing	Positive	Positive
Fiscal Environment	Stimulative	Neutral	Positive
Consumer Spending Trend	Moderating	Positive	Negative
Capital Spending Trend	Stable	Neutral	Neutral
GDP Growth Forecast	**1% - 2%**	Positive	Negative ↓
Recent/Long-Term Dollar Trend	Declining/Declining	Neutral	Neutral
Interest Rate Conditions			
Short-Term Rates	Declining	Positive	Positive
Long-Term Rates	**Declining**	Positive	Positive
Yield Curve	Normalizing	Neutral	Neutral
Stock Market Fundamentals			
Earnings Growth	Positive	Neutral	Positive
Earnings Expectations	Decelerating	Positive	Negative
Valuation Level	Fair	Neutral	Positive
Current Issues			
Consumer Confidence	**Declining**	Positive ↑	Negative ↓
Employment Trend	Stable	Neutral	Positive
Geopolitical Risks	Intense	Positive	Negative

Commentary:
The stock market correction that started in the fourth quarter has quickly escalated in the New Year. Revelations of large financial losses by global banking institutions and mortgage insurers are feeding fears of a prolonged credit crisis and a U. S. economic recession that spreads across the globe. Despite emergency interest rate cuts by the Fed and talk of a fiscal stimulus program, a Bear market mentality has gripped the equity markets. Although the coincident economic indicators are still favorable, the leading indicators are in decline, signaling the onset of a period of economic contraction. On the positive side, a mild recession is already reflected in current equities prices, hopefully limiting further declines. Also, a recession will ease inflation concerns, leaving the Fed room for the additional rate reductions needed to unwind credit excesses, rebuild confidence in our financial institutions and spur economic growth.

↓↑ **Bold** - Denotes changes from the preceding *Markets Outlook Summary*

IMPORTANT DISCLOSURE

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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.

Performance Report

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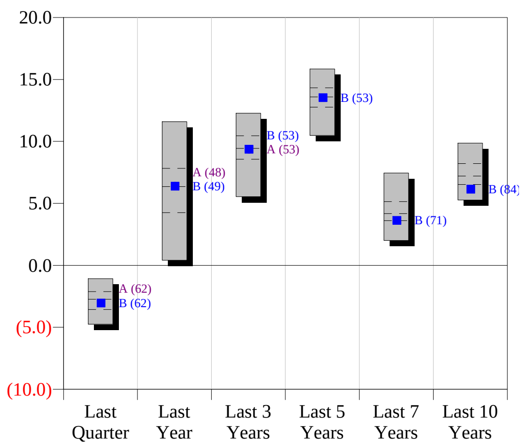
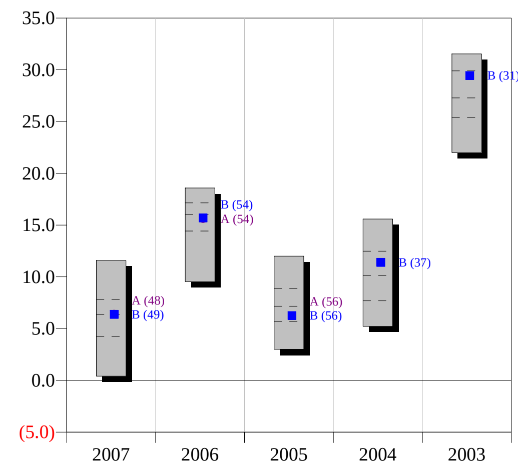
Vanguard Large Cap Index Fund

Returns
for Periods Ended December 31, 2007
Group: CAI Large Cap Core Style



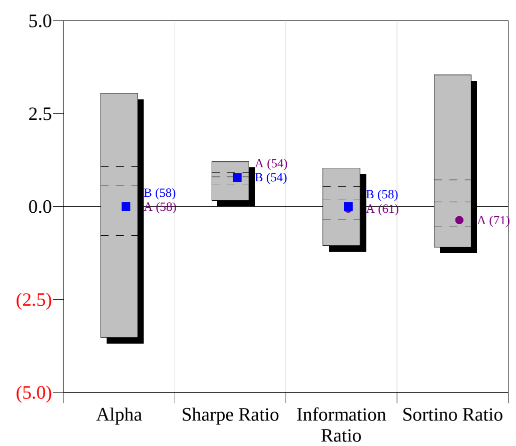
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		(1.3)	11.1	11.2	15.7	6.9	9.5
25th Percentile		(2.1)	7.8	10.5	14.3	5.1	8.2
Median		(2.7)	6.4	9.4	13.6	4.2	7.2
75th Percentile		(3.6)	4.3	8.6	12.8	3.6	6.5
90th Percentile		(4.6)	1.6	7.2	11.9	3.0	5.5
Vanguard Large Cap Index	● A	**(3.0)**	**6.4**	**9.4**	--	--	--
MSCI:US Prime Mkt 750	■ B	(3.0)	6.4	9.4	13.5	3.6	6.1

Returns for Calendar Years
Group: CAI Large Cap Core Style



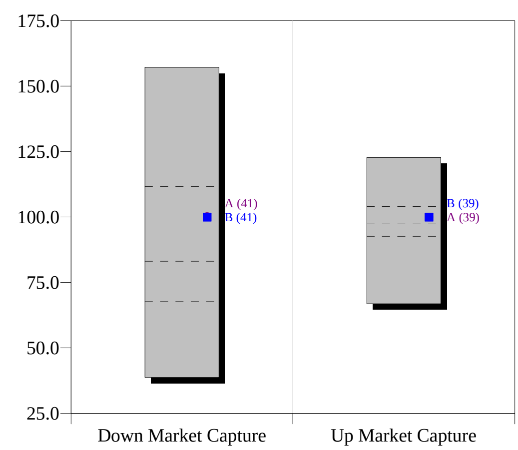
		2007	2006	2005	2004	2003
10th Percentile		11.1	18.0	11.0	14.3	30.6
25th Percentile		7.8	17.2	8.9	12.5	29.9
Median		6.4	16.0	7.2	10.1	27.3
75th Percentile		4.3	14.4	5.7	7.7	25.4
90th Percentile		1.6	12.4	3.9	5.8	23.1
Vanguard Large Cap Index	● A	**6.4**	**15.6**	**6.3**	--	--
MSCI:US Prime Mkt 750	■ B	6.4	15.7	6.3	11.4	29.4

Statistics relative to MSCI:US Prime Mkt 750
for 3 Years Ended December 31, 2007
Group: CAI Large Cap Core Style



		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		2.4	1.1	0.9	2.0
25th Percentile		1.1	0.9	0.5	0.7
Median		0.6	0.8	0.2	0.1
75th Percentile		(0.8)	0.6	(0.4)	(0.5)
90th Percentile		(2.6)	0.4	(0.8)	(0.8)
Vanguard Large Cap Index	● A	**0.0**	**0.8**	**(0.1)**	**(0.4)**
MSCI:US Prime Mkt 750	■ B	0.0	0.8	0.0	--

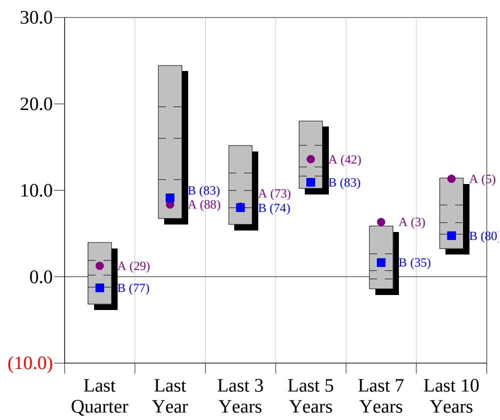
Statistics relative to MSCI:US Prime Mkt 750
for 3 Years Ended December 31, 2007
Group: CAI Large Cap Core Style



		Down Market Capture	Up Market Capture
10th Percentile		147.4	117.8
25th Percentile		111.7	104.0
Median		83.2	97.7
75th Percentile		67.7	92.7
90th Percentile		54.6	82.1
Vanguard Large Cap Index	● A	**100.3**	**100.0**
MSCI:US Prime Mkt 750	■ B	100.0	100.0

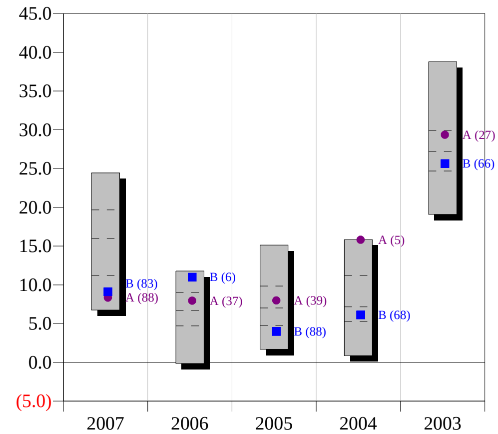
INTECH Large Cap Growth

Returns
for Periods Ended December 31, 2007
Group: CAI Large Cap Growth Style



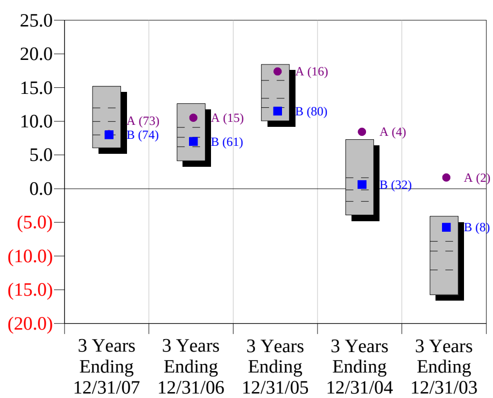
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		3.3	23.1	14.5	17.1	4.3	9.9
25th Percentile		1.9	19.7	12.0	15.2	2.7	8.3
Median		0.2	16.0	10.0	12.7	0.7	6.3
75th Percentile		(1.2)	11.2	8.0	11.7	(0.2)	4.9
90th Percentile		(2.1)	8.0	6.5	10.6	(1.0)	3.4
INTECH:Lg Cap Growth	● A	**1.3**	**8.4**	**8.1**	**13.6**	**6.3**	**11.4**
S&P:500 Growth	■ B	(1.3)	9.1	8.0	10.9	1.6	4.8

Returns for Calendar Years
Group: CAI Large Cap Growth Style



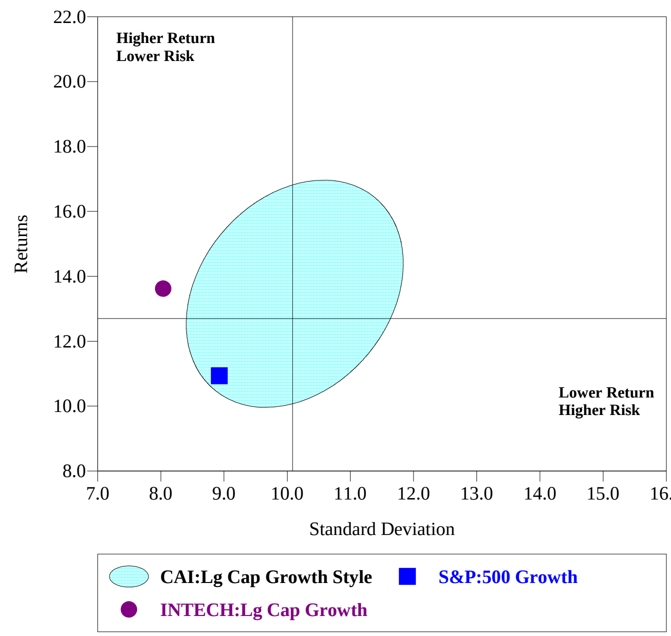
		2007	2006	2005	2004	2003
10th Percentile		23.1	10.5	13.4	13.8	33.2
25th Percentile		19.7	9.0	9.9	11.2	29.9
Median		16.0	6.7	7.0	7.2	27.2
75th Percentile		11.2	4.7	4.8	5.3	24.7
90th Percentile		8.0	2.0	3.8	3.3	21.9
INTECH:Lg Cap Growth	● A	**8.4**	**8.0**	**8.0**	**15.8**	**29.4**
S&P:500 Growth	■ B	9.1	11.0	4.0	6.1	25.7

Returns
for 12 Quarter Rolling Periods
5 Years Ending December 31, 2007
Group: CAI Large Cap Growth Style



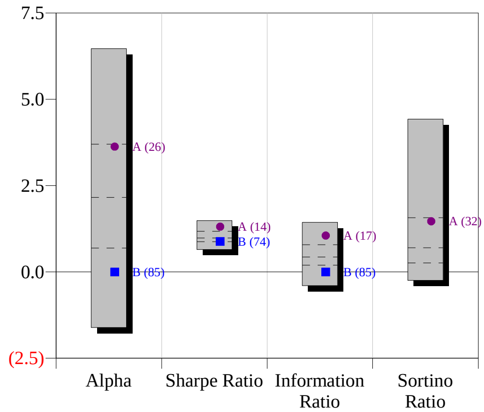
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		14.5	11.5	18.2	3.1	(6.4)
25th Percentile		12.0	9.1	16.1	1.6	(7.8)
Median		10.0	7.6	13.4	(0.2)	(9.2)
75th Percentile		8.0	6.2	12.0	(1.9)	(12.1)
90th Percentile		6.5	5.0	10.5	(2.6)	(14.7)
INTECH:Lg Cap Growth	● A	**8.1**	**10.5**	**17.4**	**8.4**	**1.7**
S&P:500 Growth	■ B	8.0	7.0	11.5	0.6	(5.7)

Scatter Chart
for 5 Years Ended December 31, 2007



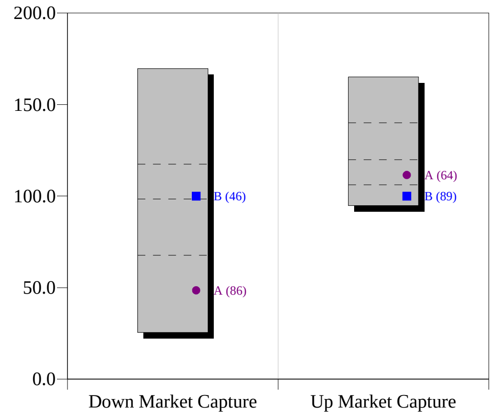
INTECH Large Cap Growth (Composite)

Statistics relative to S&P:500 Growth
for 5 Years Ended December 31, 2007
Group: CAI Large Cap Growth Style



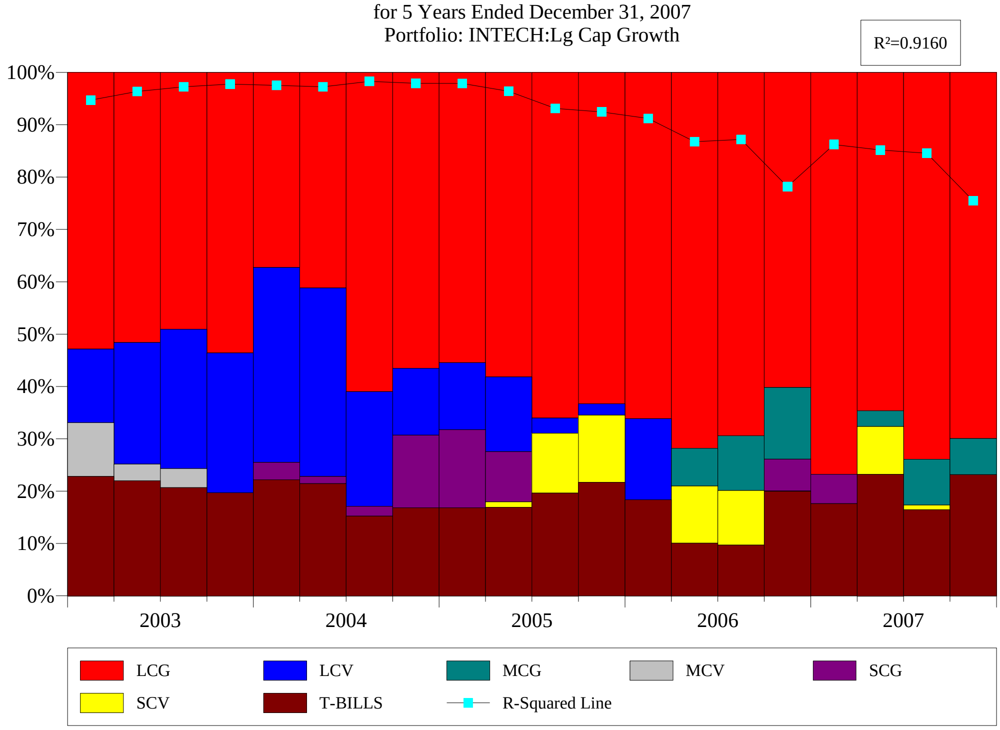
		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		5.8	1.4	1.3	3.1
25th Percentile		3.7	1.2	0.8	1.6
Median		2.2	1.0	0.4	0.7
75th Percentile		0.7	0.9	0.2	0.3
90th Percentile		(0.5)	0.7	(0.2)	(0.2)
INTECH:Lg Cap Growth	● A	**3.6**	**1.3**	**1.1**	**1.5**
S&P:500 Growth	■ B	0.0	0.9	0.0	--

Statistics relative to S&P:500 Growth
for 5 Years Ended December 31, 2007
Group: CAI Large Cap Growth Style



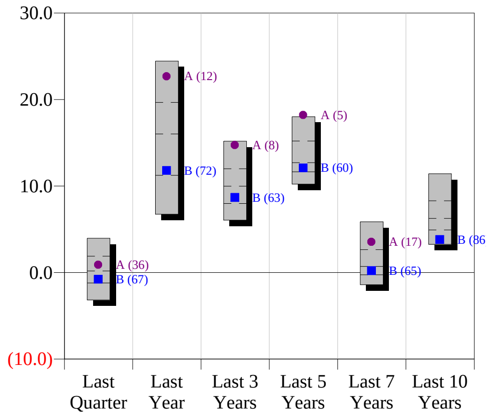
		Down Market Capture	Up Market Capture
10th Percentile		138.7	153.2
25th Percentile		117.5	140.1
Median		98.5	119.9
75th Percentile		67.7	106.2
90th Percentile		39.3	98.5
INTECH:Lg Cap Growth	● A	**48.6**	**111.6**
S&P:500 Growth	■ B	100.0	100.0

Rolling 12 Quarter Domestic Equity Style Chart
for 5 Years Ended December 31, 2007
Portfolio: INTECH:Lg Cap Growth



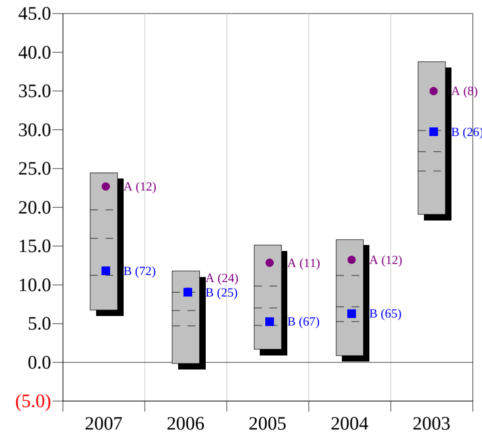
Rainier Large Cap Growth (Composite)

Returns
for Periods Ended December 31, 2007
Group: CAI Large Cap Growth Style



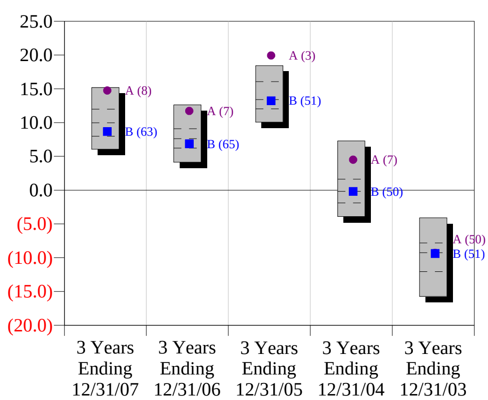
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		3.3	23.1	14.5	17.1	4.3	9.9
25th Percentile		1.9	19.7	12.0	15.2	2.7	8.3
Median		0.2	16.0	10.0	12.7	0.7	6.3
75th Percentile		(1.2)	11.2	8.0	11.7	(0.2)	4.9
90th Percentile		(2.1)	8.0	6.5	10.6	(1.0)	3.4
Rainier:Large Cap Growth	● A	**0.9**	**22.7**	**14.8**	**18.2**	**3.6**	--
Russell 1000 Growth	■ B	(0.8)	11.8	8.7	12.1	0.2	3.8

Returns for Calendar Years
Group: CAI Large Cap Growth Style



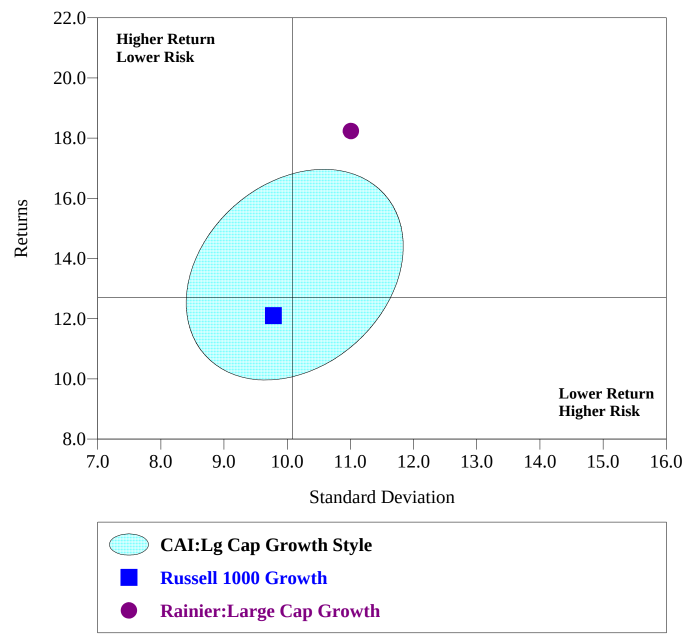
		2007	2006	2005	2004	2003
10th Percentile		23.1	10.5	13.4	13.8	33.2
25th Percentile		19.7	9.0	9.9	11.2	29.9
Median		16.0	6.7	7.0	7.2	27.2
75th Percentile		11.2	4.7	4.8	5.3	24.7
90th Percentile		8.0	2.0	3.8	3.3	21.9
Rainier:Large Cap Growth	● A	**22.7**	**9.1**	**12.9**	**13.2**	**35.0**
Russell 1000 Growth	■ B	11.8	9.1	5.3	6.3	29.7

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Large Cap Growth Style



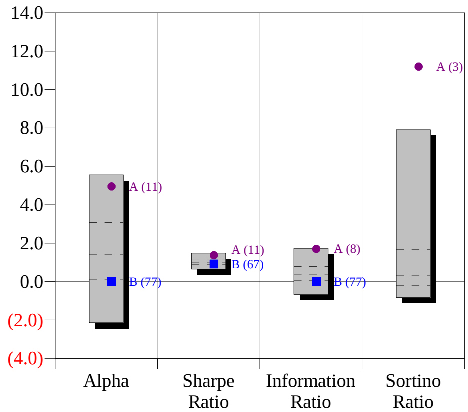
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		14.5	11.5	18.2	3.1	(6.4)
25th Percentile		12.0	9.1	16.1	1.6	(7.8)
Median		10.0	7.6	13.4	(0.2)	(9.2)
75th Percentile		8.0	6.2	12.0	(1.9)	(12.1)
90th Percentile		6.5	5.0	10.5	(2.6)	(14.7)
Rainier:Large Cap Growth	● A	**14.8**	**11.7**	**19.9**	**4.5**	**(9.3)**
Russell 1000 Growth	■ B	8.7	6.9	13.2	(0.2)	(9.4)

Scatter Chart
for 5 Years Ended December 31, 2007



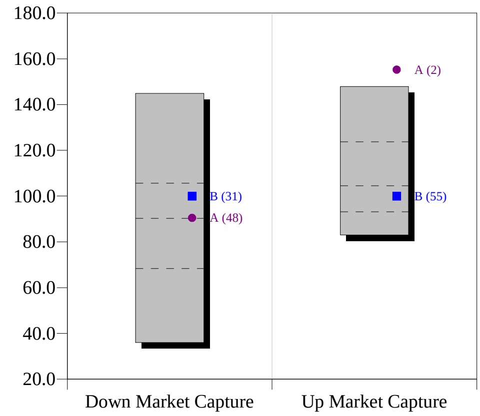
Rainier Large Cap Growth (Composite)

Statistics relative to Russell 1000 Growth
for 5 Years Ended December 31, 2007
Group: CAI Large Cap Growth Style



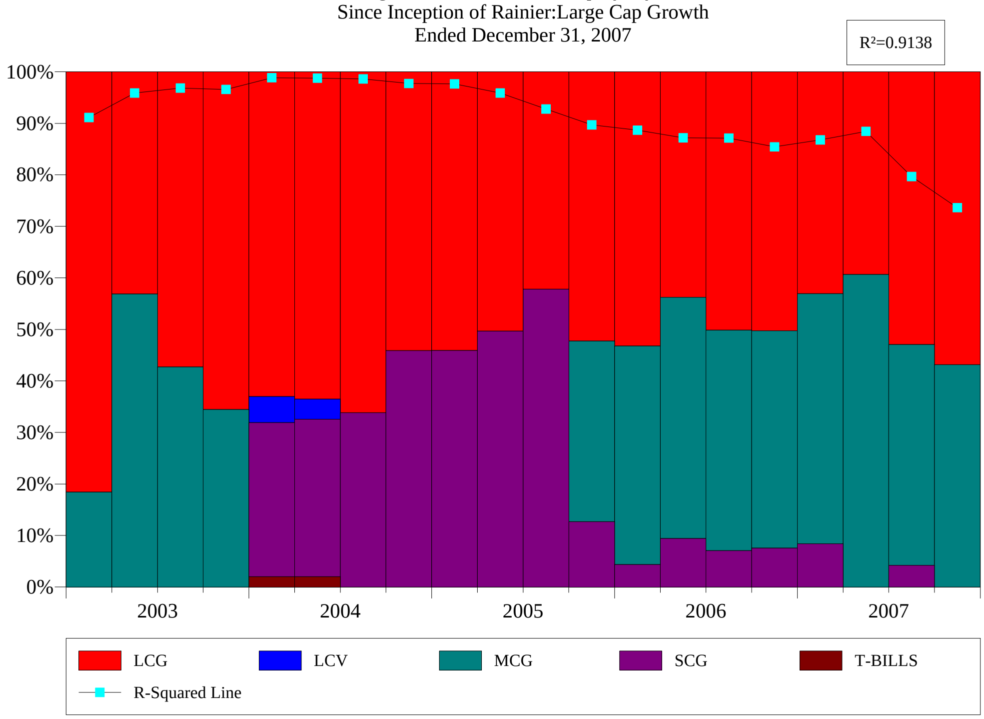
		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		5.0	1.4	1.5	4.1
25th Percentile		3.1	1.2	0.8	1.7
Median		1.4	1.0	0.4	0.3
75th Percentile		0.1	0.9	0.0	(0.2)
90th Percentile		(1.1)	0.7	(0.5)	(0.7)
Rainier:Large Cap Growth	A	**5.0**	**1.4**	**1.7**	**11.2**
Russell 1000 Growth	B	0.0	0.9	0.0	--

Statistics relative to Russell 1000 Growth
for 5 Years Ended December 31, 2007
Group: CAI Large Cap Growth Style



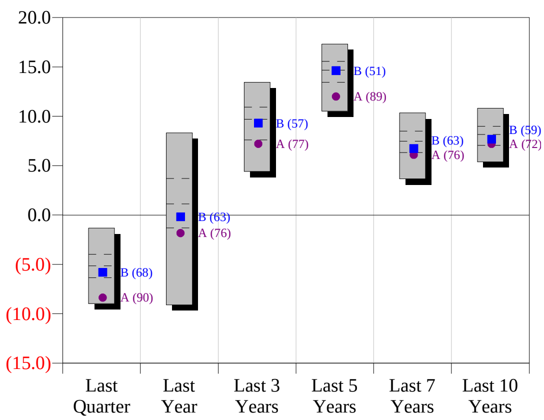
		Down Market Capture	Up Market Capture
10th Percentile		122.9	135.2
25th Percentile		105.7	123.7
Median		90.2	104.5
75th Percentile		68.4	93.2
90th Percentile		44.6	88.9
Rainier:Large Cap Growth	A	**90.6**	**155.3**
Russell 1000 Growth	B	100.0	100.0

Rolling 12 Quarter Domestic Equity Style Chart
Since Inception of Rainier:Large Cap Growth
Ended December 31, 2007



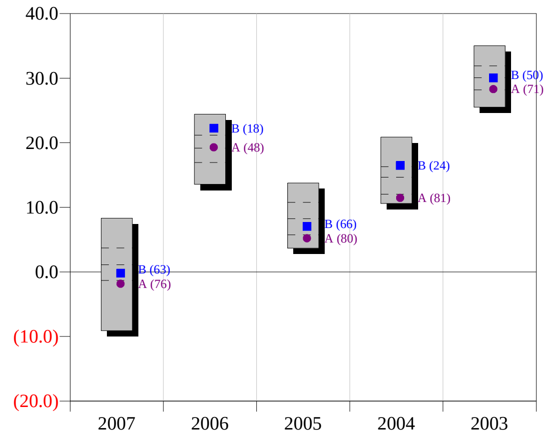
AllianceBernstein Diversified Value (Composite)

Returns
for Periods Ended December 31, 2007
Group: CAI Large Cap Value Style



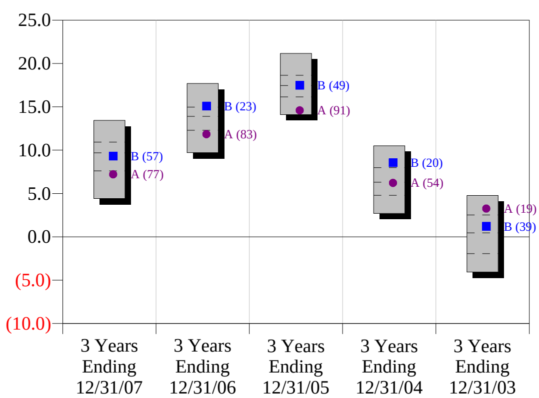
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		(2.9)	5.6	12.5	16.6	9.9	10.3
25th Percentile		(4.0)	3.7	10.9	15.6	8.5	9.0
Median		(5.1)	1.1	9.7	14.7	7.5	8.2
75th Percentile		(6.3)	(1.3)	7.6	13.4	6.3	7.1
90th Percentile		(8.3)	(5.9)	5.3	12.0	4.5	5.8
AllBer:Divers Value	● A	**(8.4)**	**(1.8)**	**7.2**	**12.0**	**6.1**	**7.2**
Russell 1000 Value	■ B	(5.8)	(0.2)	9.3	14.6	6.7	7.7

Returns for Calendar Years
Group: CAI Large Cap Value Style



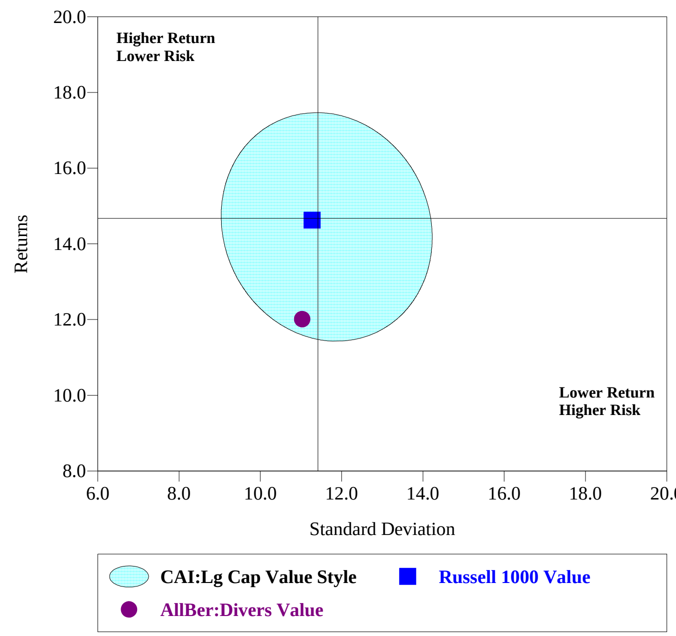
		2007	2006	2005	2004	2003
10th Percentile		5.6	23.6	13.3	19.1	34.5
25th Percentile		3.7	21.2	10.8	16.3	31.9
Median		1.1	19.2	8.2	14.7	30.1
75th Percentile		(1.3)	17.0	5.8	12.0	28.2
90th Percentile		(5.9)	14.6	4.1	11.0	26.3
AllBer:Divers Value	● A	**(1.8)**	**19.3**	**5.2**	**11.5**	**28.3**
Russell 1000 Value	■ B	(0.2)	22.2	7.1	16.5	30.0

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Large Cap Value Style



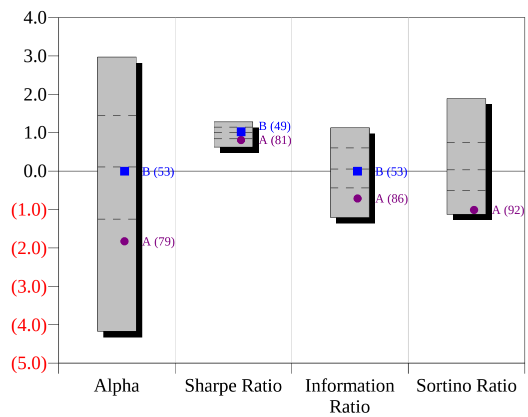
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		12.5	16.2	20.0	9.6	4.0
25th Percentile		10.9	15.0	18.6	8.0	2.5
Median		9.7	13.9	17.5	6.3	0.5
75th Percentile		7.6	12.3	16.2	4.8	(1.9)
90th Percentile		5.3	10.8	14.7	3.3	(2.9)
AllBer:Divers Value	● A	**7.2**	**11.9**	**14.6**	**6.2**	**3.3**
Russell 1000 Value	■ B	9.3	15.1	17.5	8.6	1.2

Scatter Chart
for 5 Years Ended December 31, 2007



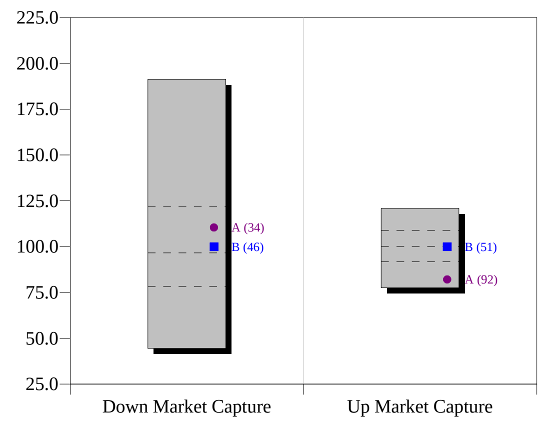
AllianceBernstein Diversified Value (Composite)

Statistics relative to Russell 1000 Value
for 5 Years Ended December 31, 2007
Group: CAI Large Cap Value Style



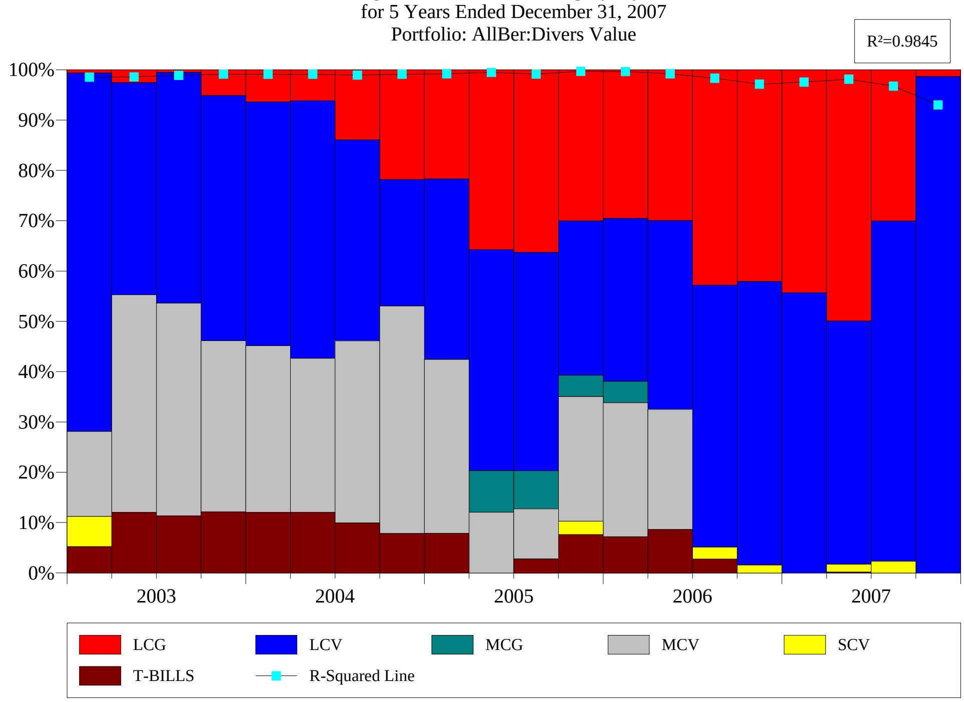
		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		2.3	1.2	1.0	1.3
25th Percentile		1.5	1.1	0.6	0.8
Median		0.1	1.0	0.1	0.0
75th Percentile		(1.2)	0.8	(0.4)	(0.5)
90th Percentile		(3.7)	0.7	(0.8)	(0.9)
AllBer:Divers Value	A	**(1.8)**	**0.8**	**(0.7)**	**(1.0)**
Russell 1000 Value	B	0.0	1.0	0.0	--

Statistics relative to Russell 1000 Value
for 5 Years Ended December 31, 2007
Group: CAI Large Cap Value Style



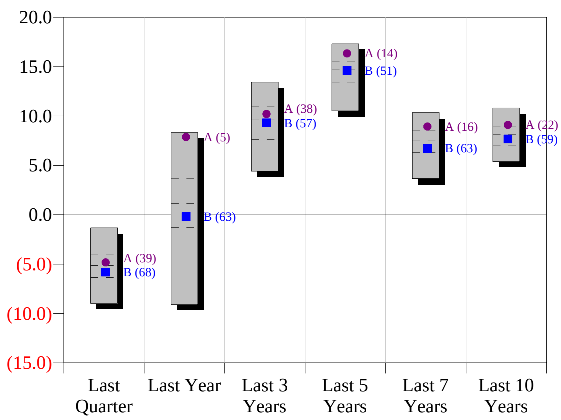
		Down Market Capture	Up Market Capture
10th Percentile		151.5	119.1
25th Percentile		121.8	108.9
Median		96.7	100.2
75th Percentile		78.3	91.8
90th Percentile		61.7	83.1
AllBer:Divers Value	A	**110.5**	**82.2**
Russell 1000 Value	B	100.0	100.0

Rolling 12 Quarter Domestic Equity Style Chart
for 5 Years Ended December 31, 2007
Portfolio: AllBer:Divers Value



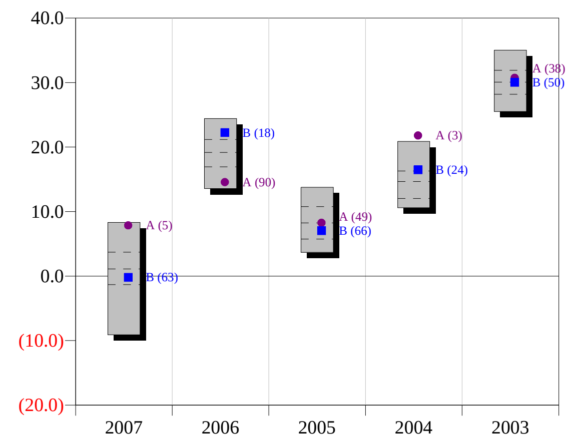
Great Lakes Large Cap Value (Composite)

Returns
for Periods Ended December 31, 2007
Group: CAI Large Cap Value Style



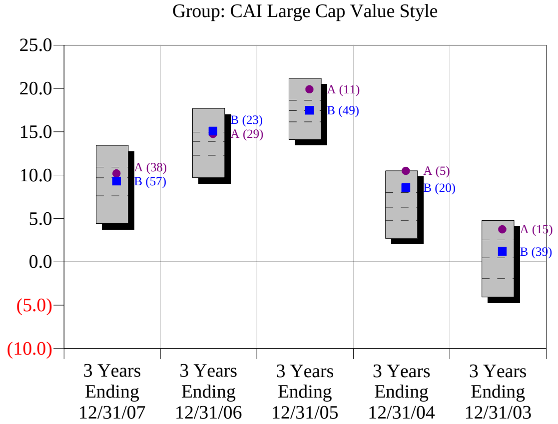
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		(2.9)	5.6	12.5	16.6	9.9	10.3
25th Percentile		(4.0)	3.7	10.9	15.6	8.5	9.0
Median		(5.1)	1.1	9.7	14.7	7.5	8.2
75th Percentile		(6.3)	(1.3)	7.6	13.4	6.3	7.1
90th Percentile		(8.3)	(5.9)	5.3	12.0	4.5	5.8
GLakes:Value Eq	A	**(4.8)**	**7.9**	**10.2**	**16.4**	**8.9**	**9.1**
Russell 1000 Value	B	(5.8)	(0.2)	9.3	14.6	6.7	7.7

Returns for Calendar Years
Group: CAI Large Cap Value Style



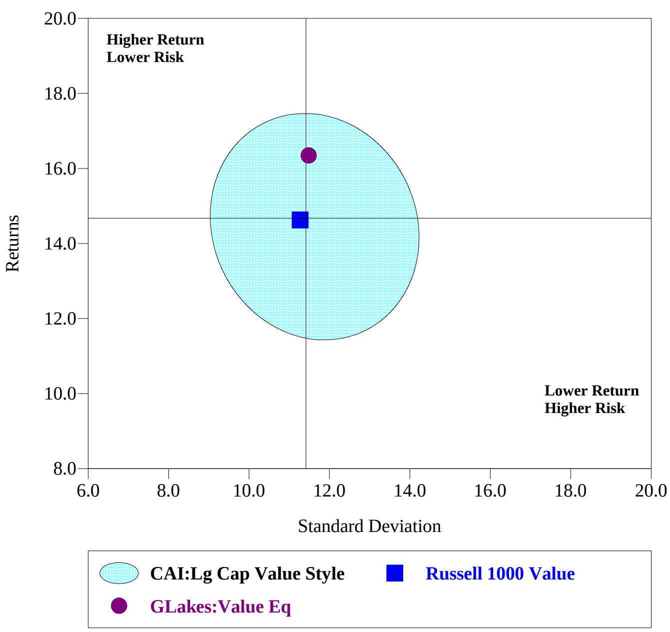
		2007	2006	2005	2004	2003
10th Percentile		5.6	23.6	13.3	19.1	34.5
25th Percentile		3.7	21.2	10.8	16.3	31.9
Median		1.1	19.2	8.2	14.7	30.1
75th Percentile		(1.3)	17.0	5.8	12.0	28.2
90th Percentile		(5.9)	14.6	4.1	11.0	26.3
GLakes:Value Eq	A	**7.9**	**14.6**	**8.3**	**21.8**	**30.8**
Russell 1000 Value	B	(0.2)	22.2	7.1	16.5	30.0

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Large Cap Value Style

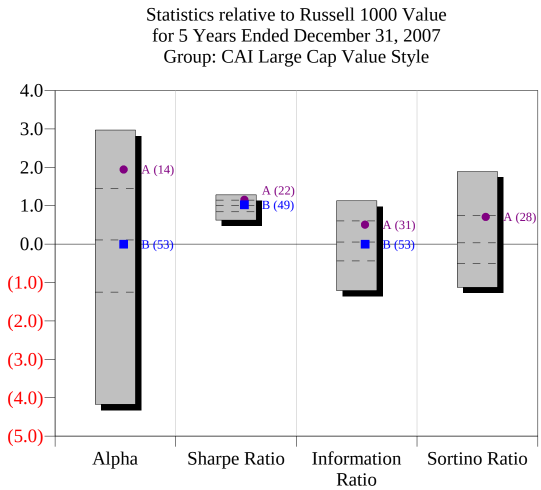


		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		12.5	16.2	20.0	9.6	4.0
25th Percentile		10.9	15.0	18.6	8.0	2.5
Median		9.7	13.9	17.5	6.3	0.5
75th Percentile		7.6	12.3	16.2	4.8	(1.9)
90th Percentile		5.3	10.8	14.7	3.3	(2.9)
GLakes:Value Eq	A	**10.2**	**14.8**	**19.9**	**10.5**	**3.8**
Russell 1000 Value	B	9.3	15.1	17.5	8.6	1.2

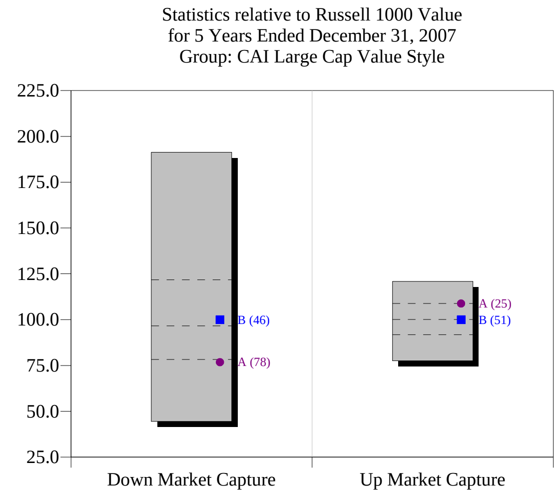
Scatter Chart
for 5 Years Ended December 31, 2007



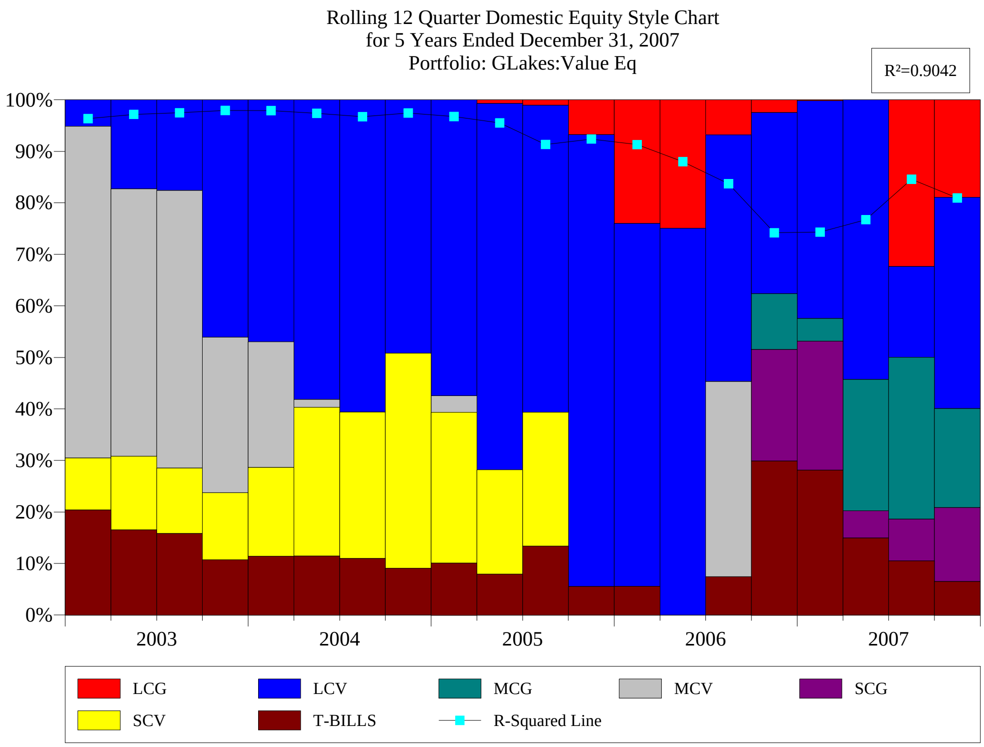
Great Lakes Large Cap Value (Composite)



		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		2.3	1.2	1.0	1.3
25th Percentile		1.5	1.1	0.6	0.8
Median		0.1	1.0	0.1	0.0
75th Percentile		(1.2)	0.8	(0.4)	(0.5)
90th Percentile		(3.7)	0.7	(0.8)	(0.9)
GLakes:Value Eq	A	**1.9**	**1.2**	**0.5**	**0.7**
Russell 1000 Value	B	0.0	1.0	0.0	--

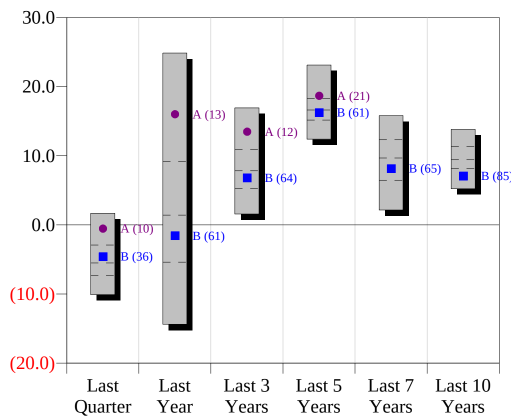


		Down Market Capture	Up Market Capture
10th Percentile		151.5	119.1
25th Percentile		121.8	108.9
Median		96.7	100.2
75th Percentile		78.3	91.8
90th Percentile		61.7	83.1
GLakes:Value Eq	A	**76.9**	**108.9**
Russell 1000 Value	B	100.0	100.0



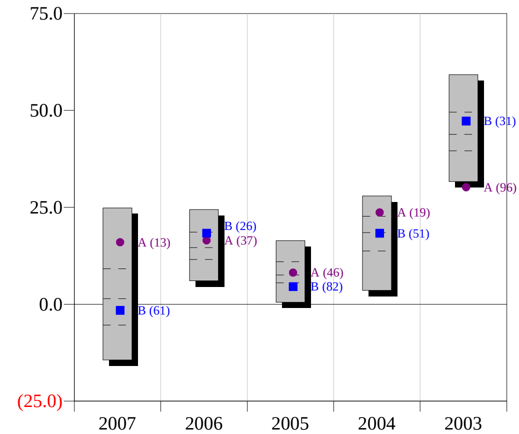
Eagle Small Cap Equity (Composite)

Returns
for Periods Ended December 31, 2007
Group: CAI Small Capitalization Style



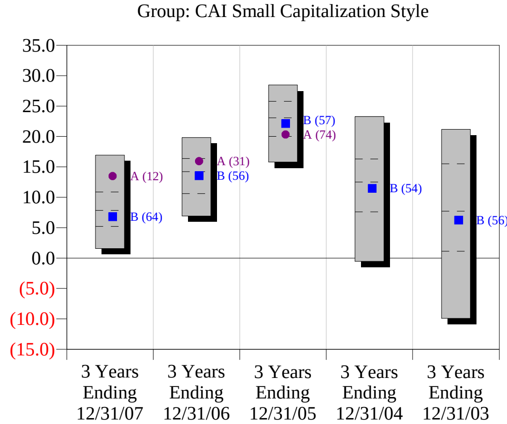
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		(0.3)	19.4	15.2	20.9	14.2	12.8
25th Percentile		(2.9)	9.1	10.9	18.3	12.3	11.3
Median		(5.5)	1.4	7.8	16.6	9.7	9.4
75th Percentile		(7.3)	(5.4)	5.2	15.2	6.5	8.2
90th Percentile		(9.1)	(11.3)	3.3	13.8	4.3	6.1
EAM:Sm/Mid Cap Core	● A	**(0.5)**	**16.0**	**13.5**	**18.7**	--	--
Russell 2000 Index	■ B	(4.6)	(1.6)	6.8	16.2	8.1	7.1

Returns for Calendar Years
Group: CAI Small Capitalization Style



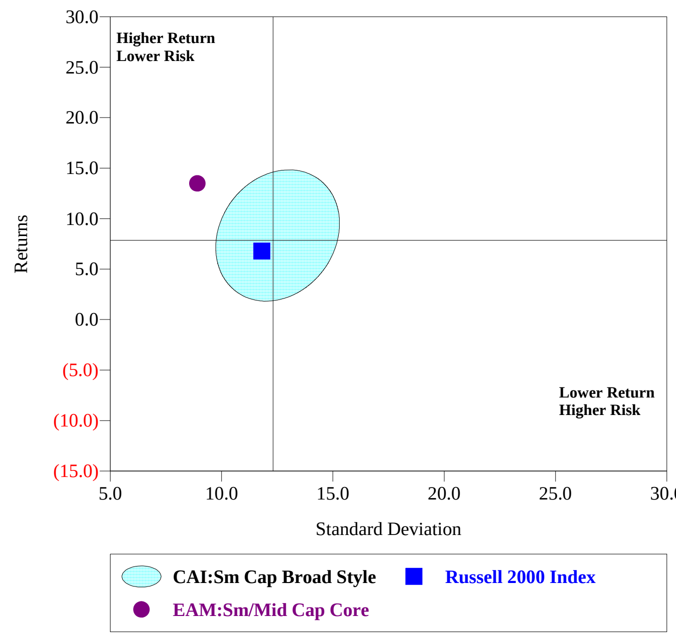
		2007	2006	2005	2004	2003
10th Percentile		19.4	21.8	14.8	25.4	54.0
25th Percentile		9.1	18.6	11.0	22.7	49.5
Median		1.4	14.6	7.6	18.5	43.8
75th Percentile		(5.4)	11.6	5.6	13.8	39.6
90th Percentile		(11.3)	7.1	2.8	8.8	34.6
EAM:Sm/Mid Cap Core	● A	**16.0**	**16.5**	**8.2**	**23.7**	**30.2**
Russell 2000 Index	■ B	(1.6)	18.4	4.6	18.3	47.3

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Small Capitalization Style



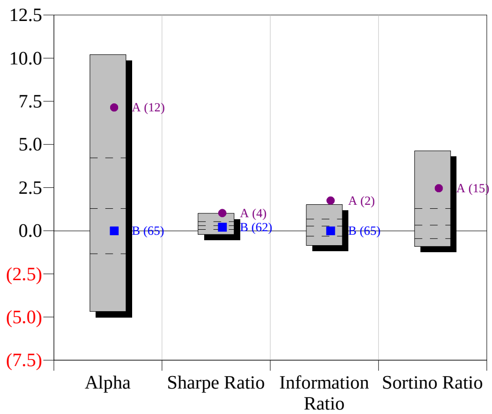
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		15.2	18.3	27.4	19.9	17.8
25th Percentile		10.9	16.4	25.8	16.3	15.5
Median		7.8	14.2	23.1	12.5	7.7
75th Percentile		5.2	10.6	20.0	7.6	1.1
90th Percentile		3.3	7.9	16.5	2.3	(5.7)
EAM:Sm/Mid Cap Core	● A	**13.5**	**16.0**	**20.3**	--	--
Russell 2000 Index	■ B	6.8	13.6	22.1	11.5	6.3

Scatter Chart
for 3 Years Ended December 31, 2007



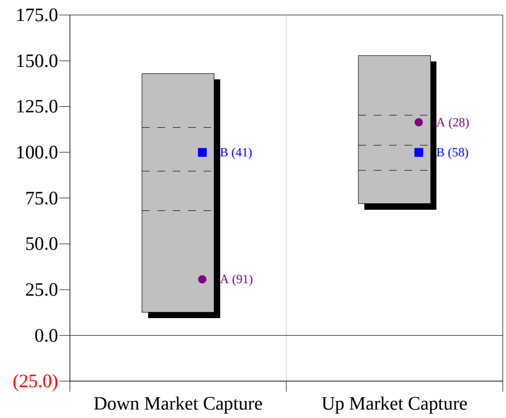
Eagle Small Cap Equity (Composite)

Statistics relative to Russell 2000 Index
for 3 Years Ended December 31, 2007
Group: CAI Small Capitalization Style



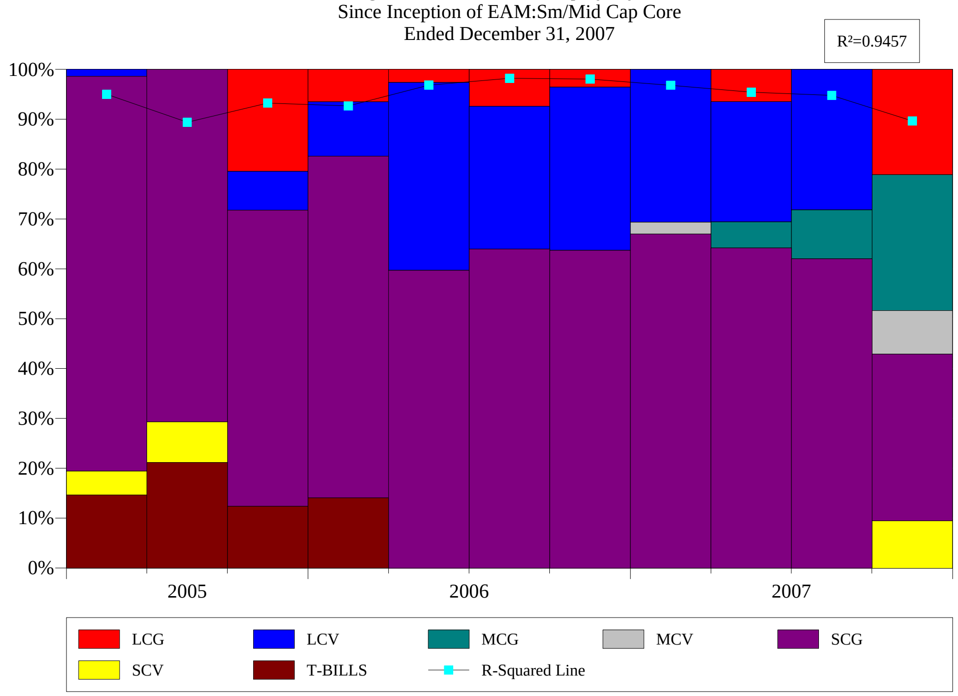
		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		8.3	0.8	1.3	3.4
25th Percentile		4.2	0.5	0.7	1.3
Median		1.3	0.3	0.3	0.3
75th Percentile		(1.3)	0.1	(0.3)	(0.4)
90th Percentile		(3.2)	(0.1)	(0.7)	(0.8)
EAM:Sm/Mid Cap Core	● A	**7.1**	**1.0**	**1.8**	**2.5**
Russell 2000 Index	■ B	0.0	0.2	0.0	--

Statistics relative to Russell 2000 Index
for 3 Years Ended December 31, 2007
Group: CAI Small Capitalization Style



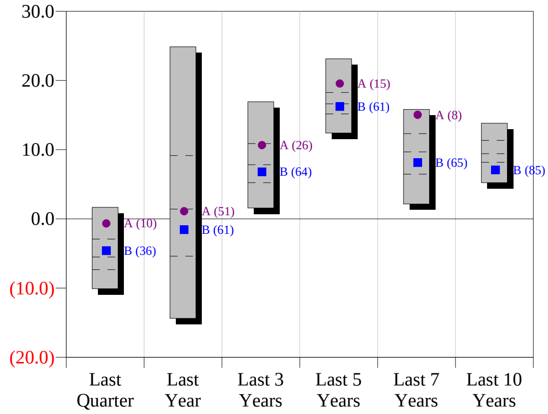
		Down Market Capture	Up Market Capture
10th Percentile		129.3	133.0
25th Percentile		113.6	120.3
Median		89.8	103.9
75th Percentile		68.2	90.2
90th Percentile		34.5	77.4
EAM:Sm/Mid Cap Core	● A	**30.7**	**116.5**
Russell 2000 Index	■ B	100.0	100.0

Rolling 12 Quarter Domestic Equity Style Chart
Since Inception of EAM:Sm/Mid Cap Core
Ended December 31, 2007



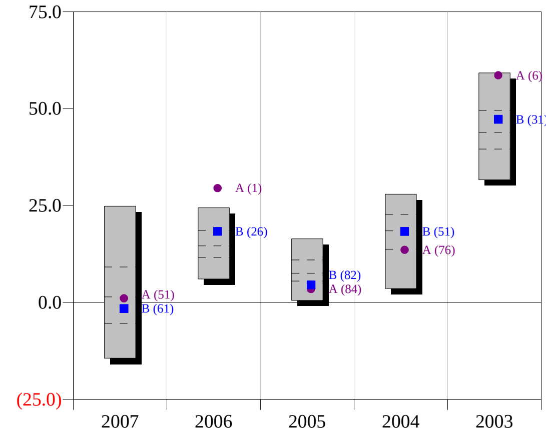
TAMRO Small Cap Equity (Composite)

Returns
for Periods Ended December 31, 2007
Group: CAI Small Capitalization Style



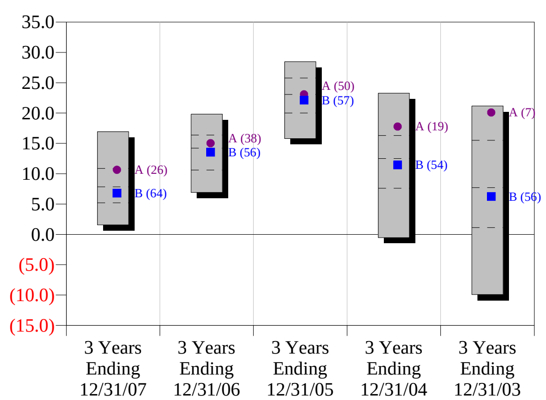
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		(0.3)	19.4	15.2	20.9	14.2	12.8
25th Percentile		(2.9)	9.1	10.9	18.3	12.3	11.3
Median		(5.5)	1.4	7.8	16.6	9.7	9.4
75th Percentile		(7.3)	(5.4)	5.2	15.2	6.5	8.2
90th Percentile		(9.1)	(11.3)	3.3	13.8	4.3	6.1
TAMRO:Small Cap	● A	**(0.6)**	**1.1**	**10.7**	**19.6**	**15.1**	**--**
Russell 2000 Index	■ B	(4.6)	(1.6)	6.8	16.2	8.1	7.1

Returns for Calendar Years
Group: CAI Small Capitalization Style



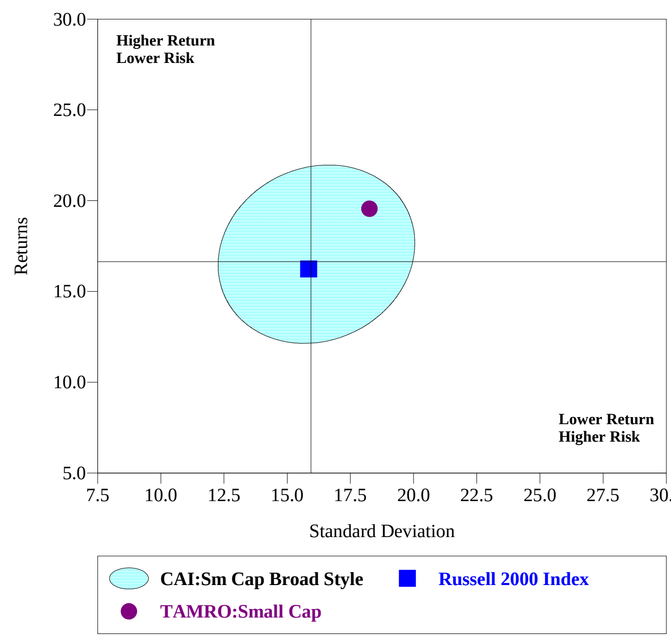
		2007	2006	2005	2004	2003
10th Percentile		19.4	21.8	14.8	25.4	54.0
25th Percentile		9.1	18.6	11.0	22.7	49.5
Median		1.4	14.6	7.6	18.5	43.8
75th Percentile		(5.4)	11.6	5.6	13.8	39.6
90th Percentile		(11.3)	7.1	2.8	8.8	34.6
TAMRO:Small Cap	● A	**1.1**	**29.5**	**3.5**	**13.6**	**58.6**
Russell 2000 Index	■ B	(1.6)	18.4	4.6	18.3	47.3

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Small Capitalization Style



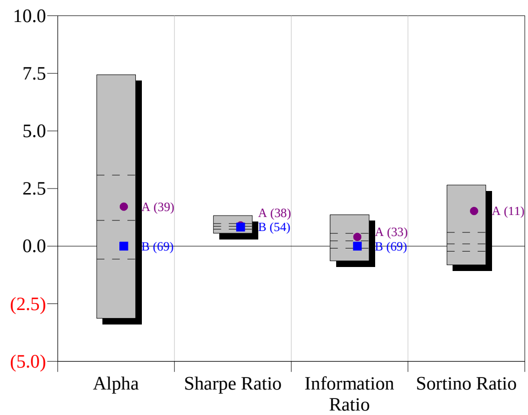
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		15.2	18.3	27.4	19.9	17.8
25th Percentile		10.9	16.4	25.8	16.3	15.5
Median		7.8	14.2	23.1	12.5	7.7
75th Percentile		5.2	10.6	20.0	7.6	1.1
90th Percentile		3.3	7.9	16.5	2.3	(5.7)
TAMRO:Small Cap	● A	**10.7**	**15.1**	**23.1**	**17.8**	**20.1**
Russell 2000 Index	■ B	6.8	13.6	22.1	11.5	6.3

Scatter Chart
for 5 Years Ended December 31, 2007



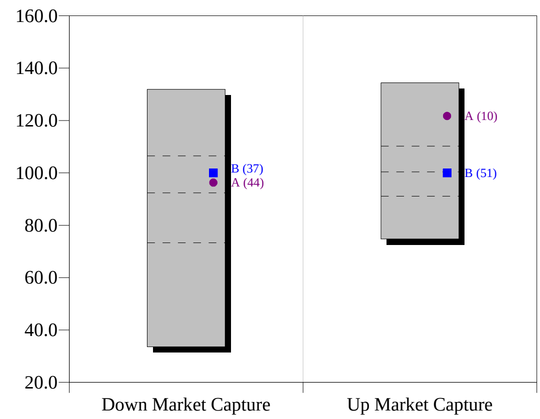
TAMRO Small Cap Equity (Composite)

Statistics relative to Russell 2000 Index
for 5 Years Ended December 31, 2007
Group: CAI Small Capitalization Style



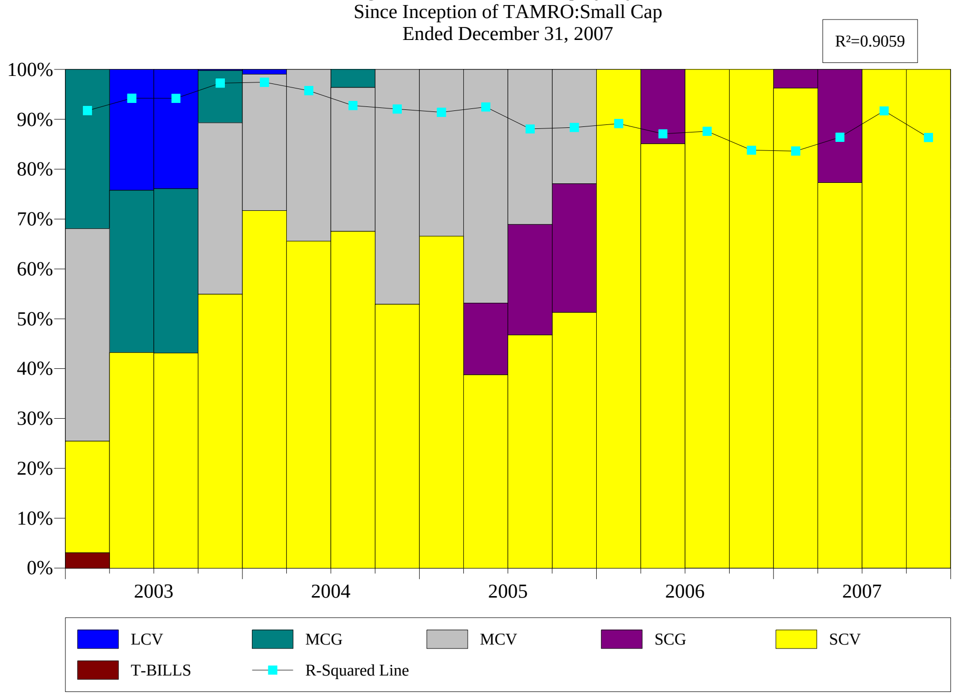
		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		5.2	1.2	1.0	1.6
25th Percentile		3.1	1.0	0.6	0.6
Median		1.1	0.9	0.2	0.1
75th Percentile		(0.6)	0.7	(0.1)	(0.2)
90th Percentile		(2.0)	0.6	(0.4)	(0.6)
TAMRO:Small Cap	● A	**1.7**	**0.9**	**0.4**	**1.5**
Russell 2000 Index	■ B	0.0	0.8	0.0	--

Statistics relative to Russell 2000 Index
for 5 Years Ended December 31, 2007
Group: CAI Small Capitalization Style



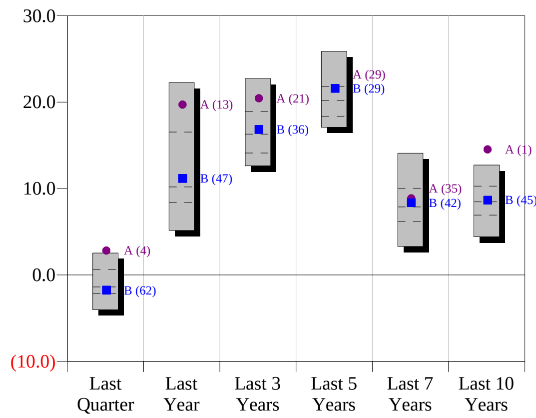
		Down Market Capture	Up Market Capture
10th Percentile		126.5	122.1
25th Percentile		106.5	110.2
Median		92.4	100.4
75th Percentile		73.3	91.1
90th Percentile		47.3	83.9
TAMRO:Small Cap	● A	**96.3**	**121.8**
Russell 2000 Index	■ B	100.0	100.0

Rolling 12 Quarter Domestic Equity Style Chart
Since Inception of TAMRO:Small Cap
Ended December 31, 2007



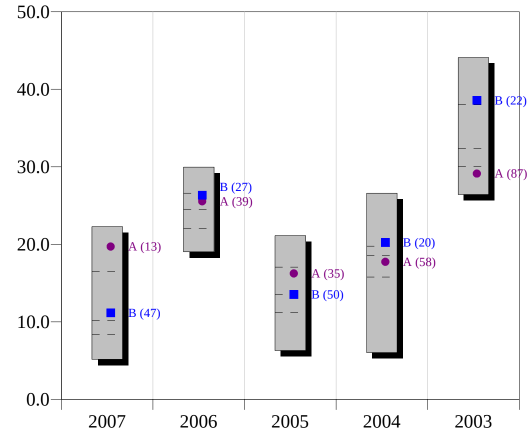
Artisan International Fund

Returns
for Periods Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



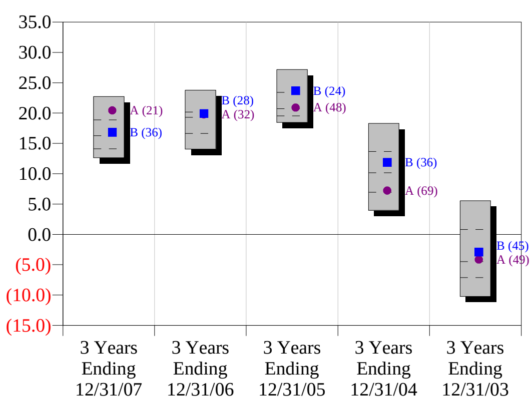
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		1.8	21.9	21.7	24.5	11.8	12.2
25th Percentile		0.6	16.5	18.9	21.8	10.1	10.3
Median		(1.4)	10.2	16.3	20.2	7.9	8.5
75th Percentile		(2.2)	8.4	14.1	18.4	6.2	6.9
90th Percentile		(3.8)	5.7	13.2	17.4	4.2	5.6
Artisan:Internatl;Inv	● A	**2.8**	**19.7**	**20.5**	**21.6**	**8.9**	**14.5**
MSCI:EAFE US$	■ B	(1.8)	11.2	16.8	21.6	8.4	8.7

Returns for Calendar Years
Group: CAI MF - Intl Core Equity Style



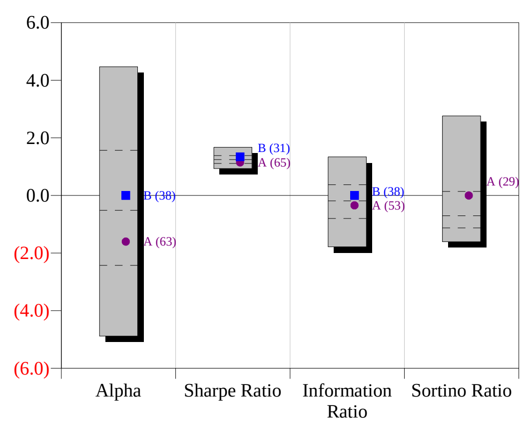
		2007	2006	2005	2004	2003
10th Percentile		21.9	28.7	20.7	24.3	43.4
25th Percentile		16.5	26.6	17.1	19.8	38.0
Median		10.2	24.5	13.5	18.5	32.3
75th Percentile		8.4	22.0	11.2	15.8	30.0
90th Percentile		5.7	20.2	9.1	12.4	28.3
Artisan:Internatl;Inv	● A	**19.7**	**25.6**	**16.3**	**17.8**	**29.1**
MSCI:EAFE US$	■ B	11.2	26.3	13.5	20.2	38.6

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		21.7	22.4	26.3	15.6	3.3
25th Percentile		18.9	20.2	23.4	13.7	0.8
Median		16.3	19.3	20.7	10.2	(4.5)
75th Percentile		14.1	16.6	19.6	7.0	(7.1)
90th Percentile		13.2	15.3	18.9	5.5	(9.2)
Artisan:Internatl;Inv	● A	**20.5**	**19.8**	**20.9**	**7.2**	**(4.1)**
MSCI:EAFE US$	■ B	16.8	19.9	23.7	11.9	(2.9)

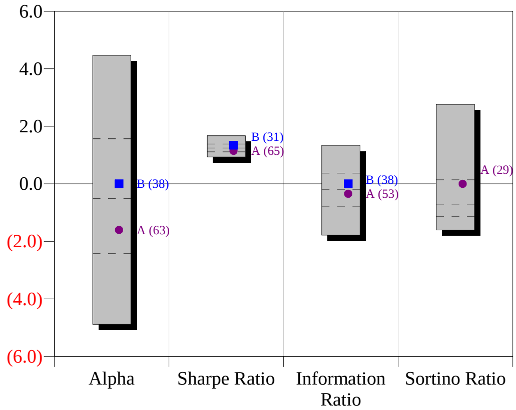
Statistics relative to MSCI:EAFE US$
for 5 Years Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		3.3	1.5	0.8	1.4
25th Percentile		1.6	1.4	0.4	0.1
Median		(0.5)	1.3	(0.2)	(0.7)
75th Percentile		(2.4)	1.1	(0.8)	(1.1)
90th Percentile		(4.2)	1.0	(1.5)	(1.4)
Artisan:Internatl;Inv	● A	**(1.6)**	**1.2**	**(0.3)**	**0.0**
MSCI:EAFE US$	■ B	0.0	1.3	0.0	--

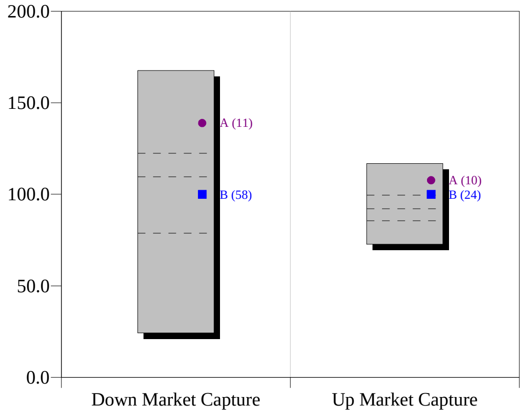
Artisan International Fund

Statistics relative to MSCI:EAFE US$
for 5 Years Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



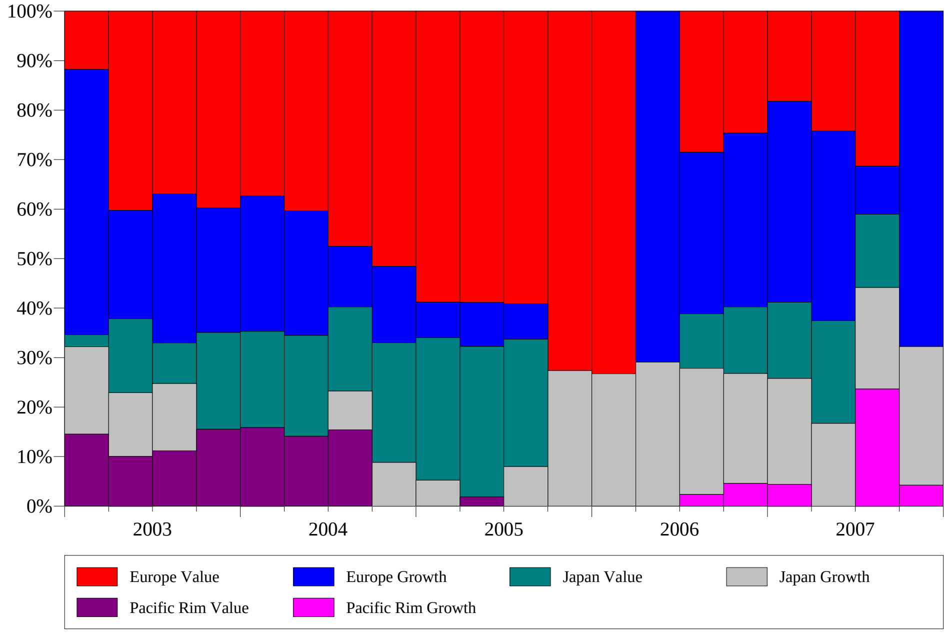
		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		3.3	1.5	0.8	1.4
25th Percentile		1.6	1.4	0.4	0.1
Median		(0.5)	1.3	(0.2)	(0.7)
75th Percentile		(2.4)	1.1	(0.8)	(1.1)
90th Percentile		(4.2)	1.0	(1.5)	(1.4)
Artisan:Internatl;Inv	● A	**(1.6)**	**1.2**	**(0.3)**	**0.0**
MSCI:EAFE US$	■ B	0.0	1.3	0.0	--

Statistics relative to MSCI:EAFE US$
for 5 Years Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



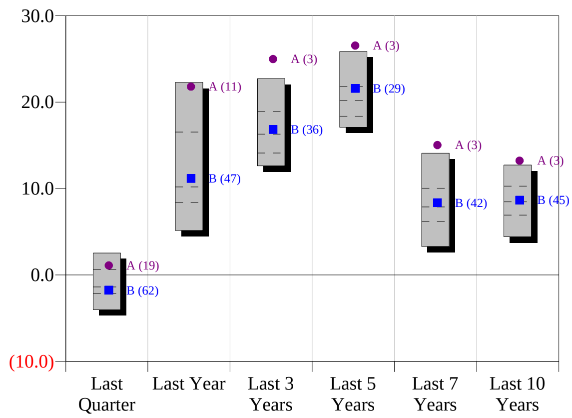
		Down Market Capture	Up Market Capture
10th Percentile		141.5	107.5
25th Percentile		122.4	99.6
Median		109.6	92.2
75th Percentile		78.7	85.6
90th Percentile		55.7	80.6
Artisan:Internatl;Inv	● A	**139.0**	**107.8**
MSCI:EAFE US$	■ B	100.0	100.0

Rolling 12 Quarter International Equity Style Chart
for 5 Years Ended December 31, 2007
Portfolio: Artisan:Internatl;Inv



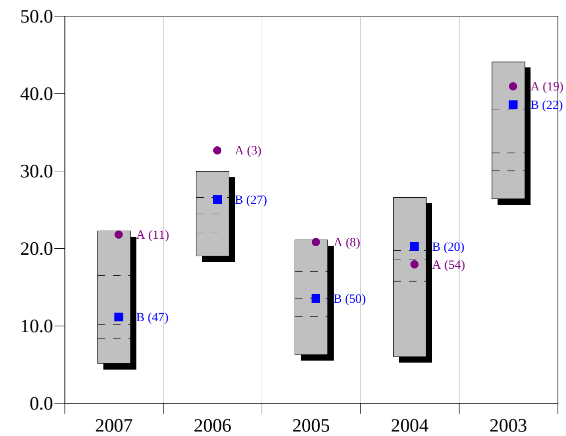
Harbor International Fund

Returns
for Periods Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



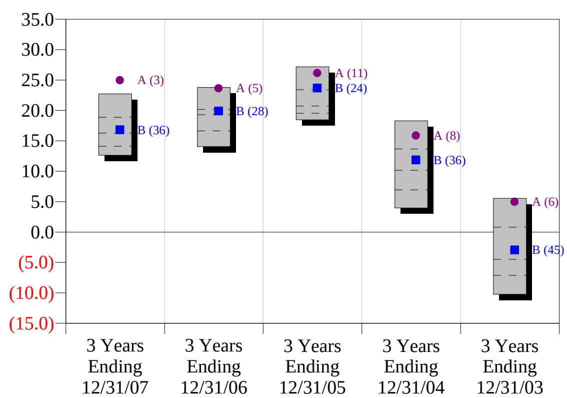
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	1.8	21.9	21.7	24.5	11.8	12.2
25th Percentile	0.6	16.5	18.9	21.8	10.1	10.3
Median	(1.4)	10.2	16.3	20.2	7.9	8.5
75th Percentile	(2.2)	8.4	14.1	18.4	6.2	6.9
90th Percentile	(3.8)	5.7	13.2	17.4	4.2	5.6
Harbor:Intl;Inst ● A	**1.1**	**21.8**	**25.0**	**26.6**	**15.0**	**13.2**
MSCI:EAFE US$ ■ B	(1.8)	11.2	16.8	21.6	8.4	8.7

Returns for Calendar Years
Group: CAI MF - Intl Core Equity Style



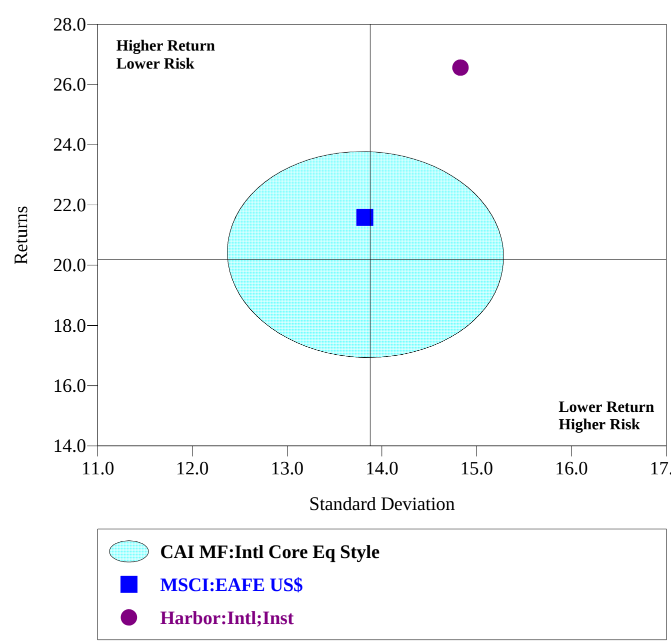
	2007	2006	2005	2004	2003
10th Percentile	21.9	28.7	20.7	24.3	43.4
25th Percentile	16.5	26.6	17.1	19.8	38.0
Median	10.2	24.5	13.5	18.5	32.3
75th Percentile	8.4	22.0	11.2	15.8	30.0
90th Percentile	5.7	20.2	9.1	12.4	28.3
Harbor:Intl;Inst ● A	**21.8**	**32.7**	**20.8**	**18.0**	**41.0**
MSCI:EAFE US$ ■ B	11.2	26.3	13.5	20.2	38.6

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



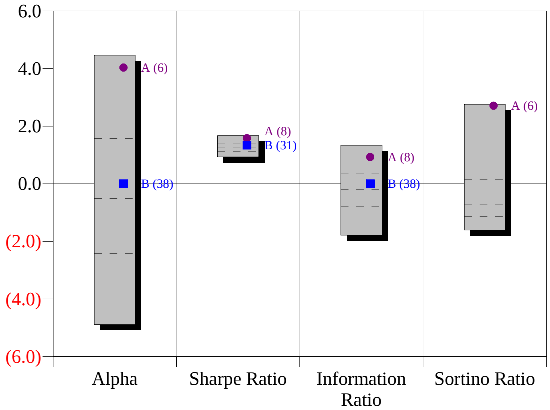
	3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile	21.7	22.4	26.3	15.6	3.3
25th Percentile	18.9	20.2	23.4	13.7	0.8
Median	16.3	19.3	20.7	10.2	(4.5)
75th Percentile	14.1	16.6	19.6	7.0	(7.1)
90th Percentile	13.2	15.3	18.9	5.5	(9.2)
Harbor:Intl;Inst ● A	**25.0**	**23.7**	**26.2**	**15.9**	**5.0**
MSCI:EAFE US$ ■ B	16.8	19.9	23.7	11.9	(2.9)

Scatter Chart
for 5 Years Ended December 31, 2007



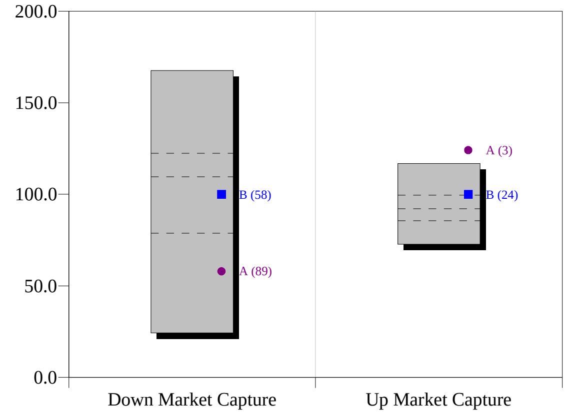
Harbor International Fund

Statistics relative to MSCI:EAFE US$
for 5 Years Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



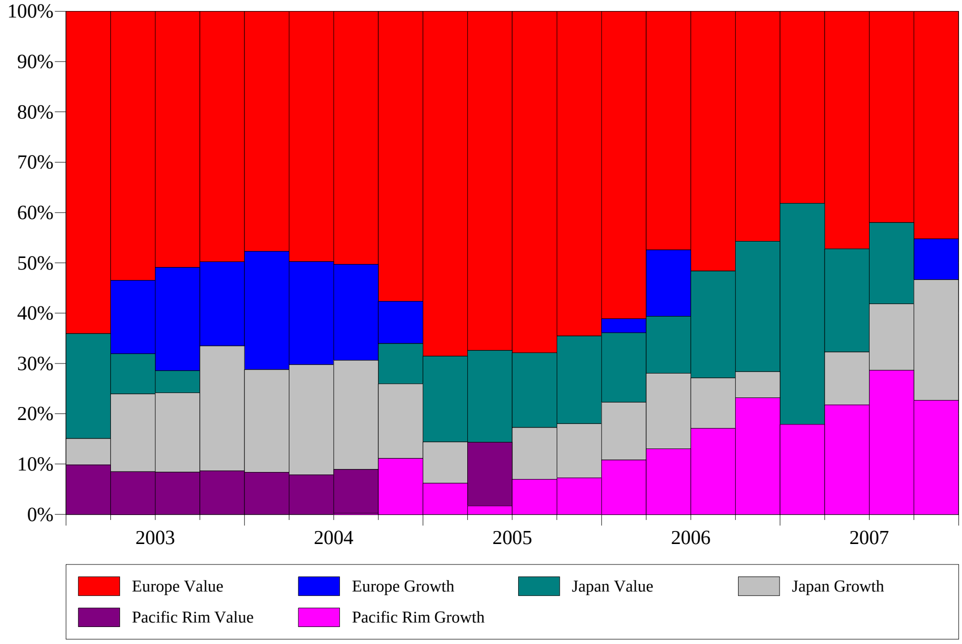
		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		3.3	1.5	0.8	1.4
25th Percentile		1.6	1.4	0.4	0.1
Median		(0.5)	1.3	(0.2)	(0.7)
75th Percentile		(2.4)	1.1	(0.8)	(1.1)
90th Percentile		(4.2)	1.0	(1.5)	(1.4)
Harbor:Intl;Inst	● A	**4.0**	**1.6**	**0.9**	**2.7**
MSCI:EAFE US$	■ B	0.0	1.3	0.0	--

Statistics relative to MSCI:EAFE US$
for 5 Years Ended December 31, 2007
Group: CAI MF - Intl Core Equity Style



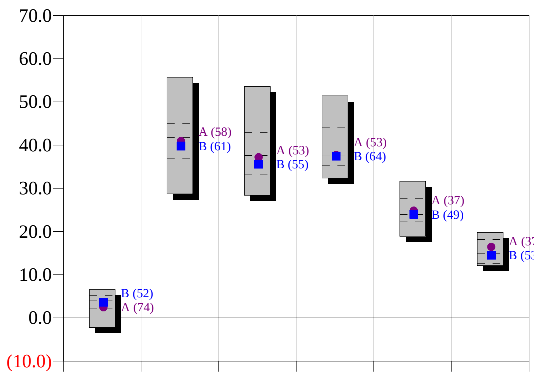
		Down Market Capture	Up Market Capture
10th Percentile		141.5	107.5
25th Percentile		122.4	99.6
Median		109.6	92.2
75th Percentile		78.7	85.6
90th Percentile		55.7	80.6
Harbor:Intl;Inst	● A	**58.0**	**124.2**
MSCI:EAFE US$	■ B	100.0	100.0

Rolling 12 Quarter International Equity Style Chart
for 5 Years Ended December 31, 2007
Portfolio: Harbor:Intl;Inst



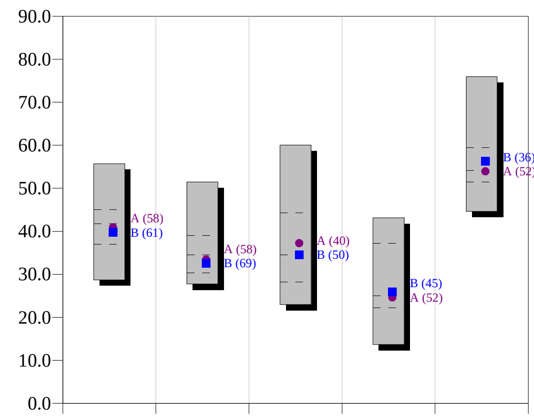
SSgA Emerging Markets Equity

Returns
for Periods Ended December 31, 2007
Group: CAI MF - Emerging Markets Style



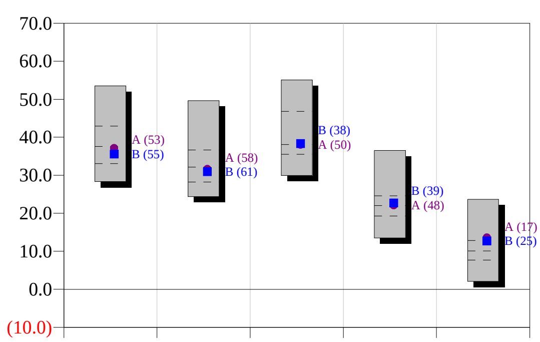
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	6.1	49.6	49.4	51.1	30.6	19.4
25th Percentile	5.2	45.1	42.9	44.0	27.6	18.2
Median	4.1	41.8	37.6	37.7	23.9	15.0
75th Percentile	2.3	37.0	33.1	35.4	22.2	12.6
90th Percentile	1.1	30.0	29.0	33.1	21.2	12.3
SSgA:Emerg Mkts;I ● A	**2.5**	**41.0**	**37.2**	**37.7**	**24.9**	**16.5**
MSCI:Emer Markets ■ B	3.7	39.8	35.6	37.5	24.0	14.5

Returns for Calendar Years
Group: CAI MF - Emerging Markets Style



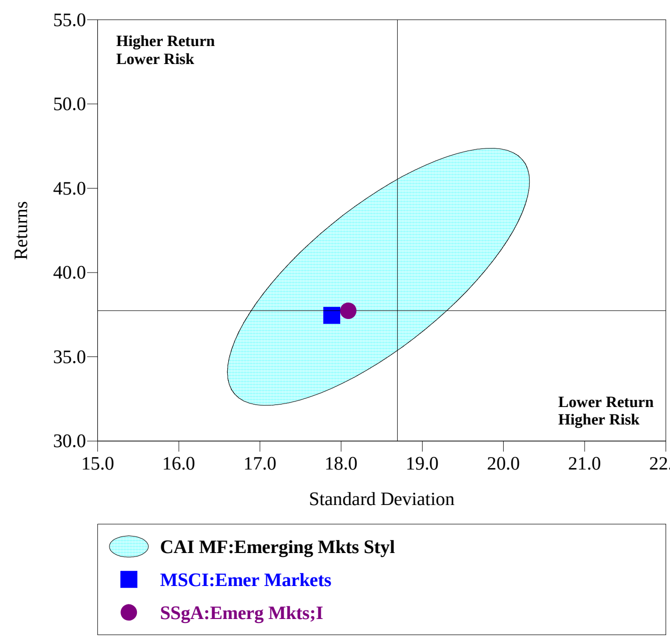
	2007	2006	2005	2004	2003
10th Percentile	49.6	47.3	55.2	40.9	70.0
25th Percentile	45.1	39.1	44.3	37.2	59.4
Median	41.8	34.6	34.5	25.1	54.2
75th Percentile	37.0	30.3	28.2	22.2	51.5
90th Percentile	30.0	28.2	24.3	15.5	46.2
SSgA:Emerg Mkts;I ● A	**41.0**	**33.5**	**37.3**	**24.7**	**54.0**
MSCI:Emer Markets ■ B	39.8	32.6	34.5	26.0	56.3

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI MF - Emerging Markets Style



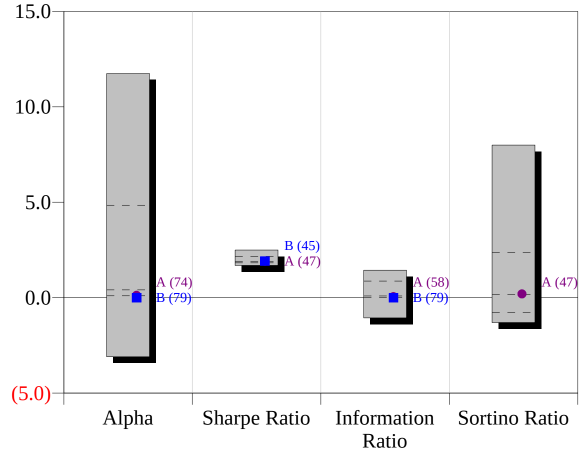
	3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile	49.4	48.4	53.7	32.2	18.9
25th Percentile	42.9	36.7	46.8	24.6	12.9
Median	37.6	32.1	38.1	22.1	10.1
75th Percentile	33.1	28.2	35.6	19.3	7.7
90th Percentile	29.0	27.0	32.2	15.5	3.7
SSgA:Emerg Mkts;I ● A	**37.2**	**31.7**	**38.1**	**22.2**	**13.7**
MSCI:Emer Markets ■ B	35.6	31.0	38.4	22.8	12.8

Scatter Chart
for 5 Years Ended December 31, 2007



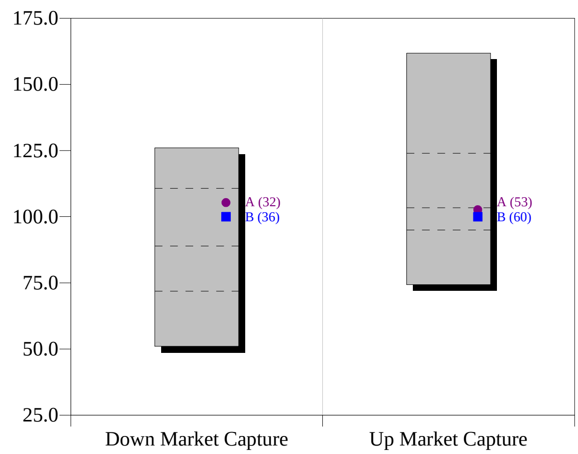
SSgA Emerging Markets Equity

Statistics relative to MSCI:Emer Markets
for 5 Years Ended December 31, 2007
Group: CAI MF - Emerging Markets Style



		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		9.2	2.4	1.2	6.1
25th Percentile		4.8	2.2	0.9	2.4
Median		0.4	1.9	0.1	0.2
75th Percentile		0.1	1.8	0.0	(0.8)
90th Percentile		(1.8)	1.7	(0.9)	(1.2)
SSgA:Emerg Mkts;I	● A	**0.1**	**1.9**	**0.1**	**0.2**
MSCI:Emer Markets	■ B	0.0	1.9	0.0	--

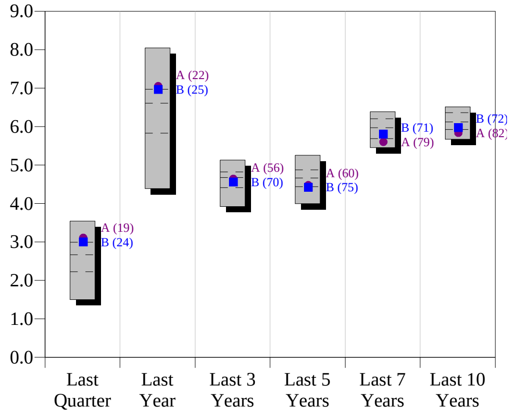
Statistics relative to MSCI:Emer Markets
for 5 Years Ended December 31, 2007
Group: CAI MF - Emerging Markets Style



		Down Market Capture	Up Market Capture
10th Percentile		125.6	154.3
25th Percentile		110.7	124.0
Median		88.9	103.4
75th Percentile		71.9	95.0
90th Percentile		66.4	76.2
SSgA:Emerg Mkts;I	● A	**105.4**	**102.7**
MSCI:Emer Markets	■ B	100.0	100.0

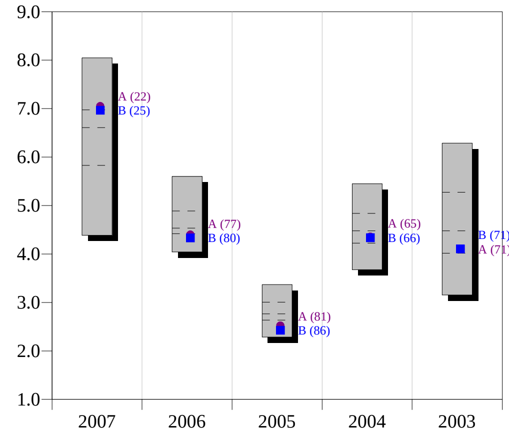
Vanguard Total Bond Index

Returns
for Periods Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



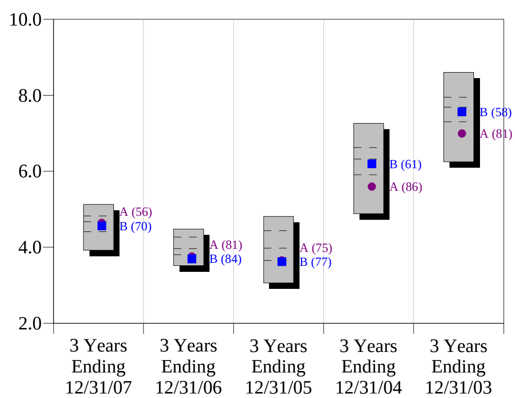
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		3.4	7.5	5.0	5.1	6.4	6.5
25th Percentile		3.0	7.0	4.8	4.9	6.2	6.4
Median		2.7	6.6	4.7	4.7	6.0	6.1
75th Percentile		2.2	5.8	4.4	4.4	5.7	5.9
90th Percentile		1.6	5.1	4.2	4.1	5.5	5.7
Vanguard Tot Bd;Inst	● A	**3.1**	**7.1**	**4.6**	**4.5**	**5.6**	**5.8**
LB:Aggr Bond	■ B	3.0	7.0	4.6	4.4	5.8	6.0

Returns for Calendar Years
Group: CAI Core Bond Fixed-Inc Style



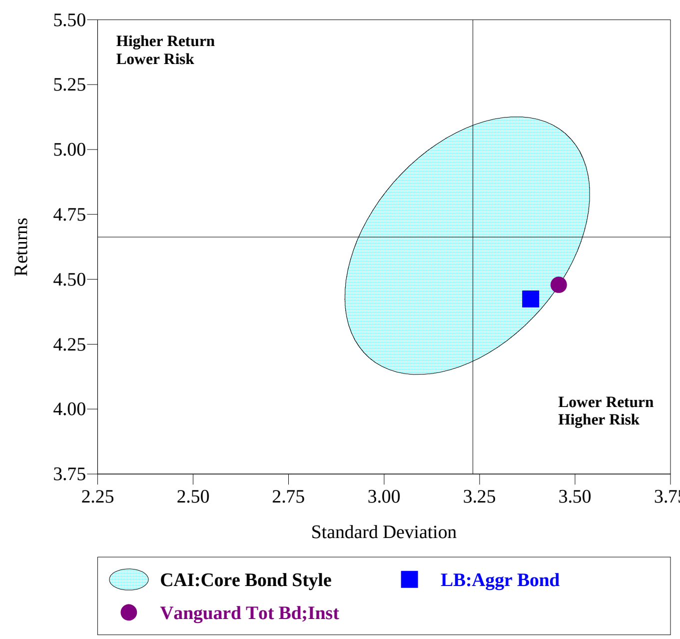
		2007	2006	2005	2004	2003
10th Percentile		7.5	5.4	3.1	5.3	6.1
25th Percentile		7.0	4.9	3.0	4.8	5.3
Median		6.6	4.5	2.8	4.5	4.5
75th Percentile		5.8	4.4	2.6	4.2	4.0
90th Percentile		5.1	4.2	2.4	3.9	3.6
Vanguard Tot Bd;Inst	● A	**7.1**	**4.4**	**2.5**	**4.4**	**4.1**
LB:Aggr Bond	■ B	7.0	4.3	2.4	4.3	4.1

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



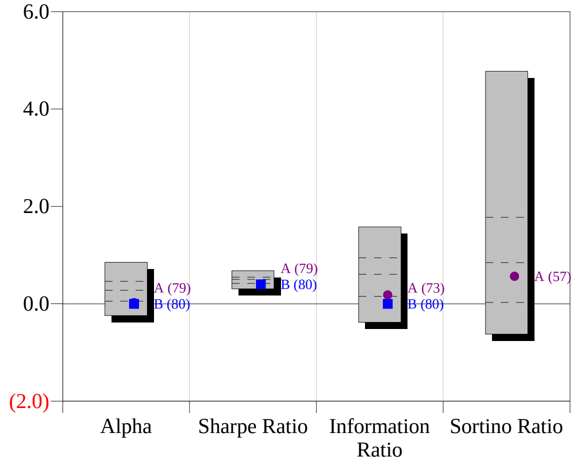
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		5.0	4.4	4.7	7.0	8.3
25th Percentile		4.8	4.3	4.4	6.6	7.9
Median		4.7	4.0	4.0	6.3	7.7
75th Percentile		4.4	3.8	3.7	5.9	7.3
90th Percentile		4.2	3.6	3.3	5.3	6.7
Vanguard Tot Bd;Inst	● A	**4.6**	**3.8**	**3.7**	**5.6**	**7.0**
LB:Aggr Bond	■ B	4.6	3.7	3.6	6.2	7.6

Scatter Chart
for 5 Years Ended December 31, 2007



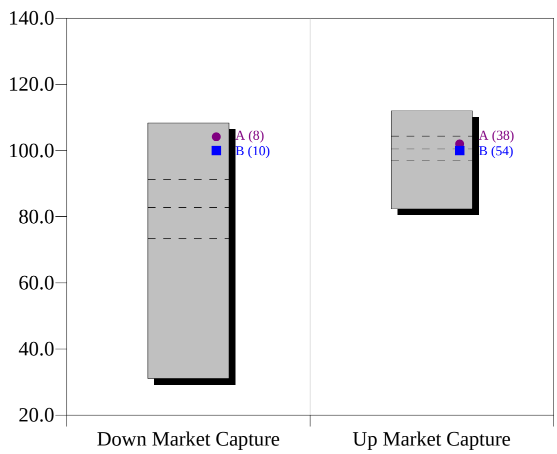
Vanguard Total Bond Index

Statistics relative to LB:Aggr Bond
for 5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		0.67	0.61	1.47	3.40
25th Percentile		0.46	0.55	0.95	1.78
Median		0.28	0.50	0.61	0.85
75th Percentile		0.06	0.42	0.15	0.03
90th Percentile		(0.20)	0.33	(0.31)	(0.48)
Vanguard Tot Bd;Inst	● A	**0.03**	**0.41**	**0.19**	**0.57**
LB:Aggr Bond	■ B	0.00	0.40	0.00	--

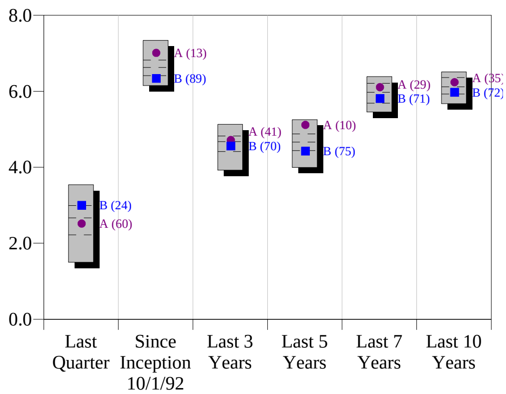
Statistics relative to LB:Aggr Bond
for 5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



		Down Market Capture	Up Market Capture
10th Percentile		99.4	109.7
25th Percentile		91.2	104.4
Median		82.8	100.5
75th Percentile		73.4	96.9
90th Percentile		60.1	89.2
Vanguard Tot Bd;Inst	● A	**104.2**	**102.0**
LB:Aggr Bond	■ B	100.0	100.0

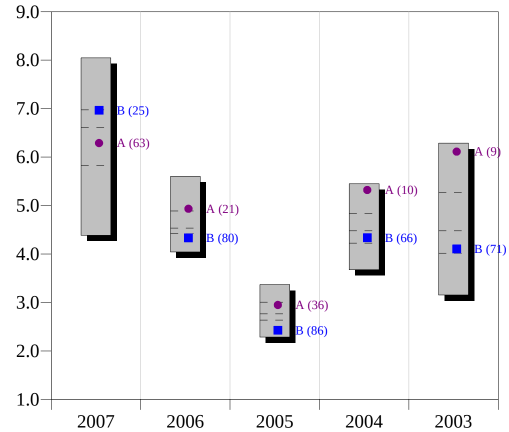
Atlantic Asset Management

Returns
for Various Periods
Current Quarter Ending December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



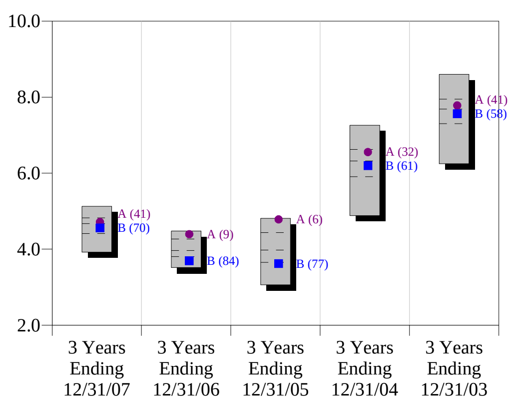
		Last Quarter	Since Inception 10/1/92	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		3.4	7.1	5.0	5.1	6.4	6.5
25th Percentile		3.0	6.8	4.8	4.9	6.2	6.4
Median		2.7	6.6	4.7	4.7	6.0	6.1
75th Percentile		2.2	6.4	4.4	4.4	5.7	5.9
90th Percentile		1.6	6.3	4.2	4.1	5.5	5.7
AtlAM:Core Fixed Inc	● A	**2.5**	**7.0**	**4.7**	**5.1**	**6.1**	**6.2**
LB:Aggr Bond	■ B	3.0	6.3	4.6	4.4	5.8	6.0

Returns for Calendar Years
Group: CAI Core Bond Fixed-Inc Style



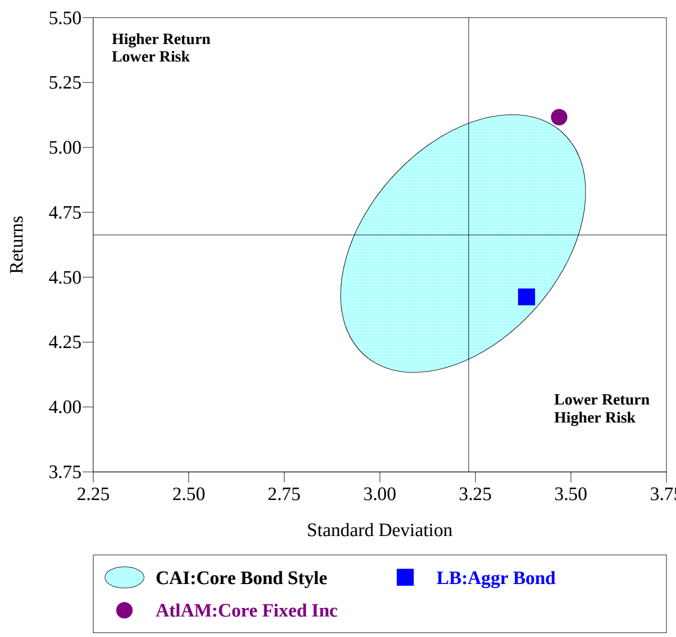
		2007	2006	2005	2004	2003
10th Percentile		7.5	5.4	3.1	5.3	6.1
25th Percentile		7.0	4.9	3.0	4.8	5.3
Median		6.6	4.5	2.8	4.5	4.5
75th Percentile		5.8	4.4	2.6	4.2	4.0
90th Percentile		5.1	4.2	2.4	3.9	3.6
AtlAM:Core Fixed Inc	● A	**6.3**	**4.9**	**3.0**	**5.3**	**6.1**
LB:Aggr Bond	■ B	7.0	4.3	2.4	4.3	4.1

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



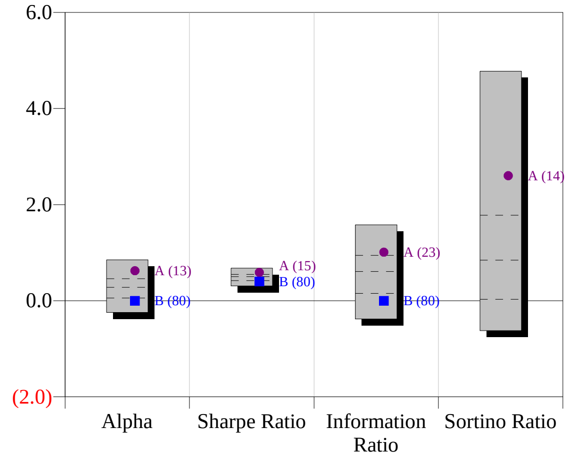
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		5.0	4.4	4.7	7.0	8.3
25th Percentile		4.8	4.3	4.4	6.6	7.9
Median		4.7	4.0	4.0	6.3	7.7
75th Percentile		4.4	3.8	3.7	5.9	7.3
90th Percentile		4.2	3.6	3.3	5.3	6.7
AtlAM:Core Fixed Inc	● A	**4.7**	**4.4**	**4.8**	**6.6**	**7.8**
LB:Aggr Bond	■ B	4.6	3.7	3.6	6.2	7.6

Scatter Chart
for 5 Years Ended December 31, 2007



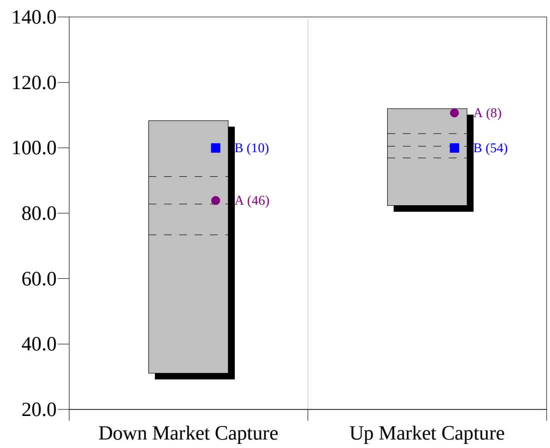
Atlantic Asset Management

Statistics relative to LB:Aggr Bond
for 5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		0.7	0.6	1.5	3.4
25th Percentile		0.5	0.5	0.9	1.8
Median		0.3	0.5	0.6	0.8
75th Percentile		0.1	0.4	0.2	0.0
90th Percentile		(0.2)	0.3	(0.3)	(0.5)
AtlAM:Core Fixed Inc	● A	**0.6**	**0.6**	**1.0**	**2.6**
LB:Aggr Bond	■ B	0.0	0.4	0.0	--

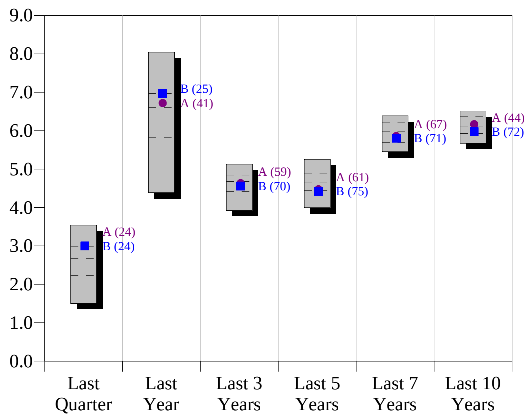
Statistics relative to LB:Aggr Bond
for 5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



		Down Market Capture	Up Market Capture
10th Percentile		99.4	109.7
25th Percentile		91.2	104.4
Median		82.8	100.5
75th Percentile		73.4	96.9
90th Percentile		60.1	89.2
AtlAM:Core Fixed Inc	● A	**83.9**	**110.7**
LB:Aggr Bond	■ B	100.0	100.0

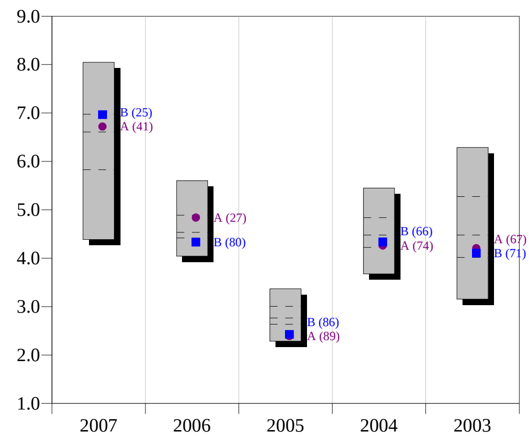
Richmond Capital Management

Returns
for Periods Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



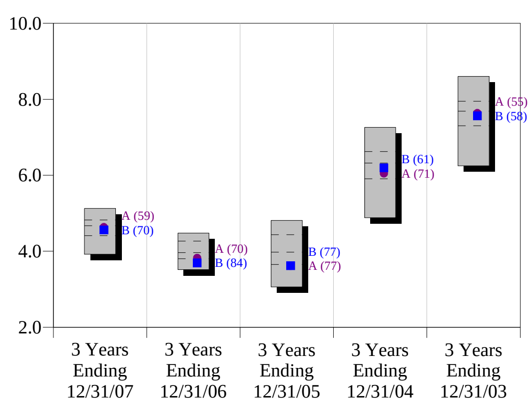
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		3.4	7.5	5.0	5.1	6.4	6.5
25th Percentile		3.0	7.0	4.8	4.9	6.2	6.4
Median		2.7	6.6	4.7	4.7	6.0	6.1
75th Percentile		2.2	5.8	4.4	4.4	5.7	5.9
90th Percentile		1.6	5.1	4.2	4.1	5.5	5.7
RichCp:Core Broad	● A	**3.0**	**6.7**	**4.6**	**4.5**	**5.9**	**6.2**
LB:Aggr Bond	■ B	3.0	7.0	4.6	4.4	5.8	6.0

Returns for Calendar Years
Group: CAI Core Bond Fixed-Inc Style



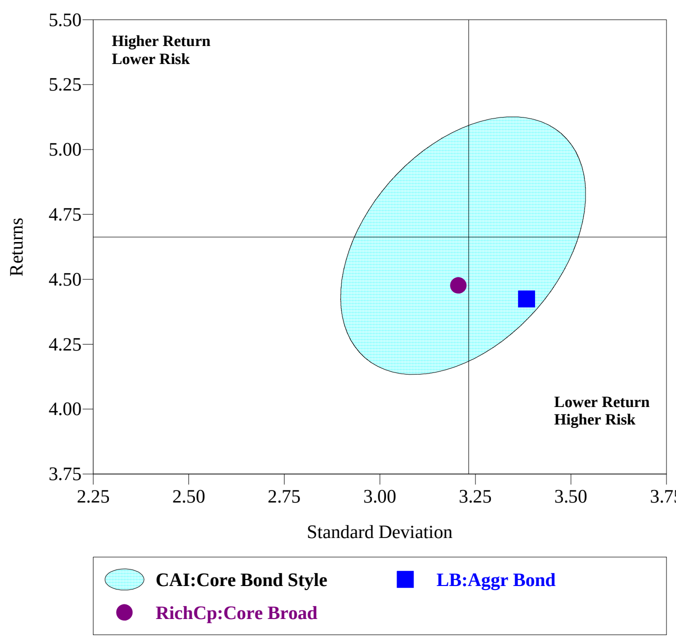
		2007	2006	2005	2004	2003
10th Percentile		7.5	5.4	3.1	5.3	6.1
25th Percentile		7.0	4.9	3.0	4.8	5.3
Median		6.6	4.5	2.8	4.5	4.5
75th Percentile		5.8	4.4	2.6	4.2	4.0
90th Percentile		5.1	4.2	2.4	3.9	3.6
RichCp:Core Broad	● A	**6.7**	**4.8**	**2.4**	**4.3**	**4.2**
LB:Aggr Bond	■ B	7.0	4.3	2.4	4.3	4.1

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



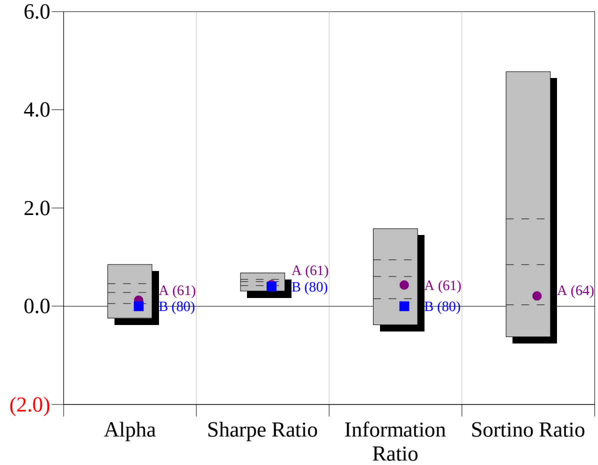
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		5.0	4.4	4.7	7.0	8.3
25th Percentile		4.8	4.3	4.4	6.6	7.9
Median		4.7	4.0	4.0	6.3	7.7
75th Percentile		4.4	3.8	3.7	5.9	7.3
90th Percentile		4.2	3.6	3.3	5.3	6.7
RichCp:Core Broad	● A	**4.6**	**3.8**	**3.6**	**6.1**	**7.6**
LB:Aggr Bond	■ B	4.6	3.7	3.6	6.2	7.6

Scatter Chart
for 5 Years Ended December 31, 2007



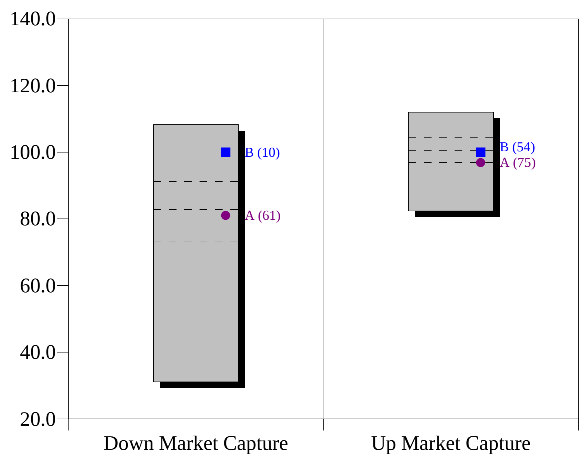
Richmond Capital Management

Statistics relative to LB:Aggr Bond
for 5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		0.7	0.6	1.5	3.4
25th Percentile		0.5	0.5	0.9	1.8
Median		0.3	0.5	0.6	0.8
75th Percentile		0.1	0.4	0.2	0.0
90th Percentile		(0.2)	0.3	(0.3)	(0.5)
RichCp:Core Broad	● A	**0.1**	**0.4**	**0.4**	**0.2**
LB:Aggr Bond	■ B	0.0	0.4	0.0	--

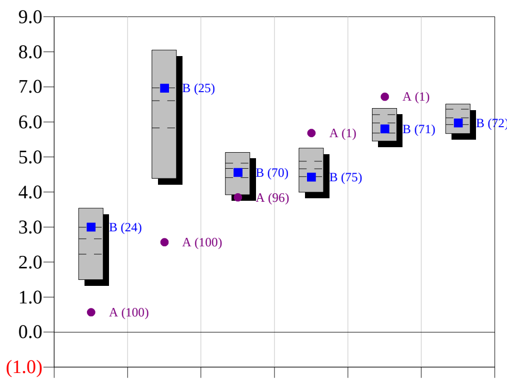
Statistics relative to LB:Aggr Bond
for 5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



		Down Market Capture	Up Market Capture
10th Percentile		99.4	109.7
25th Percentile		91.2	104.4
Median		82.8	100.5
75th Percentile		73.4	96.9
90th Percentile		60.1	89.2
RichCp:Core Broad	● A	**81.1**	**96.9**
LB:Aggr Bond	■ B	100.0	100.0

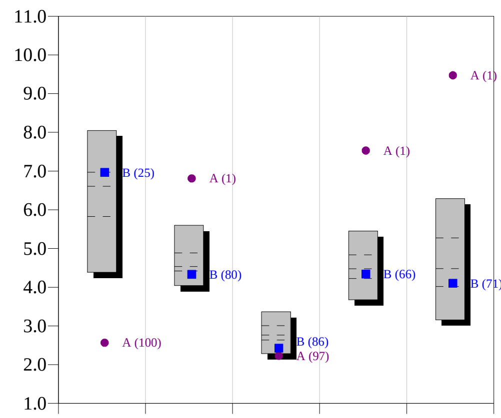
Western Asset Core Plus Bond Fund

Returns
for Periods Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



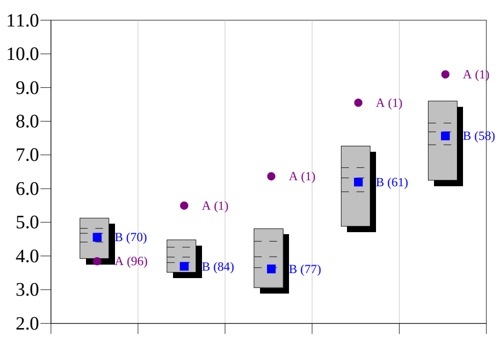
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile		3.4	7.5	5.0	5.1	6.4	6.5
25th Percentile		3.0	7.0	4.8	4.9	6.2	6.4
Median		2.7	6.6	4.7	4.7	6.0	6.1
75th Percentile		2.2	5.8	4.4	4.4	5.7	5.9
90th Percentile		1.6	5.1	4.2	4.1	5.5	5.7
Western Asset Core Pl;I	● A	**0.6**	**2.6**	**3.8**	**5.7**	**6.7**	--
LB:Aggr Bond	■ B	3.0	7.0	4.6	4.4	5.8	6.0

Returns for Calendar Years
Group: CAI Core Bond Fixed-Inc Style



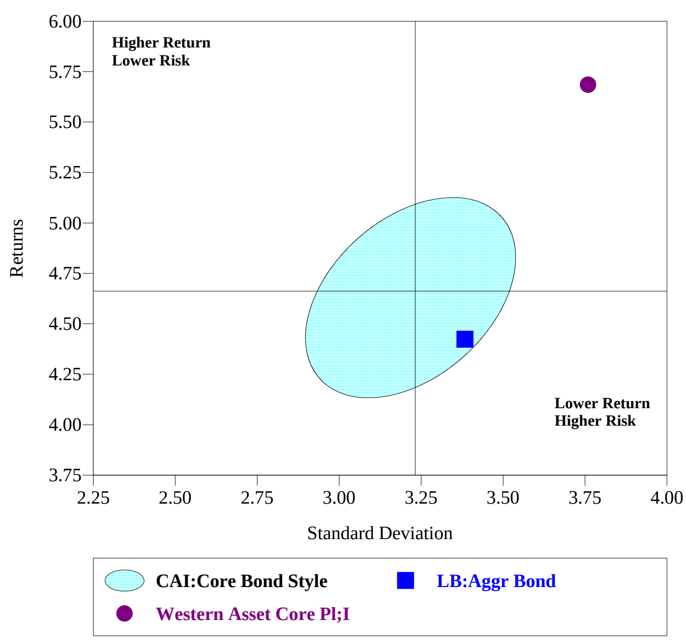
		2007	2006	2005	2004	2003
10th Percentile		7.5	5.4	3.1	5.3	6.1
25th Percentile		7.0	4.9	3.0	4.8	5.3
Median		6.6	4.5	2.8	4.5	4.5
75th Percentile		5.8	4.4	2.6	4.2	4.0
90th Percentile		5.1	4.2	2.4	3.9	3.6
Western Asset Core Pl;I	● A	**2.6**	**6.8**	**2.2**	**7.5**	**9.5**
LB:Aggr Bond	■ B	7.0	4.3	2.4	4.3	4.1

Returns
for 12 Quarter Rolling Periods
5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



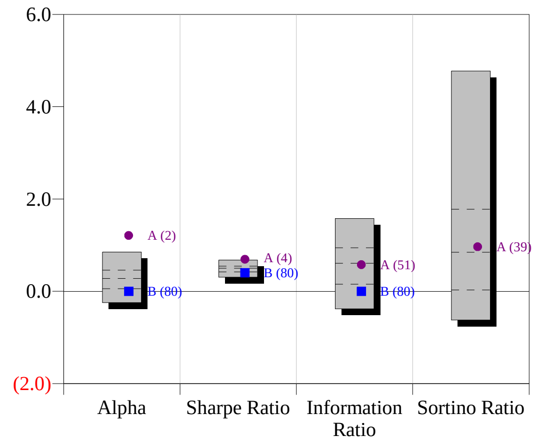
		3 Years Ending 12/31/07	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03
10th Percentile		5.0	4.4	4.7	7.0	8.3
25th Percentile		4.8	4.3	4.4	6.6	7.9
Median		4.7	4.0	4.0	6.3	7.7
75th Percentile		4.4	3.8	3.7	5.9	7.3
90th Percentile		4.2	3.6	3.3	5.3	6.7
Western Asset Core Pl;I	● A	**3.8**	**5.5**	**6.4**	**8.6**	**9.4**
LB:Aggr Bond	■ B	4.6	3.7	3.6	6.2	7.6

Scatter Chart
for 5 Years Ended December 31, 2007



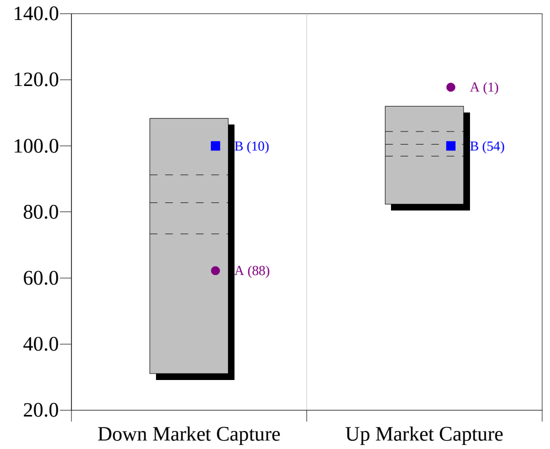
Western Asset Core Plus Bond Fund

Statistics relative to LB:Aggr Bond
for 5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



		Alpha	Sharpe Ratio	Information Ratio	Sortino Ratio
10th Percentile		0.7	0.6	1.5	3.4
25th Percentile		0.5	0.5	0.9	1.8
Median		0.3	0.5	0.6	0.8
75th Percentile		0.1	0.4	0.2	0.0
90th Percentile		(0.2)	0.3	(0.3)	(0.5)
Western Asset Core Pl;I	A	**1.2**	**0.7**	**0.6**	**1.0**
LB:Aggr Bond	B	0.0	0.4	0.0	--

Statistics relative to LB:Aggr Bond
for 5 Years Ended December 31, 2007
Group: CAI Core Bond Fixed-Inc Style



		Down Market Capture	Up Market Capture
10th Percentile		99.4	109.7
25th Percentile		91.2	104.4
Median		82.8	100.5
75th Percentile		73.4	96.9
90th Percentile		60.1	89.2
Western Asset Core Pl;I	A	**62.3**	**117.8**
LB:Aggr Bond	B	100.0	100.0

Capital Market Review

CapGroup

Capital Advisory Group
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Capital Market Review

Fourth Quarter 2007

Reversal of Fortune

Fourth-quarter GDP increased by just 0.6%, well below the 4.9% growth rate notched in the third quarter. Residential investment plunged steeply while consumer and business equipment spending both slowed. The weakness in housing continues. The prospects for a recession are increasing and the fate of the economy may rest in the hands of the consumer.

see page 11

There's No Place Like Home

Hit with rising fuel costs, tighter credit standards and flat-to-declining home values, consumers are beginning to pull in the reins on spending. Although Consumer Staples rose a modest 3.4% during the quarter, Consumer Discretionary (-10.4%) fell on weak demand. Subprime worries resulted in a broad-based decline in Financials (-13.0%). Overall, the **Russell 3000** fell 3.3%.

see page 2

Flight to Quality Continues

Spurred by fears of recession, subprime contagion and large write-downs by banks, spread sectors had one of the worst months on record in November. Due to these headwinds, investors retreated to the safety of U.S. Treasurys, marked by a 94 basis point drop in the two-year Treasury note, which closed the year at 3.05%. The U.S. investment grade bond market, as measured by the **Lehman Aggregate**, advanced 3.00% for the quarter and 6.97% for the year.

see page 4

Limbo

The real estate markets were in a state of flux during the fourth quarter of 2007. The private domestic real estate market, as measured by the **NCREIF Property Index** (+3.21%) and the **NCREIF Open-Ended Diversified Core Equity Index** (+2.02%), remained positive. In contrast, the **NAREIT Equity Index** fell 12.67%.

see page 9

Emerging Markets: Still the One

Woes in the credit markets continued to spill over into the international markets, and as a result, the **MSCI EAFE** declined 1.75% during the quarter. Suffering the worst performance of the international indices, the **MSCI Pacific Basin** fell 4.63% while the **MSCI EMF**—seemingly insulated from the worries of subprime and a pending global slowdown—survived a turbulent quarter to notch a 3.66% gain.

see page 6

Global Decoupling or Recoupling?

Due to a faltering U.S. economy, deteriorating corporate profits and volatile credit conditions, non-U.S. developed country bond yields fell around the globe. The non-U.S. bond market rose by 1.45% in the fourth quarter in local terms and 3.91% in U.S. dollar terms, as measured by the **Citi Non-U.S. World Government Bond Index**.

see page 8

Private Equity Market

A new fundraising record was set in 2007 with $302 billion in new commitments and 415 funds. The investment pace by funds increased during the quarter and included the largest buyout closed to date: TXU. Exit activity declined slightly during the quarter.

see page 10

Volatile Markets Create Opportunities

Big swings in the markets spawn new short-term trading ideas, and last quarter was no exception for hedge funds. Amid a more sober economic outlook, hedge funds gathered attractive profits, especially by shorting investments that rely heavily on access to credit. The median fund-of-funds manager gained 1.67% last quarter, net of fees, with particular strength coming from *Long-Short Equity*, *Global Macro* and *Emerging Markets*.

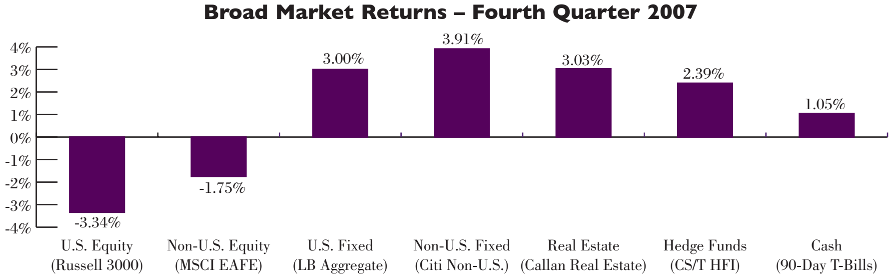
see page 10

Defense Wins the Game

In the fourth quarter, the median public and Taft-Hartley plans, with average public equity allocations of 61% and 57%, respectively, led their institutional counterparts, returning -0.58%. Corporate plans and endowments/foundations were not far behind, with medians returns of -0.75% and -0.76%, respectively. Domestic balanced managers and global balanced managers trailed their respective static 60% equity and 40% fixed income benchmark targets.

see page 12

Broad Market Returns – Fourth Quarter 2007



There's No Place Like Home

Until recently, this was the mantra for homeowners who were able to tap into their home equity to fund vacations, new cars, etc. Based upon the **S&P/Case-Shiller® Home Price Index**, home prices tumbled 6.1% over the past 12 months and were flat over the past two years. The drying up of the home equity well, tighter credit standards and oil prices approaching $100 a barrel are causing consumers to struggle.

The broad benchmark **Russell 3000** (-3.3%) fell during the quarter as both large and small capitalization stocks were in the red. The mega cap **Russell Top 50** shed 3.2%, while the smaller cap **Russell 2000** lost 4.6% and the **Russell MidCap** dropped 3.6%. The **S&P 500** moved down 3.3%.

Financials (-13.0%) posted a broad-based decline led by companies with exposure to the mortgage market, such as Countrywide Financial (-52.5%), Washington Mutual (-60.7%), Freddie Mac (-41.8%) and Fannie Mae (-33.7%). Real Estate (-12.0%) and Insurance (-6.3%) were also in the red, while the lone bright spot was Asset Management (+6.0%).

Consumer Discretionary (-10.4%) sagged on slowing sales as consumers tightened their purse strings. Automobiles fell 19.4%, followed by Hotels (-15.0%), Retailing (-12.4%) and Household Durables (-11.0%).

Technology (-0.6%) was a stock picker's market. Apple Computer (+29.1%) rose due to strong iPhone and iPod demand while Dell (-11.2%) continued to struggle and Cisco (-18.3%) announced weakening demand. Both Microsoft (+21.2%) and Google (+21.9%) easily bested their earnings estimates during the quarter.

Industrials (-4.0%) experienced a decline as sector leader, General Electric, lost 9.7%. Transports were down by 6.7% on rising fuel costs with Aerospace falling 3.6%. Construction & Farm Equipment (+1.8%) moved up as Deere & Co. (+25.6%) and Joy Global (+29.8%) advanced on strong global demand.

Health Care (-0.04%) was split again. Pharmaceuticals (-0.3%) and Biotechnology (-7.5%) dropped while Managed Care (+9.3%), led by UnitedHealth Group (+20.2%) and WellPoint (+11.2%), surged ahead.

With winter approaching and energy prices heading north, Utilities (+6.5%), including Electric (+8.6%) and Multi-line (+5.4%) companies, advanced.

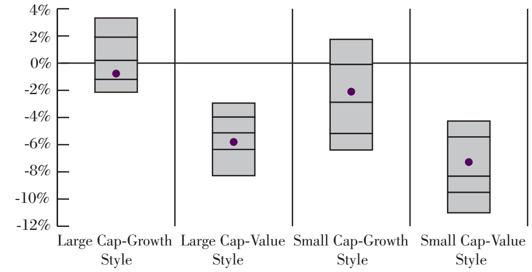
Energy (+5.0%) continued its record of strong performance. Exploration & Production (+14.8%) and Coal (+39.5%) benefited from growing demand. Drilling (+12.5%) also remained strong as industry leader Transocean Inc. (+19.4%) profited from closing its purchase of GlobalSantaFe.

Aided by growing demand for food and ethanol-based fuels, Agricultural Chemicals (+36.9%) once again led the charge in the Materials (+1.1%) sector, while Metals (-1.0%) and Paper (-4.0%) took a pause from their recent strong performances.

Consumer Staples (+3.4%) increased due in part to packaged goods stalwart Proctor & Gamble (+4.9%) and tobacco giant Altria (+9.0%). Beverages (+5.2%) also enjoyed a good quarter with solid performances from Coca-Cola (+7.4%), PepsiCo (+4.1%) and Anheuser-Busch (+5.4%).

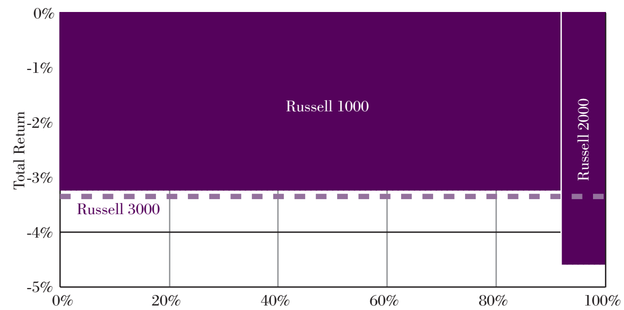
Based upon the Russell style indices, growth-oriented stocks topped value-oriented stocks across all capitalization ranges for the second straight quarter. To compare value and growth, Russell divides the capitalization indices to create subsectors of growth- and value-oriented stocks. Among smaller stocks, the **Russell 2000 Small Cap Growth Index** fell 2.1%, compared to a 7.3% decline for its value counterpart. In the large stock arena, the **Russell 1000 Growth Index** (-0.8%) bested the **Russell 1000 Value Index** (-5.8%).

Callan Style Group Returns – Fourth Quarter 2007

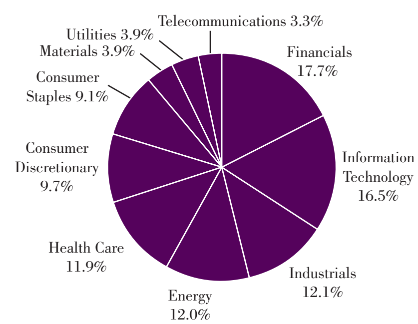


	Large Cap-Growth Style	Large Cap-Value Style	Small Cap-Growth Style	Small Cap-Value Style
10th Percentile	3.32	-2.94	1.75	-4.26
25th Percentile	1.91	-3.97	-0.10	-5.43
Median	0.20	-5.13	-2.88	-8.32
75th Percentile	-1.20	-6.35	-5.18	-9.51
90th Percentile	-2.14	-8.28	-6.39	-11.01
	R1000 Growth	R1000 Value	R2000 Growth	R2000 Value
Benchmark ●	-0.77	-5.80	-2.10	-7.28

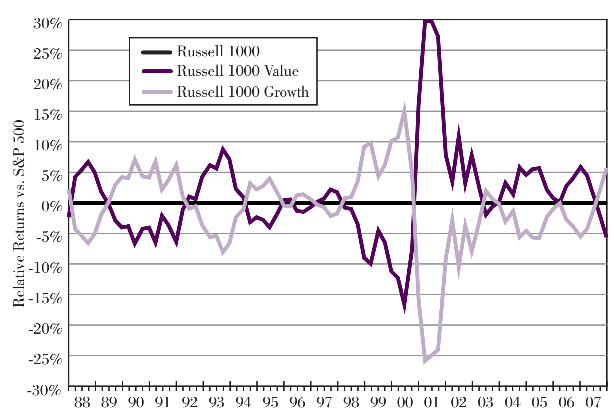
Capitalization Sector Performance
Fourth Quarter 2007



Economic Sector Exposure (Russell 3000)
Fourth Quarter 2007



Rolling One-Year Relative Returns vs. Russell 1000



U.S. EQUITY

Style Median and Index Returns* for Periods ended December 31, 2007

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Large Cap Equity						
Large Cap–Broad Style	*-2.93*	*5.64*	*9.73*	*14.08*	*7.46*	*11.54*
Large Cap–Growth Style	*0.20*	*16.02*	*9.98*	*12.70*	*6.27*	*10.25*
Large Cap–Value Style	*-5.13*	*1.13*	*9.70*	*14.67*	*8.16*	*12.04*
Aggressive Growth Style	*-1.78*	*17.26*	*10.53*	*16.96*	*8.74*	*11.89*
Contrarian Style	*-5.02*	*0.80*	*9.32*	*15.06*	*8.50*	*13.12*
Core Style	*-2.74*	*6.35*	*9.44*	*13.59*	*7.21*	*11.36*
Yield Style	*-5.07*	*2.86*	*9.74*	*14.44*	*8.06*	*11.87*
Russell 3000	-3.34	5.14	8.89	13.63	6.22	10.48
Russell 1000	-3.23	5.77	9.08	13.43	6.20	10.58
Russell 1000 Growth	-0.77	11.81	8.68	12.11	3.83	8.47
Russell 1000 Value	-5.80	-0.17	9.32	14.63	7.68	12.06
S&P Composite 1500	-3.40	5.47	8.72	13.23	6.35	10.66
S&P 500	-3.33	5.49	8.62	12.83	5.91	10.49
NYSE	-2.41	9.12	12.93	16.67	8.10	11.68
Dow Jones Industrials	-3.91	8.88	9.65	12.21	7.44	12.10
Mid Cap Equity						
Mid Cap–Broad Style	*-3.13*	*9.04*	*11.44*	*17.75*	*11.22*	*13.68*
Mid Cap–Growth Style	*-1.38*	*19.36*	*13.60*	*18.31*	*11.10*	*12.97*
Mid Cap–Value Style	*-4.20*	*1.96*	*10.49*	*17.39*	*11.18*	*14.49*
Russell Midcap	-3.55	5.60	11.09	18.21	9.91	12.62
S&P MidCap 400	-2.73	7.98	10.27	16.19	11.19	13.35
Small Cap Equity						
Small Cap–Broad Style	*-5.54*	*1.36*	*7.85*	*16.64*	*9.42*	*12.56*
Small Cap–Growth Style	*-2.88*	*13.70*	*10.47*	*17.42*	*8.47*	*11.97*
Small Cap–Value Style	*-8.32*	*-8.60*	*4.79*	*16.14*	*10.56*	*13.00*
Russell 2000	-4.58	-1.57	6.80	16.25	7.08	10.10
S&P SmallCap 600	-6.45	-0.30	7.31	16.04	9.03	11.78
NASDAQ	-1.62	10.65	7.64	15.46	5.90	10.17
Russell 3000 Sectors						
Consumer Staples	3.43	14.13	11.15	11.46	6.42	10.37
Consumer Discretionary	-10.42	-11.66	-0.48	9.10	4.19	7.09
Industrials	-3.96	12.33	11.08	16.58	8.31	11.77
Energy	4.96	32.04	28.80	29.02	15.14	16.30
Materials	1.08	26.42	16.86	20.74	9.16	10.10
Information Technology	-0.59	15.13	8.63	14.49	5.30	11.31
Utilities	6.52	17.55	18.13	21.16	8.22	10.14
Financials	-13.01	-17.82	1.53	9.57	6.27	12.63
Telecommunications	-6.20	10.00	13.63	13.42	1.17	—
Health Care	-0.04	7.93	7.66	9.32	6.70	—

U.S. Equity Index Characteristics as of December 31, 2007

	S&P 1500	S&P 500	S&P 400	S&P 600	Rus 3000	Rus 1000	Rus Midcap	Rus 2000
Cap Range	56–511,887	708–511,887	263–12,399	56–4,903	8–527,781	217–527,781	217–28,000	8–8,398
Number of Issues	1,500	500	400	600	2,921	1,011	805	1,910
% of S&P 1500	100%	89%	8%	4%	100%	92%	26%	8%
Wtd Avg Mkt Cap	$95.8B	$107.8B	$4.1B	$1.5B	$88.7B	$96.3B	$9.4B	$1.4B
Price/Book Ratio	2.7	2.7	2.4	2.1	2.7	2.7	2.6	2.1
P/E Ratio (forecasted)	14.5	14.3	16.3	16.2	14.9	14.7	16.4	19.4
Dividend Yield	1.9%	2.0%	1.3%	1.1%	1.8%	1.9%	1.4%	1.3%
5-Yr Earnings (forecasted)	12.8%	12.4%	15.6%	16.3%	13.2%	13.0%	14.2%	16.7%

* Returns less than one year are not annualized.

Flight to Quality Continues

Spurred by fears of recession, subprime contagion and the negative impact of banks bringing impaired assets back onto their balance sheets, spread sectors experienced one of the worst months on record in November. Due to these headwinds, investors retreated to the safety of U.S. Treasurys, marked by a 94 basis point drop in the two-year Treasury note, which closed the year at 3.05%. The U.S. investment grade bond market, as measured by the **Lehman Aggregate**, advanced 3.00% for the quarter and 6.97% for the year.

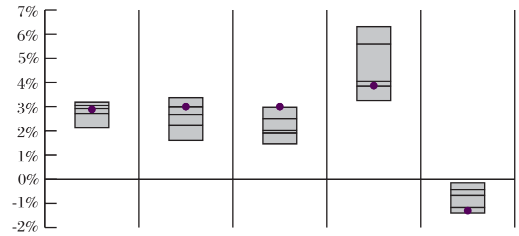
In the third quarter, the U.S. economy expanded 4.9%, as measured by GDP, a stark comparison to the litany of negative news in the fourth quarter. Deteriorating corporate earnings, waning consumer confidence, inflationary pressures and continued ratings downgrades subsequently took their toll on the market. The most recent blow to market confidence was an increase in unemployment to 5%, accompanied by headline news of mass layoffs at large financial institutions. The culmination of increased unemployment, illiquidity and shrinking consumer confidence forced the Fed to cut short-term rates twice in the fourth quarter, from 4.75% to 4.25%.

Along with Treasurys, the Treasury Inflation Protected Securities (TIPS) market was another strong segment returning 4.97% during the quarter, as measured by the **Lehman TIPS Index**. TIPS rallied despite fears of recession and weak growth in 2008, oil approaching $100 a barrel and latent concerns over stagflation.

Bearing the brunt of the flight to quality was the securitized debt market, especially asset-backed securities (ABS), which includes subprime home equity loans. Marked by a period of extremely poor liquidity, ABS saw spreads widen from 74 basis points to 242 basis points, resulting in a negative 408 basis points of excess return for the quarter and a negative 634 basis points for the year. The home equity loans (HEL) portion of ABS witnessed a negative excess return of 1,223 basis points over Treasurys for the quarter and a negative 1,707 basis points for the year. Not surprisingly, ABS HEL securities were the worst performers, plagued by illiquidity, industry downgrades and the glut in housing inventory. Mortgage-backed securities (MBS) were also widely impacted by the credit crunch and increased volatility, but still advanced 3.06% for the quarter and 6.90% for the year, as measured by the **Lehman U.S. MBS Index**. However, on a duration adjusted basis, MBS provided a negative 21 basis points of excess return for the quarter and a negative 177 basis points for the calendar year, marking the worst performance year on record. The average spread in the MBS sector increased by 50 basis points, to levels not seen since 2001.

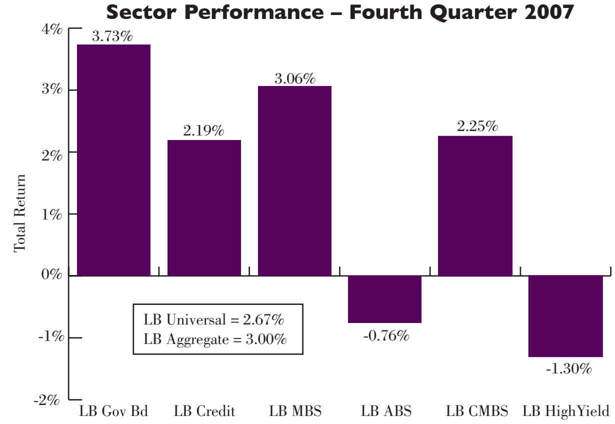
A slowing economy, fears of recession and depressed corporate profits were a detriment to corporate investment names, hitting high yield the hardest. The corporate segment of the fixed income market climbed 2.19% for the quarter and 5.11% for the year, as measured by the **Lehman Credit Index**. The **Lehman High Yield Index** lost 1.30% for the quarter, but gained 1.87% for the year.

Callan Style Group Returns – Fourth Quarter 2007

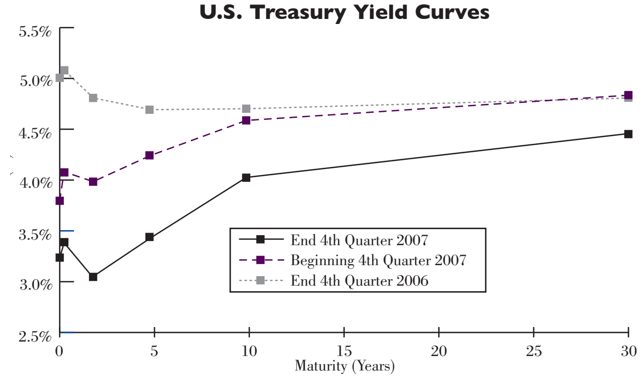


	Intermediate Style	Core Bond Style	Core Plus Style	Ext Maturity Style	High Yield Style
10th Percentile	3.19	3.37	2.98	6.31	-0.15
25th Percentile	3.05	2.99	2.50	5.59	-0.43
Median	2.92	2.67	2.02	4.05	-0.67
75th Percentile	2.71	2.23	1.91	3.85	-1.17
90th Percentile	2.13	1.61	1.46	3.25	-1.40
	LB Inter Agg	LB Agg	LB Agg	LB G/C Long	LB High Yield
Benchmark ●	2.89	3.00	3.00	3.87	-1.30

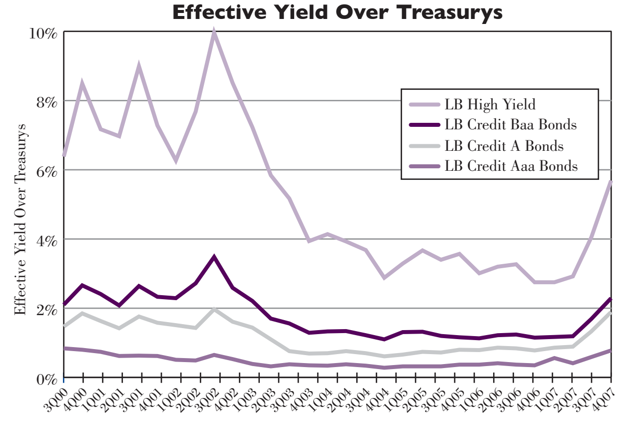
Sector Performance – Fourth Quarter 2007



U.S. Treasury Yield Curves



Effective Yield Over Treasurys



U.S. FIXED INCOME

Style Median and Index Returns* for Periods ended December 31, 2007

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Broad Fixed Income						
Core Bond Style	*2.67*	*6.61*	*4.67*	*4.66*	*6.12*	*6.70*
Core Bond Plus Style	*2.02*	*5.74*	*4.68*	*5.40*	*6.24*	*7.12*
LB Aggregate	3.00	6.97	4.56	4.42	5.97	6.47
LB Govt/Credit	3.10	7.23	4.44	4.44	6.01	6.54
LB Govt	3.73	8.66	4.90	4.10	5.92	6.39
LB Credit	2.19	5.11	3.77	4.84	6.05	6.84
Citi Broad Investment Grade	3.15	7.21	4.69	4.55	6.03	6.53
Long-Term						
Extended Maturity Style	*4.05*	*6.66*	*5.27*	*6.30*	*7.69*	*8.62*
LB Gov/Credit Long	3.87	6.60	4.87	5.80	6.95	7.95
LB Gov Long	5.59	9.65	6.06	5.73	7.18	8.15
LB Credit Long	2.23	3.60	3.61	6.08	6.58	7.61
Intermediate-Term						
Intermediate Style	*2.92*	*7.31*	*4.47*	*4.18*	*5.89*	*6.19*
LB Intermediate Aggregate	2.89	7.02	4.51	4.22	5.83	6.18
LB Gov/Credit Intermediate	2.90	7.39	4.32	4.06	5.76	6.06
LB Gov Intermediate	3.36	8.47	4.63	3.69	5.55	5.83
LB Credit Intermediate	2.17	5.60	3.83	4.49	5.98	6.56
Short-Term						
Defensive Style	*2.07*	*6.43*	*4.34*	*3.43*	*5.01*	*5.31*
Active Cash Style	1.39	5.33	4.23	3.18	4.32	4.66
Money Market Funds (net of fees)	1.08	4.73	3.96	2.65	3.41	3.75
ML Treasury 1–3 Year	2.36	7.32	4.29	3.12	4.75	5.06
90-Day Treasury Bills	1.05	5.00	4.30	3.07	3.77	4.09
High Yield						
High Yield Style	*-0.67*	*3.34*	*5.86*	*10.37*	*6.42*	*8.69*
LB High Yield	-1.30	1.87	5.39	10.90	5.51	7.52
ML High Yield Master	-1.14	2.17	5.46	10.57	5.80	7.74
Mortgage/Asset-Backed						
Mortgages Style	*2.97*	*6.81*	*4.93*	*4.59*	*6.13*	*6.69*
LB MBS	3.06	6.90	4.90	4.49	5.91	6.34
LB ABS	-0.76	2.21	2.99	3.20	5.43	5.85
LB CMBS	2.25	5.57	4.03	4.17	6.63	—
Municipal						
LB Muni	1.37	3.36	3.90	4.30	5.17	5.90
LB Muni 1–10 Year	1.78	4.79	3.39	3.49	4.61	—
LB Muni 3 Year	1.78	5.00	2.96	2.67	3.99	4.36

U.S. Fixed Income Index Characteristics as of December 31, 2007

Lehman Brothers Indices	Yield to Worst	Modified Adj. Duration	Average Maturity	% of LB G/C	% of LB Aggregate
LB Aggregate	4.90	4.41	7.05	100.00%	100.00%
LB Govt/Credit	4.53	5.35	8.10	100.00%	54.90%
Intermediate	4.27	3.79	4.64	79.03%	43.39%
Long-Term	5.47	11.23	21.15	20.97%	11.51%
LB Govt	3.76	4.72	6.63	58.37%	32.05%
LB Credit	5.60	6.22	10.16	41.63%	22.85%
LB Mortgage	5.36	2.99	5.74	—	38.56%
LB Asset-Backed	5.80	3.37	4.23	—	0.87%
LB Commercial Mortgage	5.36	5.09	6.24	—	5.66%
LB Corp High Yield	9.64	4.61	7.49	—	—

* Returns less than one year are not annualized.

Emerging Markets: Still the One

Spurred by continued credit concerns and the ripple effects of the U.S. subprime lending crisis, the **MSCI EAFE Index** declined 1.75% in the fourth quarter. In a dramatic move, the central banks orchestrated a coordinated infusion of nearly $500 billion into the financial markets. Emerging markets, as represented by the **MSCI EMF Index** (+3.66%), remained a pillar of strength in the turbulent global markets. The weak U.S. dollar continued to boost returns in countries where currencies remained strong. For the fourth consecutive quarter, **EAFE Growth** (-0.28%) beat **EAFE Value** (-3.30%), and **EAFE Small Cap** (-4.85%) underperformed EAFE. Spain (+8.25%), Portugal (+7.42%) and Germany (+5.09%) led Europe. In the developed Pacific, Hong Kong (+7.14%) managed to produce the only positive return, while Japan (-6.08%) continued to pull down the MSCI EAFE Index.

Europe

The **MSCI Europe Index** (-0.46%) fell slightly in a very volatile quarter. Financials led the regional decline, as firms like UBS and Swiss Re reported large losses tied to subprime mortgage investments. Other firms, such as HSBC and Société Générale, added previously unrecognized structured investment vehicles to their balance sheets. There were some bright spots among European equities, with the more defensive sectors like Utilities and Consumer Staples performing well. Conversely, Technology and Consumer Discretionary tumbled amid concerns of a global economic slowdown. The European Central Bank held rates steady at 4.0%, while the Bank of England reversed its July quarter-point uptick to bring interest rates back down to 5.5%.

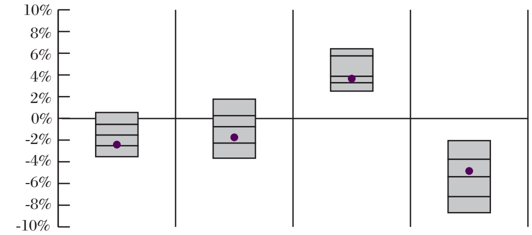
Asia

The **MSCI Pacific Basin Index** lagged the broader market, down 4.63% in dollar terms, as Japan (-6.08%) continued to struggle with political instability, a rising yen and a potential global growth slowdown. The latter two factors especially hurt the export-reliant Japanese economy. Australia (-4.15%) saw strong contributions from the Materials sector tempered by a weakness in Industrials, Utilities and Financials. Hong Kong outpaced the entire region due to the momentum created following the Chinese authorities decision last quarter to allow mainland investors to trade on the Hang Seng.

Emerging Markets

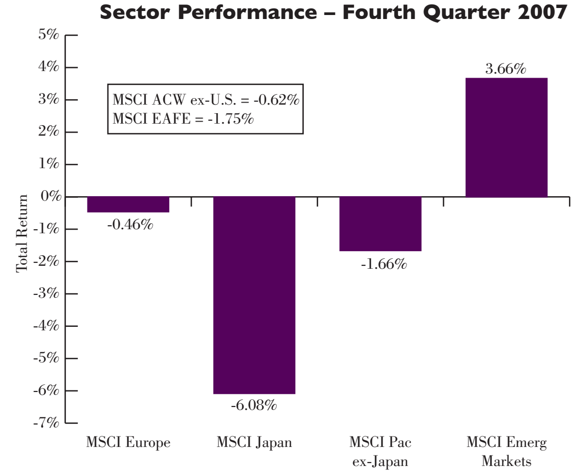
The **MSCI EMF Index** survived a topsy-turvy quarter to come out as the only regional index with a positive return. The EMF Index was up in October, fell sharply in November and rebounded in December to finish up 3.66%. As of year-end 2007, emerging markets were not as exposed to the subprime crisis and credit concerns as their developed market peers. Even though Materials and Industrials cooled off, higher crude oil prices lifted the Energy sector, while strong wireless provider sales growth in the domestic economies helped boost the Telecommunications sector. Benefiting from higher oil prices and an improving domestic economy, Russia (+17.42%) trailed only India (+23.31%) among the BRIC countries (Brazil, Russia, India and China). **MSCI China** (-3.65%) lost a bit of steam as authorities attempted to harness the liquidity and speculation within the domestic A-share market. Always a factor in emerging markets, political uncertainty reappeared in Pakistan after former Prime Minister Benazir Bhutto was assassinated in late December.

Callan Style Group Returns – Fourth Quarter 2007

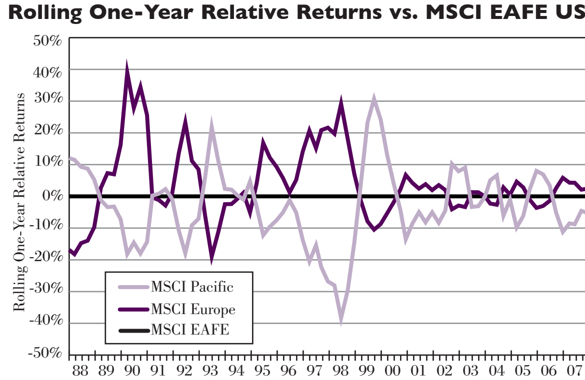


	Global Equity Style	Non-U.S. Equity Style	Emerging Markets Eq Style	Small Cap Style
10th Percentile	0.54	1.77	6.41	-2.05
25th Percentile	-0.56	0.25	5.75	-3.77
Median	-1.54	-0.77	3.87	-5.38
75th Percentile	-2.52	-2.28	3.28	-7.21
90th Percentile	-3.53	-3.67	2.51	-8.69
	MSCI World	MSCI EAFE	MSCI Emg Mkts	MSCI EAFE Small Cap
Benchmark ●	-2.42	-1.75	3.66	-4.85

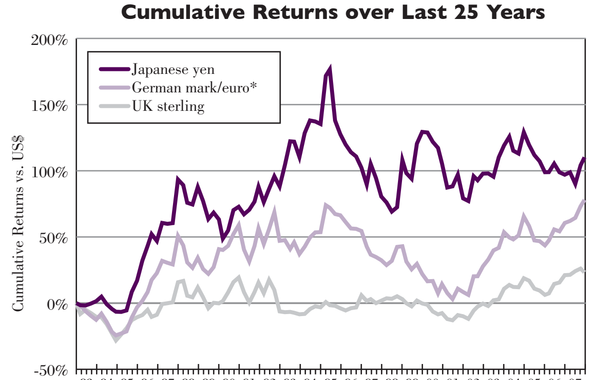
Sector Performance – Fourth Quarter 2007



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



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



*Euro returns from 1Q99

INTERNATIONAL EQUITY

Style Median and Index Returns* for Periods ended December 31, 2007

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
International Equity						
Global Style	*-1.54*	*10.41*	*13.74*	*18.19*	*8.95*	*11.57*
Non-U.S. Style	*-0.77*	*13.05*	*18.48*	*22.66*	*10.75*	*11.74*
Core Style	*-1.39*	*11.02*	*17.63*	*21.98*	*10.39*	*11.19*
MSCI EAFE–Unhedged	-1.75	11.17	16.83	21.59	8.66	9.56
MSCI EAFE–Local	-2.96	3.54	15.87	16.08	6.12	8.00
MSCI EAFE Growth –Unhedged	-0.28	16.45	17.29	19.85	6.46	7.30
MSCI EAFE Value–Unhedged	-3.30	5.96	16.27	23.21	10.66	11.70
MSCI World–Unhedged	-2.42	9.04	12.75	16.96	7.00	9.71
MSCI World–Local	-3.03	4.69	11.88	14.26	5.82	8.92
MSCI AC World ex-U.S.–Unhedged	-0.62	17.12	20.37	24.52	10.10	10.55
MSCI AC World–Unhedged	-1.70	12.18	14.94	18.80	7.93	10.34
Pacific Equity						
Pacific Basin Style	*-2.28*	*11.50*	*16.75*	*20.99*	*9.17*	*7.95*
Japan Style	*-5.65*	*-3.44*	*8.77*	*15.86*	*6.72*	*6.04*
Pacific Rim Style	*-0.20*	*39.73*	*32.85*	*31.19*	*14.86*	*11.70*
MSCI Pacific–Unhedged	-4.63	5.30	13.16	19.01	6.83	4.99
MSCI Pacific–Local	-6.31	-1.69	14.65	15.89	4.75	3.88
MSCI Japan–Unhedged	-6.08	-4.23	8.50	15.00	4.50	2.91
MSCI Japan–Local	-8.77	-10.21	11.66	13.62	2.92	2.15
Europe Equity						
Europe Style	*-1.08*	*12.95*	*19.04*	*22.57*	*11.93*	*14.06*
MSCI Europe–Unhedged	-0.46	13.86	18.55	22.78	9.55	12.69
MSCI Europe–Local	-1.47	6.04	16.40	16.22	6.89	11.13
Emerging Markets						
Emerging Markets Style	*3.87*	*39.32*	*36.07*	*38.52*	*16.65*	*14.46*
MSCI Emerging Markets–Unhedged	3.66	39.78	35.60	37.46	14.53	12.16
MSCI Emerging Markets–Local	2.89	33.55	32.71	31.91	15.61	21.52
International Small Cap Equity						
Small Cap Style	*-5.38*	*8.92*	*21.49*	*30.00*	*16.44*	*13.79*
MSCI EAFE Small Cap–Unhedged	-4.85	1.45	15.16	26.37	—	—

Return Attribution for EAFE Countries
Fourth Quarter 2007

Country	Total	Local	Currency	Weighting
Australia	-4.15%	-3.40%	-0.78%	6.47%
Austria	0.45%	-2.29%	2.81%	0.58%
Belgium	-5.97%	-8.54%	2.81%	1.23%
Denmark	0.15%	-2.55%	2.77%	0.93%
Finland	-2.12%	-4.79%	2.81%	1.86%
France	0.70%	-2.05%	2.81%	10.75%
Germany	5.09%	2.22%	2.81%	9.40%
Greece	6.31%	3.41%	2.81%	0.77%
Hong Kong	7.14%	7.53%	-0.36%	2.43%
Ireland	-11.21%	-13.63%	2.81%	0.64%
Italy	0.52%	-2.22%	2.81%	3.96%
Japan	-6.08%	-8.77%	2.95%	19.91%
Netherlands	-1.77%	-4.45%	2.81%	2.82%
New Zealand	-3.69%	-5.43%	1.84%	0.13%
Norway	-0.59%	-0.45%	-0.14%	1.08%
Portugal	7.42%	4.49%	2.81%	0.36%
Singapore	-3.38%	-6.31%	3.13%	1.11%
Spain	8.25%	5.30%	2.81%	4.39%
Sweden	-12.75%	-12.83%	0.09%	2.32%
Switzerland	-1.93%	-4.95%	3.18%	6.69%
UK	-2.39%	-0.09%	-2.30%	22.17%

* Returns less than one year are not annualized.

Global Decoupling or Recoupling?

Non-U.S. developed country bond yields fell around the globe due to a faltering U.S. economy, deteriorating corporate profits and volatile credit conditions. The non-U.S. bond market, as measured by the **Citi Non-U.S. World Government Bond Index**, rose 1.45% in the fourth quarter in local terms and 3.91% in U.S. dollar terms. The U.S. dollar continued to slide against most currencies in the quarter, but showed signs of stabilization in December.

In Europe, the economic data suggested that growth was slowing, albeit not as quickly as other major economies. However, growing concerns over inflation trumped the weakened economy and forced the European Central Bank to leave rates at 4.0%. Conversely, the Bank of England, in order to mitigate increasing problems in the housing market, lowered rates by 25 basis points to 5.5%. Government bonds outperformed credit and structured notes in a flight to quality.

Return Attribution for Non-U.S. Govt Indices
Fourth Quarter 2007

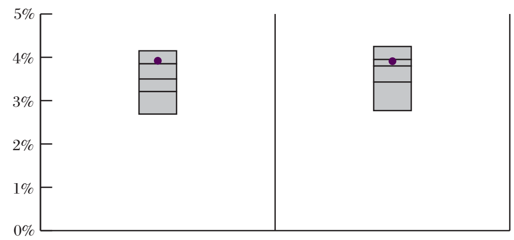
Country	Total	Local	Currency**	Weighting
Australia	-0.18%	0.60%	-0.78%	0.40%
Austria	4.05%	1.21%	2.81%	1.96%
Belgium	3.95%	1.12%	2.81%	3.16%
Canada	4.22%	3.51%	0.68%	2.36%
Denmark	3.97%	1.17%	2.77%	0.80%
Finland	4.07%	1.23%	2.81%	0.62%
France	4.03%	1.20%	2.81%	10.00%
Germany	3.93%	1.10%	2.81%	12.29%
Greece	3.92%	1.08%	2.81%	2.56%
Ireland	4.05%	1.22%	2.81%	0.50%
Italy	3.88%	1.04%	2.81%	11.48%
Japan	4.35%	1.35%	2.95%	34.83%
Malaysia***	2.94%	-0.10%	3.03%	0.46%
Netherlands	3.99%	1.15%	2.81%	2.79%
Norway	1.73%	1.88%	-0.14%	0.39%
Poland	7.48%	-0.26%	7.77%	1.04%
Portugal	4.07%	1.23%	2.81%	1.12%
Singapore	4.07%	0.92%	3.13%	0.40%
Spain	4.07%	1.23%	2.81%	3.89%
Sweden	0.99%	0.90%	0.09%	0.83%
Switzerland	3.52%	0.32%	3.18%	0.73%
UK	1.66%	4.05%	-2.29%	7.38%

In Canada, New Zealand and Australia, the market sentiment was mixed. Due to worries over a rising Canadian dollar and weakening inflationary pressures, the Bank of Canada cut rates to 4.25%. The Royal Bank of New Zealand and the Reserve Bank of Australia left rates unchanged amid relative strength in the economy and continued inflationary pressures.

The Bank of Japan held rates at 0.5% in the fourth quarter due to concerns of a global economic slowdown. GDP for the third quarter was lowered to 0.4% and exports to the U.S. fell for the third straight month, as the yen continued to appreciate against the dollar. Concerns over the potential negative impact from the global slowdown caused the yield on the 10-year Japanese government bond to fall from 1.69% to 1.51%.

Despite increased volatility and concerns of a global slowdown, emerging market debt posted positive returns, supported by strong fundamentals. The dollar-denominated emerging market debt, as measured by the **JPMorgan EMBI Global Index**, rose 2.64% during the fourth quarter. The local currency emerging market debt, as measured by the **JPMorgan GBI-EM Index**, advanced 3.42%.

Callan Style Group Returns – Fourth Quarter 2007



	Global Fixed Style	Non-U.S. Fixed Style
10th Percentile	4.15	4.25
25th Percentile	3.85	3.95
Median	3.50	3.80
75th Percentile	3.21	3.43
90th Percentile	2.69	2.77
	Citi World Gov Unhedged	Citi Non-U.S. World Gov Unhedged
Benchmark ●	3.92	3.91

INTERNATIONAL FIXED INCOME
***Style Median* and Index Returns* for Periods ended December 31, 2007**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Global Fixed						
Global Style	*3.50*	*10.21*	*3.34*	*7.36*	*6.64*	*7.28*
Citi World Govt–Unhedged	3.92	10.95	3.12	6.81	6.31	6.69
Citi World Govt–Local	1.95	3.72	2.70	3.02	4.44	5.85
Non-U.S. Fixed						
Non-U.S. Style	*3.80*	*11.06*	*2.49*	*7.74*	*6.37*	*7.52*
Citi Non-U.S. World Govt–Unhedged	3.91	11.46	2.67	7.54	6.30	6.79
Citi Non-U.S. World Govt–Local	1.45	2.39	2.12	2.73	3.99	5.80
Europe						
Citi Euro Govt Bond–Unhedged	3.96	12.86	4.76	10.80	—	—
Citi Euro Govt Bond–Local	1.12	1.79	2.25	3.65	—	—
Emerging Markets Fixed						
JPM Emerg Mkts Bond Plus	2.68	6.45	9.57	13.63	10.36	12.99

* Returns less than one year are not annualized.
** Derived from MSCI EAFE data.
*** As of December 2006, the Malaysia Government Bond Index satisfied all three WGBI requirements: size, credit and barriers to entry. With the March 2007 Index, the Malaysian Government Bond Index has met all WGBI criteria for three consecutive months; thus, it became the twenty-third government bond market to enter the WGBI, effective July 2007.

Limbo

The real estate markets were in a state of flux during the fourth quarter of 2007. According to Real Capital Analytics, transaction volume declined dramatically, down 70% for office properties and 50% for apartments and retail over the last year. The diminished transaction volume made for an opaque valuation scenario where most industry players believed that values would drop, but there was little quantifiable data available. While the supply of new space from construction remained limited, economic woes seeped into demand expectations. Vacancies increased in unconstrained markets, but remained defensive in major coastal markets such as New York, Seattle and Boston. Despite these shifts and widespread uncertainty, the private domestic real estate market, as measured by the **NCREIF Property Index** (+3.21%) and **NCREIF Open-End Diversified Core Equity Index** (+2.02%), remained positive over the fourth quarter, yet was considerably frailer than previous quarters. Top performing sectors included Hotels (+4.03%), Retail (+3.91%) and Office (+3.82%).

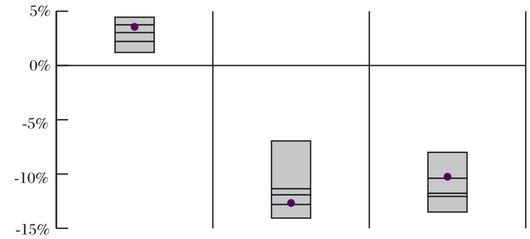
On a global basis, real estate securities dropped precipitously, feeding off of insecurities in the broader market. The **NAREIT Equity Index** plummeted -12.67% for the quarter, ending the year down -15.69%. The fourth quarter drop was fueled by severe losses in the Lodging (-20.94%) and Residential (-18.27%) sectors. All sectors except Health Care (+4.99%) and Specialty (+0.87%) were in the red. The downturn left real estate securities at a sizeable discount to net asset value as of year end. The picture was grim on the international front as well. Asia shed -6.90%—despite the continued stellar performance of Hong Kong (+10.40%)—amid concerns over potentially weakening export demand and the refinancing catastrophe within Centro Properties, a major Australian listed property trust. Europe's decline (-12.70%) was driven by negative yield shifts throughout the region. Spain (-32.57%) had the steepest fall over the quarter, while Belgium (+3.60%) and Poland (+2.20%) stayed afloat. The spread between private and public real estate performance indicates that something is awry. Going forward, investors can only hope that both parties can meet halfway for minimized pricing damage.

Overall Capitalization Rates

Sector	4th Quarter 2007	One Year Ago
Industrial	6.48%	6.82%
Apartment	5.75%	5.97%
CBD Office	6.64%	6.94%
Suburban Office	7.20%	7.63%
Strip Shopping Center	7.24%	7.27%

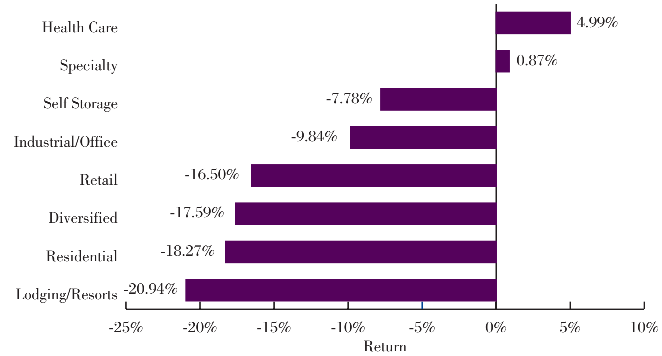
Source: *Korpacz Real Estate Investor Survey®*
Rates based on unleveraged, all-cash transactions.

Callan Style Group Returns – Fourth Quarter 2007

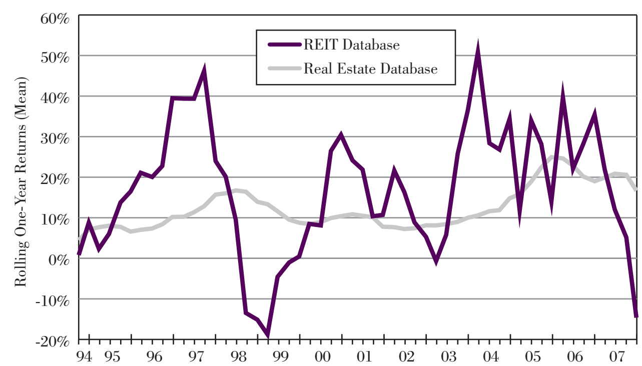


	Real Estate Database	REIT Database	Global REIT Database
10th Percentile	4.45	-6.95	-8.00
25th Percentile	3.74	-11.36	-10.39
Median	3.03	-11.92	-11.78
75th Percentile	2.21	-12.81	-12.07
90th Percentile	1.20	-14.06	-13.50
	NCREIF Property	NAREIT Equity	EPRA/NAREIT Global
Benchmark ●	3.56	-12.67	-10.25

NAREIT Equity Sector Performance
Fourth Quarter 2007



Rolling One-Year Returns



REAL ESTATE
***Style Median* and Index Returns* for Periods ended December 31, 2007**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Private Real Estate						
Real Estate Database (net of fees)	*3.03*	*12.98*	*17.57*	*14.96*	*12.34*	*10.92*
NCREIF Property	3.21	15.84	17.48	15.13	12.91	11.19
Public Real Estate						
REIT Database	*-11.92*	*-15.02*	*10.12*	*19.69*	*12.49*	*14.68*
NAREIT Equity	-12.67	-15.69	8.49	18.17	10.48	13.02
Global Real Estate						
REIT Global Database	*-11.78*	*-10.54*	*14.28*	*24.20*	*13.04*	*—*
EPRA/NAREIT Global	-10.25	-6.96	15.17	24.29	12.81	14.04

* Returns less than one year are not annualized.

Private Equity Market

The fourth quarter of 2007 saw $103.1 billion in new commitments and the establishment of 120 funds. Commitment totals for the year were $302 billion with 415 funds being raised, outpacing 2006's prior record of $254.7 billion in commitments and 404 funds.

Funds increased the investment pace into companies in the last quarter. According to *Buyouts* newsletter, buyout-sponsored U.S. acquisitions with announced values totaled $132 billion during the quarter. The year produced a total of 1,016 buyout transactions. Buyouts with disclosed values totaled $454.3 billion in 291 deals. The dollar volume represents a 45% increase above last year's record. A new record for the largest buyout closed occurred in the fourth quarter with the $44.3 billion acquisition of energy utility TXU by KKR, TPG and Goldman Sachs. Due to the credit crunch, several pending transactions were abandoned, such as Sallie Mae and United Services, some of which resulted in lawsuits. Other deals, such as Harmon International and Home Depot Supply, were renegotiated. New mega-deal announcements disappeared during the quarter.

Exit activity declined slightly during the quarter. *Buyouts* reports that 10 buyout-backed companies went public, raising $2.5 billion, and 31 venture-backed companies had IPOs totaling $3 billion. During the quarter there were 46 venture-backed merger transactions, including 23 with announced values totaling $6.8 billion.

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

Funds Closed January 1 through December 31, 2007

Strategy	# of Funds	$ Amt (mil)	%
Venture Capital	148	32,222	11%
Acquisition/Buyouts	158	179,796	60%
Subordinated Debt	16	8,572	3%
Distressed Debt	24	48,202	16%
Other	10	6,918	2%
Fund-of-funds	59	26,314	9%
Totals	**415**	**302,023**	**100%**

Source: *The Private Equity Analyst*

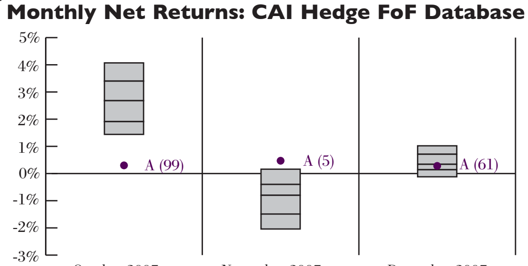
Volatile Markets Create Opportunities

Big swings in the markets spawn new short-term trading ideas, and last quarter was no exception for hedge funds. The quarter began with a robust risk appetite that pushed up equities, but the lingering liquidity crisis left a sour taste with investors. Increasingly, risk-averse buyers sought comfort in Treasurys, particularly in November. Short bets on investments relying upon healthy credit markets like bank stocks, subprime creditors and real estate, paid well for many types of hedge funds. Serving as a proxy for diversified hedge fund programs, the median manager in **Callan's Hedge Fund-of-Funds Database** reaped a 1.67% profit last quarter, net of fees. For 2007, the median manager gained 10.15%, besting T-bills by 5.15%.

Representing an unmanaged universe of open and closed funds, the **Credit Suisse/Tremont Hedge Fund Index** rose 2.39%, with particular help from *Short Bias* (+7.63%), *Emerging Markets* (+4.89%), *Global Macro* (+4.08%) and *Managed Futures* (+3.40%).

Although the developed equity markets fell last quarter, the average *Long-Short Equity* fund (+2.39%) navigated the unstable market swings relatively well. High return dispersion across individual stocks and industries considerably increased the number of trading ideas to generate profits, particularly benefiting *Market Neutral Equity* (+2.56%).

Monthly Net Returns: CAI Hedge FoF Database



	October 2007	November 2007	December 2007
10th Percentile	4.07	0.16	1.02
25th Percentile	3.40	-0.40	0.71
Median	2.68	-0.80	0.34
75th Percentile	1.91	-1.49	0.14
90th Percentile	1.44	-2.04	-0.12
3-Month T-Bill ●	0.30	0.47	0.28

ALTERNATIVE INVESTMENTS

Style Median **and Index Returns* for Periods ended December 31, 2007**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Convertibles						
Convertibles Database	*0.03*	*9.20*	*8.11*	*11.64*	*9.10*	*10.83*
ML Convertible, All Qualities	-3.25	4.47	5.99	10.66	7.09	—
Absolute Return Strategies						
Hedge Fund-of-Funds Database	*1.67*	*10.15*	*9.03*	*9.27*	*9.48*	*11.76*
Market Neutral Equity Style	*0.46*	*4.28*	*5.67*	*4.15*	*4.41*	*6.07*
CS/Tremont Equity Market Neutral	2.56	9.27	8.83	8.00	10.00	—
CS/Tremont Long/Short Equity	2.39	13.66	12.55	13.29	12.03	—
CS/Tremont Event-Driven	1.50	13.20	12.59	14.42	10.57	—
CS/Tremont Convertible Arb	0.26	5.17	5.41	6.16	8.40	—
CS/Tremont Fixed Income Arb	1.11	3.83	4.32	5.55	5.05	—
90-Day T-Bills	1.05	5.00	4.30	3.07	3.77	4.09
Other Alternative Investment Benchmarks						
WP/VE Post-Venture Cap	-1.00	12.19	6.72	19.55	5.00	8.36
GS Commodity	11.64	32.67	12.25	14.90	9.33	9.02
MLM Managed Futures	1.51	2.87	2.33	2.88	4.82	6.55
Dow Jones–AIG Commodity	3.77	11.08	8.30	10.90	5.15	4.97

* Returns less than one year are not annualized.

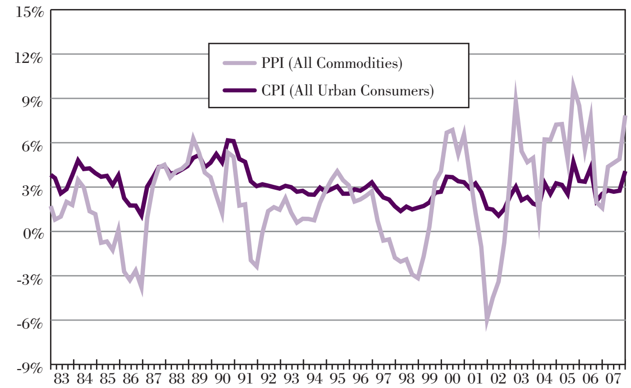
Reversal of Fortune

As 2007 started drawing to a close, many investors breathed a sigh of relief. The economy appeared to have made it through a very tumultuous year with the expansion intact and economic growth continuing on into the future. Most economic signs through the third quarter stood in stark contrast to the gloomy mood on Wall Street and in bank boardrooms following August's wild ride in the capital markets. Job growth was continuing, inflation seemed contained and GDP growth was revised up, coming in at almost 5% for the third quarter. However, as revelations of the subprime problems spread through financial stocks and the market turned down in the fourth quarter, the economic data began to match the mood. End-of-the-year employment and manufacturing reports came in weak with oil prices approaching record levels. Almost overnight, cautious optimism about the prospects for the U.S. economy disappeared and "recession" was the word on everyone's lips.

The first signs of gloom came in the December employment report which suggested that total private payrolls declined, pulled down by heavy losses in construction, manufacturing and retail services. The unemployment rate moved up to 5.0% from 4.7%, a seemingly small move, but the first 0.3 percentage point monthly increase since 2001. Initial weekly claims for unemployment insurance, often a leading indicator of recession, have thus far been held between 300,000 and 350,000, below the 400,000 level that typically signals recession. Layoffs have begun in the financial sector following the revelation of the subprime woes and the subsequent write-offs by several large financial institutions. Weak manufacturing reports came on the heels of the employment data. The Institute for Supply Management's manufacturing activity index fell from 50.8 to 47.7, the first dip below 50—the dividing line between expansion and contraction—since January 2007 and the lowest level since April 2003. The index was pulled down by a sharp drop in the new orders component to its lowest reading since October 2001. Finally, oil prices caused inflation to spike up in November and December, reaching above 4% on a year-over-year basis. In sum, while the claims data for the fourth quarter are relatively benign, the jobs report and the rising unemployment rate all point to an economy that is slowing sharply, with the added complication of reemerging inflation.

The weakness in housing continues. The National Association of Realtors reports that sales of existing family homes fell 2.2% in December and were down a whopping 22% versus December 2006. The sales price of existing homes fell 6% nationwide over the same period. Housing starts dropped 14.3% in December, reaching a 16-year low of one million units. The prospects for the housing market in 2008 are not good. The resetting of adjustable rate subprime mortgages will continue well into the new year. The number of foreclosures is rising, the number of qualified buyers is dwindling, and problems are seeping beyond subprime borrowers to the conforming or "prime" sector. The weakness in housing is spreading into commercial construction and business equipment spending. Until the fourth quarter of 2007, commercial construction had held up and, at one point earlier in the year, had taken the lead as the fastest growing component of capital spending within GDP.

Inflation – Year Over Year



Fourth-quarter GDP increased by just 0.6%, well below the 4.9% growth notched in the third quarter. In 2007, the economy expanded 2.2%, the lowest rate since 1.6% in 2002. Residential investment plunged steeply while consumer and business equipment spending both slowed. Imports rose, spurred by higher oil prices, while export growth slowed from the rapid pace of the past several quarters. Imports are negative in the calculation of GDP, so higher imports reduce GDP growth.

The prospects for a recession—an actual decline in GDP for two consecutive quarters—are increasing, and the fate of the economy may rest in the hands of the consumer. Consumption accounts for over two-thirds of GDP. Consumer confidence held up remarkably well through the first three quarters of 2007 but began to weaken in the fourth quarter. Consumers are being squeezed by falling home prices and high gasoline costs. Tapping home equity, a major source of spending dollars, has become substantially more difficult for many homeowners. At the same time, declining home prices are hitting homeowners' equity. Household debt has risen to almost 140% of disposable income (essentially after-tax income), from closer to 110% in 2002. Non-mortgage debt has been relatively stable over the past few years, but not necessarily for reasons of fiscal prudence; many households simply refinanced their credit-card debt into mortgages and home-equity loans. A substantial weakening in the job market may prove to be the "one thin mint" that sends consumers, and therefore the economy, over the edge into recession.

U.S. ECONOMY
Recent Quarterly Indicators

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
Economic Indicators (seasonally adjusted)								
CPI–All Urban Consumers (year-over-year)	3.4%	4.3%	2.1%	2.5%	2.8%	2.7%	2.8%	4.1%
PPI–All Commodities (year-over-year)	5.5%	7.7%	2.0%	1.8%	4.6%	4.5%	4.4%	7.9%
Employment Cost–Total Compensation Growth	2.4%	3.2%	3.6%	3.2%	2.3%	3.5%	3.1%	3.1%
Non-farm Business–Productivity Growth	4.3%	1.2%	-0.5%	2.1%	0.7%	2.2%	6.3%	2.2%
GDP Growth	5.6%	2.6%	2.0%	2.5%	0.6%	3.8%	4.9%	0.6%
Manufacturing Capacity Utilization (level%)	80.1	80.6	80.9	80.1	79.8	80.3	80.6	79.7
Consumer Sentiment Index (1966=1.000)	0.889	0.838	0.840	0.925	0.922	0.869	0.857	0.775

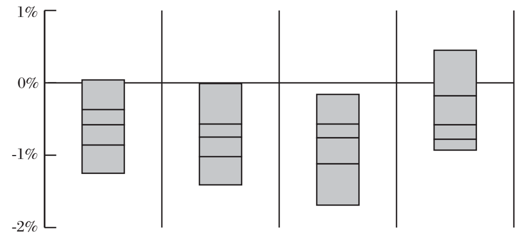
Defense Wins the Game

As fears of a recession reverberated through the markets during the fourth quarter, stocks stumbled while bonds held on to low single-digit returns. The credit market crisis continued to hurt equity returns and the Fed's rate cuts in October and December attempted to ease these equity losses. Still, investors were interested in stability with bond markets outpacing their equity counterparts for the fourth quarter, both at home (Lehman Brothers Aggregate +3.00% vs. Russell 3000 -3.34%) and abroad (Citigroup Non-U.S. World Government Bond +3.91% vs. MSCI EAFE -1.75%). As a result, fund sponsors with greater fixed income exposure surpassed their more aggressively invested peers.

Using the median manager returns from the current 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 losses 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 the small differences in performance. With most of the major asset classes, at home and abroad, registering negative returns in the fourth quarter, the range of fund sponsor returns was very narrow. The median public and Taft-Hartley plans, with average public equity allocations of 61% and 57%, respectively, led their institutional counterparts, returning -0.58%. Corporate plans and endowments/foundations were not far behind, with returns down -0.75% and -0.76%, respectively.

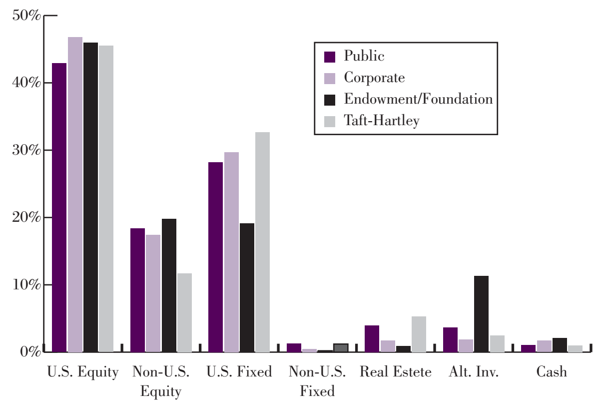
Callan's balanced manager groups generally maintain well-diversified portfolios and attempt to add value by underweighting or overweighting asset classes, as well as through stock selection. In the recent quarter, domestic balanced managers (-1.12%) trailed their static 60% equity/40% fixed income benchmark (-0.80%) and global balanced managers (-1.93%) lagged their target (-0.15%).

Callan Style Group Returns – Fourth Quarter 2007



	Public Plan Database	Corporate Plan Database	Endow/Found Database	Taft-Hartley Database
10th Percentile	0.04	-0.01	-0.16	0.45
25th Percentile	-0.37	-0.57	-0.57	-0.18
Median	-0.58	-0.75	-0.76	-0.58
75th Percentile	-0.86	-1.02	-1.12	-0.78
90th Percentile	-1.25	-1.41	-1.69	-0.93

Average Asset Allocation as of September 30, 2007



DIVERSIFIED ACCOUNT DATABASE

***Style Median* and Index Returns* for Periods ended December 31, 2007**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Plan Sponsor						
Public Database	*-0.58*	*8.30*	*9.90*	*12.83*	*8.01*	*9.88*
Corporate Database	*-0.75*	*7.76*	*9.78*	*12.86*	*7.78*	*9.99*
Endowment/Foundation Database	*-0.76*	*8.56*	*10.08*	*13.11*	*8.16*	*10.49*
Taft-Hartley Database	*-0.58*	*7.64*	*9.13*	*11.66*	*7.48*	*9.31*
Diversified Manager						
Asset Allocator Style	*-1.01*	*11.33*	*9.57*	*14.44*	*8.53*	*10.81*
Domestic Balanced Database	*-1.12*	*6.93*	*8.13*	*10.90*	*7.20*	*9.67*
Global Balanced Database	*-1.93*	*10.49*	*10.18*	*15.14*	*9.40*	*11.23*
60% S&P 500 + 40% LB Aggregate	-0.80	5.97	7.21	10.01	6.59	9.22
60% MSCI World + 40% Citi World Govt	-0.15	9.34	9.15	12.83	7.10	8.81

* Returns less than one year are not annualized.

The *Capital Market Review* is published quarterly for professionals 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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Jon Salstrom, CFA, U.S. Fixed Income, Non-U.S. Fixed Income
Gary Robertson, Private Equity
Jim McKee, Hedge Funds
Lauren Etcheverry, Diversified Accounts

Alpay Soyoguz, CFA, CMR Performance Data
Mary Schaefer, Editor in Chief
Susan Kern, Anna Wagner, Co-editors
Tanja Eisenhardt, Publication Layout

Founded in 1973, Callan Associates Inc. is one of the largest independently owned investment consulting firms in the country. Headquartered in San Francisco, Calif., the firm provides research, education, decision support, and advice to a broad array of institutional investors through five distinct lines of business: Fund Sponsor Consulting, Independent Adviser Group, Institutional Consulting Group, Callan Investments Institute and the Trust Advisory Group. Callan employs more than 170 people and maintains four regional offices located in Denver, Chicago, Atlanta and Florham Park, N.J.

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Active Management Overview

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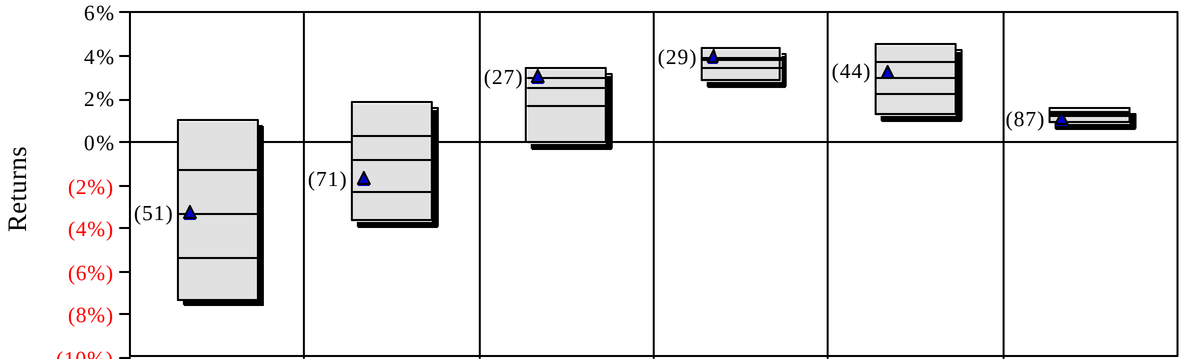
MARKET OVERVIEW
ACTIVE MANAGEMENT VS INDEX RETURNS

Market Overview

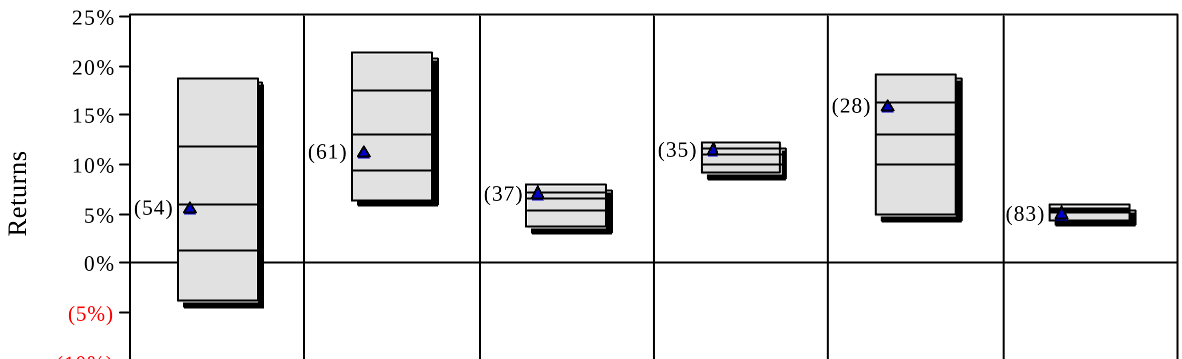
The charts below illustrate the range of returns across managers in Callan's Separate Account database over the most recent one quarter and one year time periods. The database is broken down by asset class to illustrate the difference in returns across those asset classes. An appropriate index is also 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 Separate Account Manager Returns by Asset Class
One Quarter Ended December 31, 2007



	Domestic Equity vs S&P 500	Non-US Equity vs MSCI EAFE	Domestic Fixed-Income vs LB Aggr Bd	Non-US Fixed-Income vs Citi Non-US Gov	Real Estate vs NCREIF Index	Cash Equivalents vs 3 Mon T-Bills
10th Percentile	0.99	1.77	3.33	4.25	4.45	1.55
25th Percentile	(1.28)	0.25	3.02	3.95	3.74	1.43
Median	(3.31)	(0.77)	2.52	3.80	3.03	1.30
75th Percentile	(5.36)	(2.28)	1.65	3.43	2.21	1.24
90th Percentile	(7.35)	(3.67)	(0.07)	2.77	1.20	0.86
Index ▲	(3.33)	(1.75)	3.00	3.91	3.21	1.05

Range of Separate Account Manager Returns by Asset Class
One Year Ended December 31, 2007



	Domestic Equity vs S&P 500	Non-US Equity vs MSCI EAFE	Domestic Fixed-Income vs LB Aggr Bd	Non-US Fixed-Income vs Citi Non-US Gov	Real Estate vs NCREIF Index	Cash Equivalents vs 3 Mon T-Bills
10th Percentile	18.66	21.18	7.85	12.04	19.06	5.72
25th Percentile	11.88	17.56	7.26	11.57	16.31	5.55
Median	5.87	13.05	6.58	11.06	12.98	5.42
75th Percentile	1.29	9.33	5.28	9.95	9.96	5.23
90th Percentile	(4.02)	6.30	3.53	8.95	4.72	4.25
Index ▲	5.49	11.17	6.97	11.46	15.85	5.00

DOMESTIC EQUITY
Active Management Overview

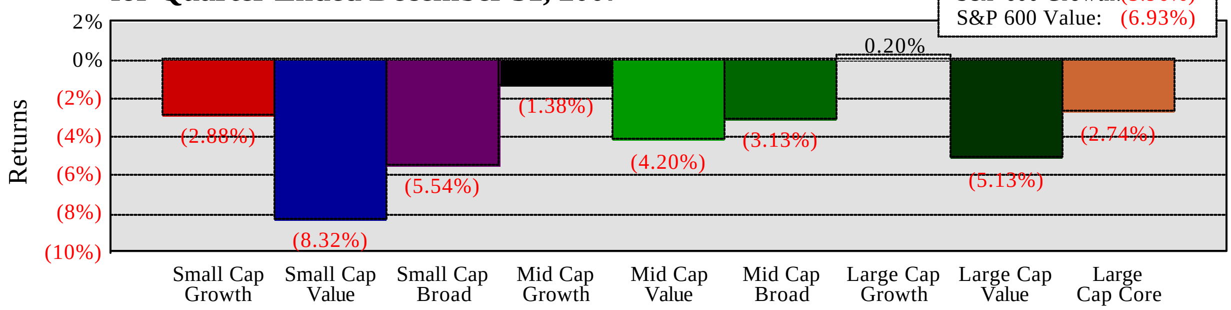
Active vs the Index
Driven by two Fed rate cuts, a stronger than expected retail sales report in November and multiple cash infusions from Sovereign Wealth Funds, the U.S. domestic stock market saw two rallies in the fourth quarter. The first rally occurred at the end of November and the second midway through December. Unfortunately, these rallies turned out to be unsustainable as the spillover of the subprime market into the broader credit market and numerous charge-offs from many of the world's largest banks, drove all domestic equity indexes lower for the quarter. The median fund across all capitalizations and style groups outperformed their respective benchmarks in the fourth quarter except for Small Cap Value which underperformed its benchmark. For the year ended December 31, 2007, all groups except Small Cap Value and Large Cap Value outperformed their benchmarks.

Large Cap vs Small Cap
With recession fears lingering, investors continued to favor larger, more stable firms in the fourth quarter, resulting in the continued outperformance of large capitalization stocks compared to their small cap peers. The median Large Cap Core manager lost 2.74%, 59 basis points less than the S&P 500's loss of 3.33%. The median Small Cap Broad manager lost 5.54%, 91 basis points ahead of the S&P 600's loss of 6.45%. The median Mid Cap Broad manager fared better than the median Small Cap manager posting a 3.13% loss, 40 basis points lower than the S&P Mid Cap Index's loss of 2.73%. However, Mid Cap Broad fell 39 basis points behind the median Large Cap Core fund. For the year ended December 31, 2007, Large Cap bested Small Cap across all styles, with Mid Cap managers beating both Large and Small Cap funds.

Growth vs Value
The recent investor preference for growth stocks continued last quarter's trend. The median Large Cap Growth manager gained 0.20% in the fourth quarter, 533 basis points ahead of the median Large Cap Value fund's loss of 5.13%. For the year, the median Large Cap Growth manager returned 16.02%, a staggering 14.89% ahead of the 1.13% return from the median Large Cap Value manager. Similar results can be found in the Mid Cap and Small Cap arenas, with the largest discrepancy between growth and value performance belonging to the Mid Cap stocks. Despite a 1.38% loss in the fourth quarter, the median Mid Cap Growth manager returned 19.36% for the twelve months ended December 31, 2007, resulting in the best performance of the year. The median Mid Cap Value manager returned a meager 1.96%.

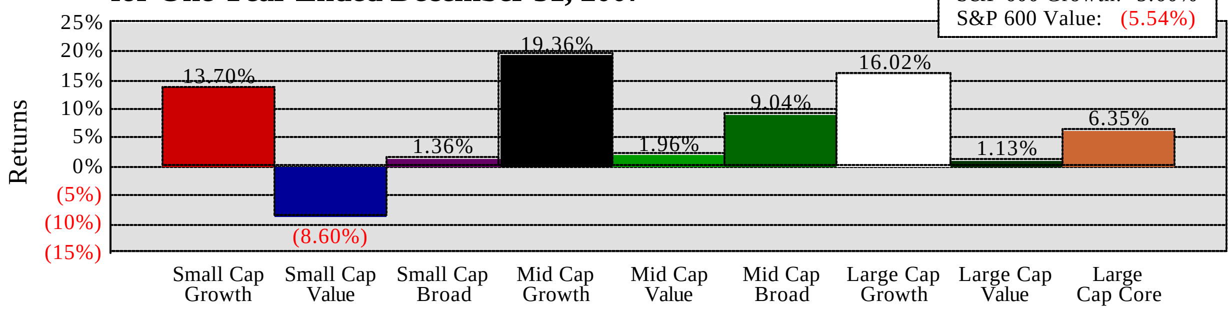
S&P 500:	(3.33%)
S&P 500 Growth:	(1.28%)
S&P 500 Value:	(5.37%)
S&P Mid Cap:	(2.73%)
S&P 600:	(6.45%)
S&P 600 Growth:	(5.96%)
S&P 600 Value:	(6.93%)

Separate Account Style Group Median Returns for Quarter Ended December 31, 2007



S&P 500:	5.49%
S&P 500 Growth:	9.13%
S&P 500 Value:	1.99%
S&P Mid Cap:	7.98%
S&P 600:	(0.30%)
S&P 600 Growth:	5.60%
S&P 600 Value:	(5.54%)

Separate Account Style Group Median Returns for One Year Ended December 31, 2007



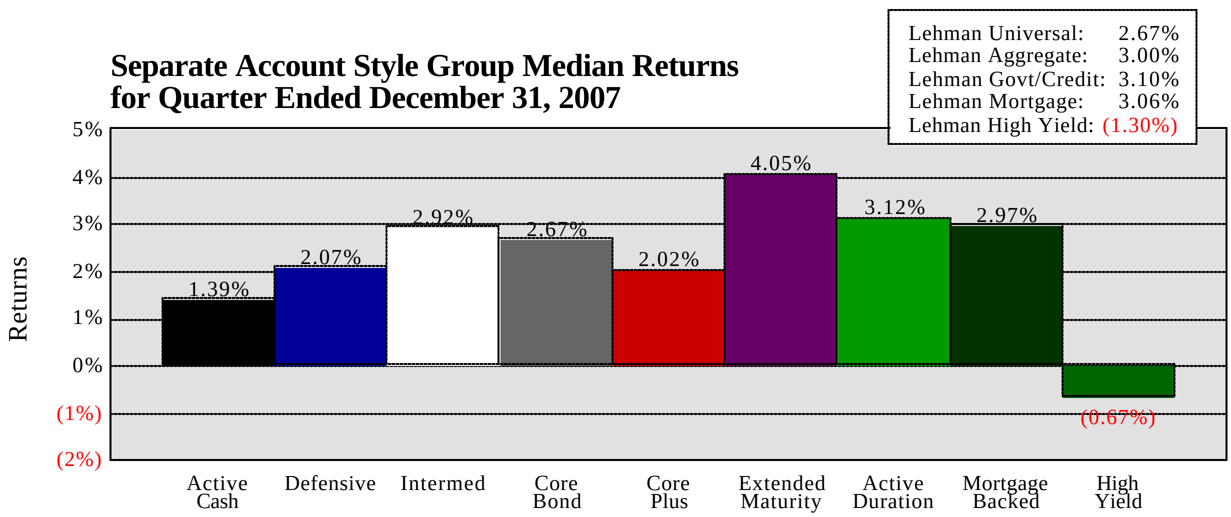
DOMESTIC FIXED-INCOME
Active Management Overview

Active vs the Index
The Federal Open Market Committee lowered the Federal Funds rate by 25 basis points to 4.50% in the fourth quarter. Although strong economic growth continued in the third quarter, the Federal Reserve board expects the pace of economic expansion to slow in the near term due to the housing correction. The Lehman Aggregate returned 3.00%, up 16 basis points from last quarter, finishing 33 basis points ahead of the median Core Bond Fund's return of 2.67%. For the year ended December 31, 2007, the Lehman Aggregate returned 6.97%, 36 basis points higher than the median Core Bond Fund's return of 6.61%.

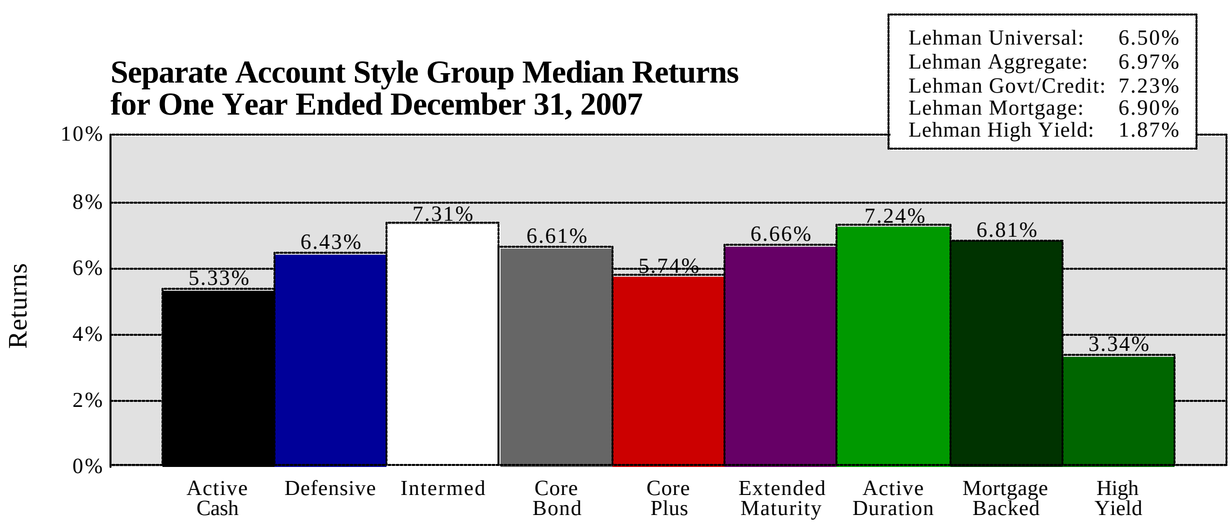
Short vs Long Duration
The yield curve remained relatively steep as the Federal Reserve continued its commitment to cutting the Federal Funds rate in the wake of the housing crisis. The median Extended Maturity manager's return of 4.05% was 266 basis points higher than the median Active Cash Manager's return of 1.39% for the fourth quarter of 2007. The results for the twelve months ended December 31, 2007 closely resemble those for the fourth quarter, with the median Extended Maturity Manager returning 6.66%, 133 basis points higher than the median Active Cash Manager's return of 5.33%.

Mortgages and High Yield
The Federal Open Market Committee's decision to continue to lower the Federal Funds rate is related to the subprime housing market downturn and the tightening of credit. The Lehman Mortgage index was up 42 basis points over third quarter 2007's return of 2.64%. For calendar year 2007, the median Mortgage Backed fund returned 6.81%, underperforming the Lehman Mortgage index which returned 6.90%. In the fourth quarter, High Yield funds were the worst performers losing 0.67%, 63 basis points ahead of the Lehman High Yield index. For the year ended December 31, 2007, the median High Yield fund outperformed the Lehman High Yield index, 3.34% versus 1.87%.

Separate Account Style Group Median Returns for Quarter Ended December 31, 2007



Separate Account Style Group Median Returns for One Year Ended December 31, 2007



INTERNATIONAL EQUITY
Active Management Overview

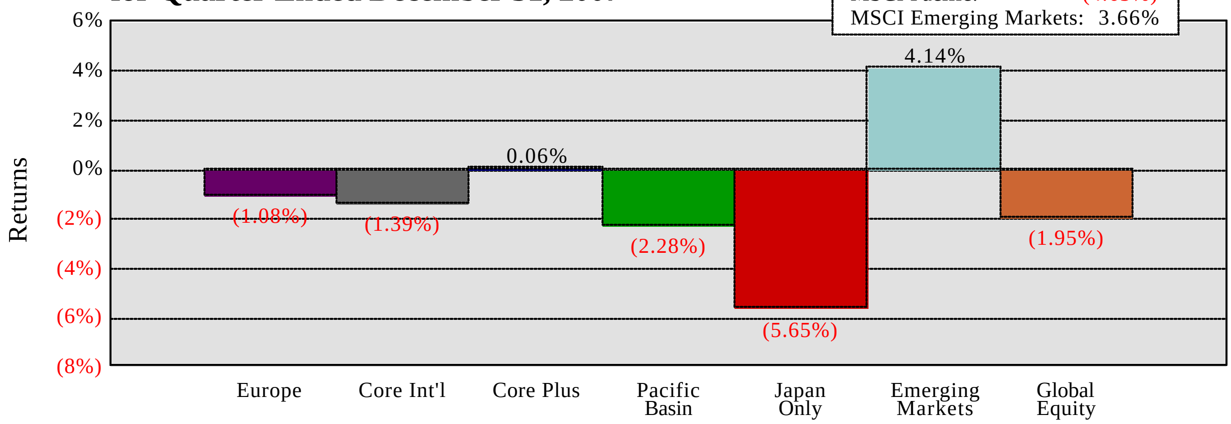
Active vs. the Index
Volatility and uncertainty with regards to U.S. markets continued to spill over into the international arena as median funds across all style groups (with the exception of Emerging Markets) posted negative returns for the quarter ended December 31, 2007. Chinese attempts to cool its economy did not prevent the median Emerging Markets fund from posting a 4.14% gain for the quarter, besting its benchmark by 48 basis points. Strong performances by Brazil and India buoyed Emerging Markets in the 4th quarter contributing to a 40.44% return for the year ended December 31, 2007, while the MSCI Emerging Markets Index gained 39.78%.

Europe
Struggles to curb economic slowdown while avoiding inflationary threats resulted in the median Europe fund posting a loss of 1.08% for the quarter ended December 31, 2007. The UK experienced its slowest economic growth since 2005. This, coupled with the euro's continued appreciation and subsequent widening of currency imbalances (with respect to the yuan, yen, and dollar), will continue to put a strain on economic growth in Europe. The median Europe fund posted 12.95% for the year, while the MSCI Europe Index returned 13.86%.

Pacific
Australia has appeared to escape the effects of problems abroad. With high job growth and retail sales, Australia's economy remains strong. In addition, the Australian and New Zealand dollar continue to rise, on speculation of Fed rate cuts. However, Japan continues to be a significant drag on the region's performance (losing 5.65% for the quarter) which resulted in the median Pacific Basin fund down 2.28% for the quarter ended December 2007, 235 basis points ahead of its benchmark. For the year, the median Pacific Basin fund gained 11.50%, besting its benchmark by 6.20%.

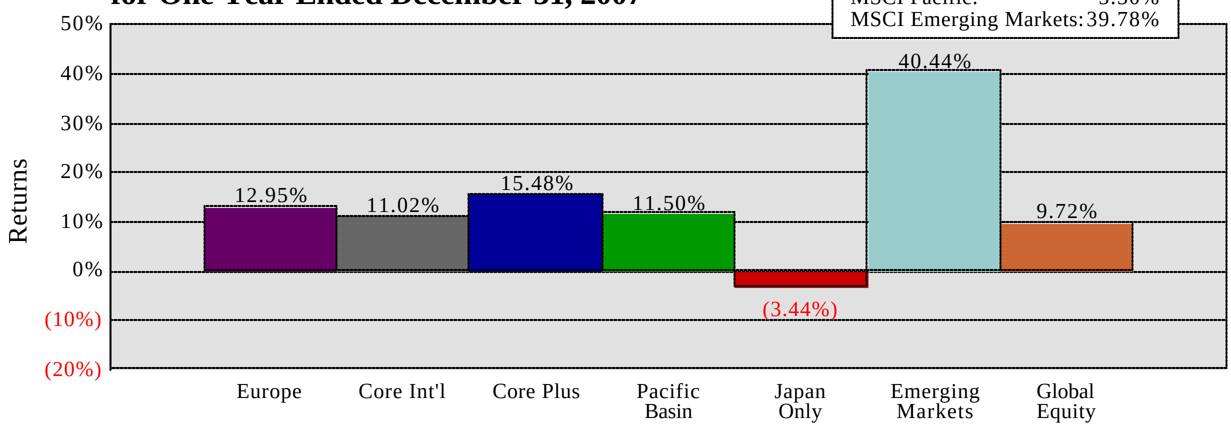
MSCI AC World Index	(1.70%)
MSCI ACW ex US Free:	(0.62%)
MSCI EAFE:	(1.75%)
MSCI Europe:	(0.46%)
MSCI Pacific:	(4.63%)
MSCI Emerging Markets:	3.66%

Separate Account Style Group Median Returns for Quarter Ended December 31, 2007



MSCI AC World Index	12.18%
MSCI ACW ex US Free:	17.12%
MSCI EAFE:	11.17%
MSCI Europe:	13.86%
MSCI Pacific:	5.30%
MSCI Emerging Markets:	39.78%

Separate Account Style Group Median Returns for One Year Ended December 31, 2007

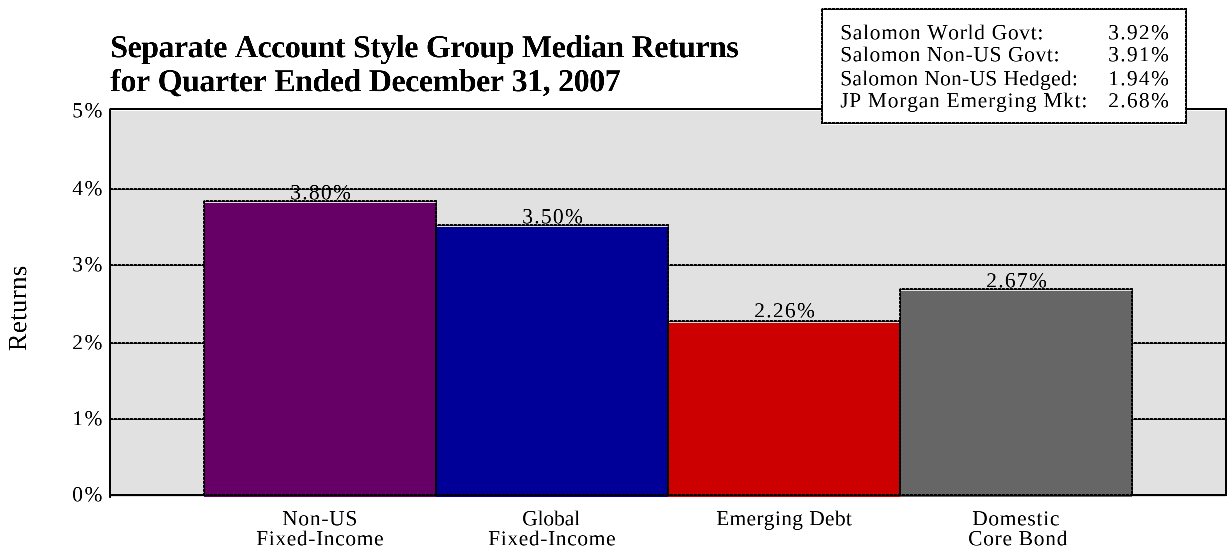


INTERNATIONAL FIXED-INCOME
Active Management Overview

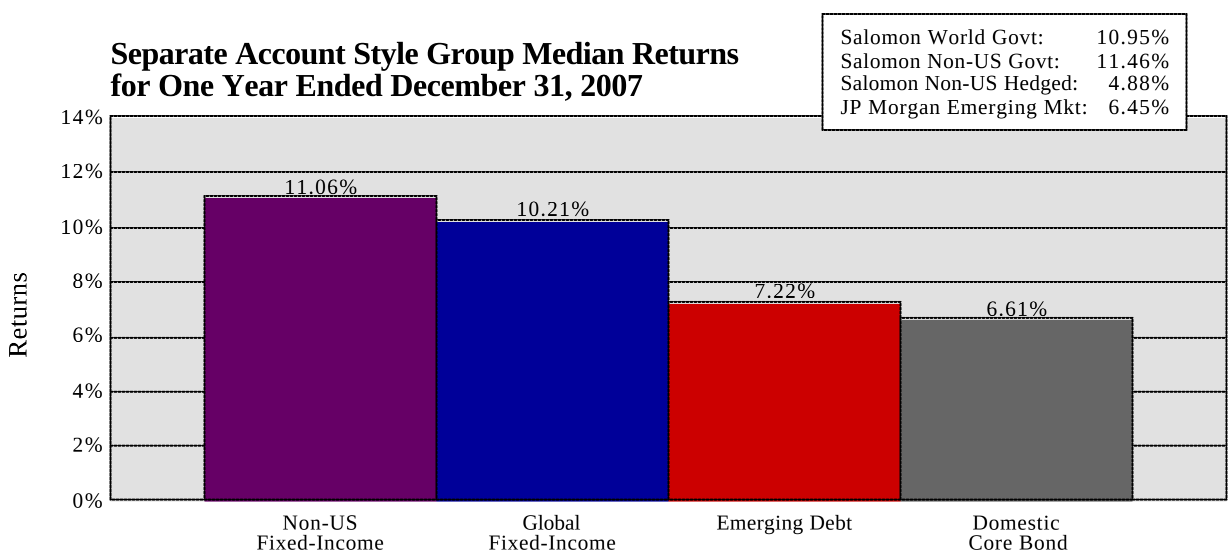
Active vs. the Index
Currency infusions and rate cuts by the world's central banks have failed to provide a permanent solution to the credit crisis. Developed nations now face the difficult task of maintaining growth in the face of devaluing currencies and increased commodity prices. Japan continues to delay plans for further rate increases, while the European Central Bank has turned its attention to inflation. Modest gains characterized the International Fixed-Income market in the fourth quarter of 2007 and median fund manager returns trailed benchmark returns across all style groups. The median Global Fixed-Income fund returned 3.50%, 42 basis points less than the Citi World Government Index return of 3.92%. The median Non-U.S. Fixed-Income fund returned 3.80%, falling short of the 3.91% return of its benchmark. For the year, median manager returns again fell behind their benchmarks, with Global Fixed-Income funds returning 10.21% vs. 10.95% for its benchmark. Non-U.S. Fixed-Income's return of 11.06% was 39 basis points behind its index.

Emerging Markets
Emerging Market debt continues to be a beacon of stability. The median Emerging Debt fund returned 2.26%, compared to 2.00% for the third quarter. However, manager returns fell short of the JP Morgan Emerging Market index return of 4.41%. The one-year median Emerging Debt manager's return of 7.22% is less than half of its benchmark return. Investor apprehension and the evaporation of liquidity have widened credit spreads. Developing nations have rushed to issue new debt as borrowing conditions are predicted to worsen. China, a net creditor to the developed world, has tightened its policies, raising reserve requirements 9 times in the past 18 months by a cumulative 500 basis points.

Separate Account Style Group Median Returns for Quarter Ended December 31, 2007



Separate Account Style Group Median Returns for One Year Ended December 31, 2007



IPS Executive Summary

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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 (This table identifies the benchmarks available for comparative performance.)

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

Manager Structure History

Current Managers	Asset Class	Inception
INTECH Large Cap Growth	Large Cap Growth	04/30/2006
Rainier Investment Management	Large Cap Growth	05/09/2006
Vanguard Large-Cap Index Fund	Large Cap	08/04/2005
AllianceBernstein	Large Cap Value	05/24/2006
Great Lake Advisors	Large Cap Value	05/09/2006
TAMRO Capital Partners	Small Cap Broad	08/31/2006
Eagle Asset Management	Small Cap Broad	08/31/2006
Artisan International Fund	International Equity	06/22/2006
Harbor International Fund	International Equity	06/22/2006
SSgA Emerging Markets Fund	Emerging Markets	06/22/2006
Vanguard Total Bond Market Index	Fixed Income	08/04/2005
Western Asset Core Plus Bond	Fixed Income	09/29/2006
Richmond Capital Management	Domestic Fixed Income	10/03/2006
Atlantic Asset Management	Domestic Fixed Income	10/03/2006

Terminated Managers/Funds	Asset Class	Inception	Termination
Merrill Lynch Equity	Large Cap	09/30/2000	07/27/2005
Merrill Lynch Fixed Income	Fixed Income	09/30/2000	07/27/2005
Vanguard Emerging Markets VIPER/ETF	Emerging Markets	08/04/2005	06/20/2006
Vanguard Developed Markets Index Fund	International Equity	08/04/2005	06/15/2006
Vanguard Small-Cap Index Fund	Small Cap	08/04/2005	08/29/2006

*Custom Benchmarks for Total Fund

- **Style Target** = 30% CAI MF: Lg Cap Broad Style; 5% CAI MF: Sm Cap Broad Style; 12% CAI MF: Intl Core Equity Style; 3% CAI MF: Emerging Markets Style; 45% CAI MF: Core Bond Style; 5% CAI: Cash Management: CAI: Small Cap Broad

- **Index Target** = 30% MSCI U.S. Prime Market 750; 5% MSCI U.S. Small Cap 1750; 12% MSCI EAFE; 3% MSCI Emerging Markets; 45% LB Aggregate; 5% 90-day T-Bill

Quarterly Performance Report Disclosure/Account Reviews (INST)

Important Disclosure Information

This report has been prepared by Capital Advisory Group (CapGroup) using information from sources that include the following: the computer software, investment manager and fund sponsor databases of Callan Associates, Inc.; the fund custodian(s); investment manager(s); third party data vendors; the client; and other outside sources as directed by the client. Account information has been compiled solely by CapGroup and has not been independently verified. CapGroup assumes no responsibility for the accuracy or completeness of the information provided, or methodologies employed by any providers external to CapGroup.

In reviewing this report, it should be noted that past performance may not be indicative of future results. The individual account performance information contained in this report reflects the reinvestment of dividends, and is net of applicable transaction fees and mutual fund expenses, but not custody fees, investment manager fees and the investment advisory fees charged to the Account by CapGroup. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. Comparative performance information for manager universes has been provided by Callan Associates, Inc. and does not reflect the deduction of investment manager fees, the incurrence of which would have the effect of decreasing the historical returns for the respective universes. It should not be assumed that your account holdings correspond directly to any comparative indices or manager universes. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Financial Statements

For Years Ended
December 31, 2006 and 2005

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Contents

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

A lifetime of help

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April 13, 2007

Board of Directors
9100 Arboretum Parkway Suite 365
Richmond, VA 23842

Dear Members of the Board:

The annual financial report of the Virginia Birth-Related Neurological Compensation Program (the "Program") for the year ended December 31, 2006, is submitted herewith. This financial report has been prepared by the Program's finance department in accordance with accounting principles generally accepted in the United States of America and conforms with the requirements of the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Program. We believe the data, as presented, is accurate in all material respects; that the data is presented in a manner designed to fairly set forth the financial position and results of the operations of the Program as measured by the financial activity of its various accounts; and that all disclosures necessary to enable the reader to gain the maximum understanding of the Program's financial affairs have been included.

This letter of transmittal is designed to compliment the Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The Program's MD&A can be found immediately following the independent auditor's report.

A brief history of the Program, its fiscal operations, and selected accomplishments are presented below.

Organization and Function

With soaring medical malpractice insurance rates and insurance companies on the brink of eliminating coverage in the mid-1980s, up to one-quarter of the state's obstetricians were threatened with having to close their office doors. To alleviate this crisis, Virginia worked with all stakeholders including physicians, associations, insurers, lawyers and others to develop an innovative solution; the Virginia Birth-Related Neurological Injury Compensation Program. The Program was a first of its kind nationally.

The Program's legislation presents a very specific definition of 'birth injury', which represents a very small number of births each year. By keeping many of the most expensive cases out of the court system, combined with a medical malpractice award cap, the medical malpractice insurance industry has been reasonably stabilized in Virginia (especially when compared to other states) allowing physicians to do what they do best – treat patients.

Although the Program was created by the General Assembly it operates as a separate organization. A seven member volunteer board appointed by the Governor directs the Program. The Program is regulated by statute and the Code of Virginia is very specific in how it operates. All admissions are through the Virginia Workers' compensation

Commission; the Program itself does not admit claimants. Financial Reports are filed annually with the Governors office, the Virginia Senate and the Virginia House of Delegates. At least every other year, the State Corporation Commission is required to conduct an actuarial study of the Program.

Entry into the Birth-Injury Program does not provide for any set amount of compensation. The Program operates much like an insurance policy in that it pays for actual medically necessary costs and other legislatively stipulated benefits. Additionally, the Program is the payer of last resort in all situations. There is no cap on the total eligible lifetime costs.

No state funds are involved in providing services to claimants. Funding is derived only from legislatively allowed sources including, participating physician fees, participating hospital fees, non-participating physician assessments and liability insurer assessments.

Reporting Entity

The annual financial report includes all funds and accounts of the Program. In accordance with accounting principles generally accepted in the United States of America for governmental entities, there are no component units to be included in the reporting entity.

Major Initiatives

Participating Physicians and Hospitals are continuing to become more aware of the benefits of participation for themselves as well as their patients. A qualifying birth can occur despite the heroic efforts of everyone involved. When it does happen, entry into the Birth Injury Program is important to both families and health services providers.

Of the 850 physicians that regularly deliver babies in Virginia, 578 participated in 2006, a record high in program history. Along with the coverage benefits of participation, physicians also receive a reduction or credit on their malpractice insurance premiums. During 2006 33 hospitals enrolled in the Program.

The Program covers expenses that insurance and other programs do not. Medically necessary expenses such as doctor and hospital visits, therapy, nursing care, and medical equipment are mandated by the guiding legislation. The statute also provides a wage benefit paid to the claimant from age 18 to 65, and payment for legal expenses related to filing the claim. In addition, the board provides benefits including handicapped accessible vans, handicapped accessible bedroom and bath additions to homes, rental assistance, and allowances for therapeutic toys, medical service dogs and experimental therapies.
The Program's operations and staff are efficient and administrative cost, as a percentage of total expenses (administrative plus claimant), remain low at 8.4%.

Philosophy

The Birth-Injury Program plays a unique role in the Commonwealth of Virginia. As previously noted, the Program was established due to a need to improve the tort climate for medical care in the state, with the specific purpose of keeping malpractice insurers writing policies. It accomplished the goal immediately. According to studies and anecdotal information from key players in the industry, the Birth-Injury Program is still fulfilling this role.

However, over the past 20 years the more publicly visible role has become the Program's contribution to caring for this specific group of children. Here, the information also shows that they receive more benefits and greater care than those utilizing the tort system.

In fact, an article written by an actuary who has studied the Program and a similar organization in Florida noted that such approaches are highly efficient as compared to tort remedies. He writes that the vast majority of money involved in the Birth-Injury Program is used for claimant care whereas in the tort system substantial percentages of funds go to other purposes.

Along with striving for such efficiency, the Program has worked to assure its financial reserves receive maximum growth with minimum risk. This has been accomplished through careful planning and the use of a sophisticated investment policy and practice.

With no legislated ability to increase funding, the Program continues to utilize such prudent practices to assure that available resources provide ongoing care for admitted claimants.

Financial Controls

The Deputy Director is responsible for establishing and maintaining an adequate internal control structure. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of control procedures. The objectives of the control system are to provide the Program with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and are recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. All internal control evaluations occur within this framework. The Program's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

The Program's accounting records are maintained on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. The accounting and reporting policies conform with accounting principles generally accepted in the United States of America and reflect practices appropriate for a governmental enterprise.

Independent Audit

The Program's guiding legislation (38.2-5015B) requires an annual independent audit of the Program's financial records and transaction by an independent certified public accountant selected by the Board of Directors.

Acknowledgements

The staff of the Finance Department accomplished the preparation of this annual financial report for year ended December 31, 2006. We would like to express our appreciation to all members of the Finance Department who assisted and contributed to its preparation.

Respectfully submitted,

George Deebo
Executive Director

Candace Thomas, CGFM
Deputy Director

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

The Audit Committee
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, 2006 and 2005, and the related statements of revenues, expenses 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 opinion.

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, 2006 and 2005 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 13, 2007 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 9 and other required supplementary information on pages 24 through 26 are not a required part of the basic financial statements but are 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 schedule of general and administrative expenses 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, LLP

Richmond, Virginia
April 13, 2007

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

This section of the Virginia Birth Related Neurological Injury Compensation Program (the Program) annual financial report represents our discussion and analysis of the Program's financial performance during the fiscal years ended December 31, 2005 and 2006. Please read it in conjunction with the Program's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- In 2006 the Board of Directors completed the transition process of developing and adopting an updated investment policy moving from a single domestic manager to a globally diversified strategy. The objective for the new policy is to implement an effective combination of active and passive management styles to enable the Program to achieve its long term objectives while prudently managing risk.

- The 2006 revenue from fees and assessments increased by $1,596,029 or (8%). Fees assessed from participating physicians increased $501,344 or (21%), participating hospitals increased $173,450 or (6%), insurance companies increased $631,645 or (6%) and mandated physicians fees increased $289,590 or (8%). (An explanation of significant variances is included later in this report).

- The 2005 revenue from fees and assessments increased by $1,527,396 or (8%). Fees assessed from participating physicians increased $131,265 or (6%), participating hospitals increased $22,541 or (1%), insurance companies increased $1,365,292 or (14%) and mandated physicians fees increased $8,298 or (0.2%).

- The Program's total net assets decreased by $4.2 million and $26.0 million in 2006 and 2005 respectively. The smaller decrease in 2006 is primarily due to the $7.6 million decrease in provision for claims and the increase in investment income of $12.5 million from 2005 to 2006.

- In 2006 the Program provided $6,186,000 in nursing care, $232,000 in therapy, $849,000 for 21 handicapped accessible vans, $1,445,000 for housing benefits, $323,000 for durable medical equipment and technology, $81,000 for hospitals and physician visits, and $467,000 for claimant legal fees.

- The average cost per active claimant in 2006 and 2005 was approximately $115,000 and $104,000 respectively.

- As of December 31, 2006 there was a record high of 578 participating physicians, up 42 from 536 physicians in 2005. Participating Hospitals increased by 1 from 32 in 2005 to 33 in 2006.

- Administrative expenses were 8.4% and 9.5% of the total expenses (administrative plus claimant) paid in 2006 and 2005 respectively.

- In 2006 several meetings were conducted in response to a letter from Delegate Harvey Morgan, Chair of the House Commerce and Labor Committee, urging the Program to meet with stakeholders to develop a legislative plan for reducing or eliminating the Program's actuarial deficit. The group recessed after it's December 2006 meeting with a joint statement that they were not yet ready to propose legislation however they would resume meeting following the 2007 General Assembly to continue their work.

- At the close of 2006 the Program had a total of 119 admitted claimants, 23 of which are deceased. Eight claimants were admitted and three other claimants became deceased. Nine claimants were pending as of December 31, 2006. See chart below.

Total Active Claimants as of 12/31/2006

	Total 12/31/05	2006 Activity	Total 12/31/2006
Admitted	111	8	119
Deceased	20	3	23
Active	91		96

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.

FINANCIAL ANALYSIS

Net Assets:

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

Table 1
Net Assets
As of December 31, 2006. 2005, and 2006
(In millions)

	2006	2005	2004
Current assets	$ 17.4	$ 10.7	$ 12.3
Non current assets	179.0	155.8	134.6
Total assets	196.4	166.5	146.9
Current liabilities	13.8	12.1	10.3
Deferred revenue	20.5	19.3	16.5
Unpaid claims reserve			
Admitted claims	183.3	164.9	129.5
Incurred but not reported claims	108.1	95.3	89.8
Total unpaid claims reserve	291.4	260.2	219.3
Total liabilities	325.7	291.7	246.1
Unrestricted net assets	(129.3)	(125.2)	(99.2)
Total net assets	$ (129.3)	$ (125.2)	$ (99.2)

Management's Discussion and Analysis

At December 31, 2006 and 2005, the total assets of the Program were $196.4 and $166.5 million, respectively; total liabilities were $325.7 and $291.7 million, respectively, while combined net assets were negative $129.3 and $125.2 million, respectively. The actuarial estimate of future claim payments of children born on or prior to December 31, 2006, plus their estimate of future claim administration expenses, exceeds the funds assets. This deficit is primarily due to the portion of the unpaid claims reserve for claims incurred but not reported of $108.1 million in 2006 and $95.3 million in 2005.

The increase in current assets from 2005 of $10.7 million to 2006 of $17.4 million consists primarily of assessments collected and deposited. The amount held in current assets (cash & cash equivalents) is in compliance with the Investment Policy Statement (IPS). The $23.2 million increase in non current assets from $155.8 million in 2005 to $179 million in 2006 consists primarily of $12.4 million in investment income and $11.0 million in assessments deposited and invested.

Current assets exceed current liabilities by $3.6 million in 2006. Current assets are comprised of cash, cash equivalents and short term investments while current liabilities consist primarily of claims estimated to be paid within the next year. According to the IPS the target allocation for cash is around 5% of investments and current assets are in compliance. As revenue is received it is invested on a monthly basis with approximately $1 million held in liquid cash equivalents to meet the short-term needs of the fund.

The total unpaid claims reserve for December 31, 2006 and 2005 were $304.4 and $271.2 million respectively. At December 31, 2004 the total unpaid claims reserve was $228.8 million. 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 biannual actuarial study.

A summary of the claims provision (in millions) is as follows:

	2006	2005
Provision for insured events of current year	$ 23.0	$ 21.0
Increase (decrease) in provision for insured events of prior years	3.5	16.1
Interest	17.8	15.0
Total claims provision	$ 44.3	$ 52.1

Due to the program's relatively short history changes in actuarial assumptions add volatility to this important estimate. Those changes for 2006 and 2005 are summarized as follows:

Effects of Changes in Assumptions on the Prior Year Provision (in millions)

Assumption Changes	**2006**	**2005**
Mortality	$ 9.2	$ 13.5
Nursing	9.7	-
Deceased at admission	(14.0)	-
Other Factors	(1.4)	2.6
	$ 3.5	$ 16.1

The most volatile piece of the claims provision, the change in the provision for prior years, is described in the above table. As the Program gains more claims experience the actuaries refine the assumptions they use for their forecasts. These changes in assumptions not only affect the current years forecast but also have a particularly volatile affect on the prior years estimate. The mortality table continues to be revised increasing the life expectancies of the claimants and the estimate of future claim payments. The actuaries increased their forecast by $9.7 million in 2006 to reflect an increase in nursing cost observed in 2005. In addition, the actuaries reduced their estimate by $14 million in consideration of claimants who are deceased at the time of admission to the Program. Other factors may include inflation, interest rates, investment performance, and number of claimants.

Accounts payable as of December 31, 2006 and 2005 is $805,600 and $1,050,000 respectively, showing a decrease of $244,400. The decrease is primarily due to timing; however the total still represents approximately one month's expenses. The majority of the accounts payable are nursing expense and other miscellaneous medical expenses that were paid in January and February 2007.

In addition, claimant expenses increased $1,550,000 from $9,500,000 in 2005 to $11,050,000 in 2006. This increase was due, in part, to thirteen new claimants admitted in 2005 as well as eight in 2006 increasing both the number and amounts of invoices. Nursing expenses increased $645,000 from 2005 to 2006. The number of renovation projects tripled from approximately six in 2005 to approximately 18 in 2006 with an increase of $404,000.

Changes in Net Assets:

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

Table 2
Changes in Net Assets
Year End December 31, 2006, 2005, and 2004
(in millions)

	2006	2005	2004
Revenues			
Fees and assessments	$ 21.6	$ 19.9	$ 18.3
Net investment income	18.6	6.1	7.1
Total revenues	40.2	26.0	25.4
Expenses			
Provision for claims	44.2	51.9	48.0
General and administrtation	0.1	0.1	0.1
Total liabilities	44.3	52.0	48.1
Change in net assets	(4.1)	(26.0)	(22.7)
Beginning net assets	(125.2)	(99.2)	(76.5)
Ending net assets	$ (129.3)	$ (125.2)	$ (99.2)

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, 2006 and 2005, revenues totaled $40.2 and $26.0 million, respectively. The increase in total revenues is primarily due to the increase in investment income (as described below).

Assessments for 2006 for participating and non-participating physicians were $5,200 and $270 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 $170,000. In 2006 liability insurers paid one quarter of one percent on the direct premiums written during the prior year.

The participating physicians assessments increased $501,000 or (21%) from $2.3 million in 2005 to $2.8 million in 2006. The number of physicians participating reached a record high of 578, 42 more than in 2005. From 2004 to 2005 the number of participating physicians increased by 28 from 508 and 536 respectively. The continued increase is due in part to the increased awareness of the benefits of the Program as well as the malpractice insurers requiring the insured to participate.

In 2004 the General Assembly authorized increases in future years assessments according to the following chart, however the 2005 actuarial report states that these increases will not be enough to restore the fund to actuarial soundness.

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

Liability Insurers pay one quarter of one percent of premiums written in prior year.

Net investment income increased by $12.5 million from 2005 to 2006. In 2005 the Program employed SunTrust Bank as custodian of the Program's funds replacing Merrill Lynch. Investments held at Merrill Lynch were liquidated and transferred to SunTrust. Subsequently, during the last quarter of 2005 those proceeds were invested in various Vanguard Index funds. During 2006 the Investment Committee completed the conversion from a single manager to a diversified portfolio of both passive and active managers. Several Vanguard Index funds were sold as well as a portion of the Bond and Large Cap Index funds and the proceeds invested in diverse active managers. This sale contributed greatly to the $5.6 million increase in realized gains from 2005 to 2006. Additional contributors to the large increase in investment income include the $3.3 million in dividends paid by the Vanguard Bond Index fund and the $5.6 million increase in unrealized gains due to a more diversified portfolio and favorable market conditions. (See Note 2).

EXPENSES

For the fiscal years ended December 31, 2006 and 2005 expenditures totaled $44.4 million and $52.0 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. Administrative expenses were 8.4% and 9.5% of the total expenses (administrative plus claimant) paid in 2006 and 2005 respectively. Management estimates that approximately 80% of the total administrative expenses are directly related to claims administration. Of the total administrative expenses of $943,000 in 2006 approximately $754,000 or 80% is related to claims and $189,000 is related to program administration. In 2005 80% or $733,000 of a total $916,000 in Administration expenses was related to claims and $183,000 was 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 has fluctuated from $48.0 million in 2004 to $51.9 million in 2005 to $44.3 million in 2006. These fluctuations are primarily due to the changes in the assumptions reflected in the actuarial study completed and published in September 2006 and discussed previously in this report.

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 seventeen Trust Homes owned by the Program are recorded as investments (real estate held in trust) because they are considered appreciable.

ECONOMIC FACTORS

The increase in claims reserve for December 31, 2006 and 2005 are $33.2 million and $42.4 million respectively. The increases both years are due to changes made in the actuarial assumptions from year to year as more credible data on the Program is collected. These changes are discussed earlier in this report. It is important to note that there are significant uncertainties related to the estimates of future claim payments. Forecasts are highly sensitive to changes in assumptions like inflation, interest rates and mortality. There are few claimants in the program (119 admitted as of 2006), nine who are 16 or older, only one has attained the age of 17. Only 75 claimants have been in the program three years or more as of 2005. There is also considerable variability in the actual payment made to individual claimants. Nursing expenses are the largest payment category and any changes in cost or utilization of nursing services would have a major impact on findings. Forecasts of the number of eligible claimants are also uncertain due to the length of time from birth to application to the program, number of participating doctors and hospitals, and legislative changes. An increase in the number of eligible claimants will have a direct effect on the number admitted and will increase the cost of the program. These factors have a volatile effect on the estimate of the claims reserve.

The 2006 Actuarial report states that the Program is not in any immediate danger of defaulting on the payment of benefits; although not actuarially sound, it has sufficient assets to pay benefits for about 17 years. The report explains that if the Program collects the required assessments and if the level of participation of physicians and hospitals remains at the 2006 level, the fund will be able to continue to make claim payments for all claimants, including those admitted after December 31, 2005 (even if those claimants are born after December 31, 2005), for approximately the next 17 years. This time span has decreased from the 18 years cited in the 2005 report due to the increase in the forecasted lifetime costs per claimant, most of which is nursing.

As previously mentioned in this report in 2006 the Board has completed the transition that began with the adoption of an updated investment policy and resulted in the implementation of a globally diversified strategy utilizing both passive and active managers. As of December 31, 2006 the portfolio was invested in 60% active managers and 40% Index Funds. The Board believes these actions together with the guidance from CapGroup, the Program's investment advisor, have significantly improved the investment strategy and will continue to enhance the financial position of the program, which is an important factor in reducing the actuarial deficit.

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, 2006		December 31, 2005	
Assets				
Current assets				
Cash and cash equivalents	$	16,808,050	$	10,332,289
Short Term Investments		115,257		-
Accrued interest/dividends		505,672		380,655
Other receivables				
Total current assets		17,428,979		10,712,944
Investments		173,877,095		150,614,312
Real estate held in trust		5,110,121		5,142,281
Property and equipment, net		16,302		19,755
Other assets				
Security deposits		3,009		3,009
Total noncurrent assets		179,006,527		155,779,357
Total assets	$	196,435,506	$	166,492,301
Liabilities				
Current liabilities				
Accounts payable	$	805,601	$	1,051,682
Accrued liabilities		42,146		54,069
Estimated current portion of claims reserve		13,000,000		11,000,000
Total current liabilities		13,847,747		12,105,751
Deferred revenue		20,500,254		19,347,906
Unpaid claims reserve				
Admitted claims, less estimated current portion		183,300,000		164,900,000
Incurred but not reported claims		108,100,000		95,300,000
Total unpaid claims reserve		291,400,000		260,200,000
Total liabilities		325,748,001		291,653,657
Net Assets				
Invested in capital assets, net of related debt		16,302		19,755
Unrestricted (deficit)		(129,328,796)		(125,181,112)
Total net assets	$	(129,312,494)	$	(125,161,357)

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, 2006	2005
Operating revenues		
Participating hospitals	$ 2,926,900	$ 2,753,450
Participating doctors	2,843,793	2,342,449
Mandated physician fees	3,734,266	3,444,676
Insurance fees	11,945,795	11,314,150
Other	136,676	-
Total operating revenues	21,587,430	19,854,725
Operating expenses		
Provision for claims	44,254,224	51,853,223
General and administration	188,573	183,164
Total operating expenses	44,442,797	52,036,387
Operating loss	(22,855,367)	(32,181,662)
Nonoperating revenue (expense)		
Net investment income	18,601,829	6,088,153
Revaluation of real estate	117,141	89,730
Loss on sale of assets	(14,740)	(129)
Net nonoperating revenue	18,704,230	6,177,754
Change in net assets	(4,151,137)	(26,003,908)
Net assets (deficit) at beginning of year	(125,161,357)	(99,157,449)
Net assets (decifit) at end of year	$ (129,312,494)	$ (125,161,357)

See notes to financial statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statements of Cash Flows

	Year Ended December 31, 2006	Year Ended December 31, 2005
Cash flows from operating activities		
Receipts from hospitals	$ 2,843,450	$ 2,934,100
Receipts from participating doctors	3,052,256	2,986,463
Mandated physician fee receipts	3,847,926	3,646,854
Receipts from insurance companies	12,859,473	13,160,326
Other receipts	136,676	-
Payments on behalf of claimants	(10,546,016)	(8,360,023)
Payments to suppliers of goods and services	(443,802)	(446,780)
Payments to employees	(502,315)	(458,511)
Net cash provided by operating activities	11,247,648	13,462,429
Cash flows used in capital and related financing activities		
Purchase of capital assets	(5,216)	(3,523)
Cash flows from investing activities		
Purchase of investment securities	(120,803,432)	(190,504,436)
Proceeds from sale and maturity of investment securitites	109,397,807	169,844,896
Earnings on investment securities	6,504,395	6,059,262
Proceeds from real estate investment properties	134,559	-
Net cash provided by (used in) investing activities	(4,766,671)	(14,600,278)
Net increase (decrease) in cash and cash equivalents	6,475,761	(1,141,372)
Cash and cash equivalents		
Beginning of year	10,332,289	11,473,661
End of year	$ 16,808,050	$ 10,332,289
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (22,855,367)	$ (32,181,662)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	8,669	10,527
Increase (decrease) in:		
Accounts payable	(246,081)	360,545
Accrued liabilities	(11,923)	-
Deferred revenue	1,152,350	2,873,019
Claims reserve	33,200,000	42,400,000
Net cash provided by operating activities	$ 11,247,648	$ 13,462,429
Noncash investing activities		
Net appreciation in fair value of investment securities	$ 7,675,684	$ 1,820,061

See notes to financial statements.

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 - At December 31, 2006 and 2005, the Program's investments are stated at fair value based on quoted market prices. The Program's investments consist of various index mutual funds and actively managed investments including large and small cap equities, foreign equities, and bonds. Mutual fund investments are valued at their quoted net asset value on the last trading day of the year. Equity securities are valued at the last reported sale price or, if no sale, the latest available bid price on the last business day of the year. All other investments are valued based on amounts provided by the investment advisor or fund administrator. Real estate is stated at lower of cost or fair value. The fair value of real estate investments is based on independent appraisals.

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.

Unearned revenue – Unearned 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. Unearned revenue has been classified as non-current because it is not attributable to claims which will be paid during the next year.

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 prior year amounts have been reclassified for comparative purposes to conform to the current year presentation.

(continued)

Note 2 – Deposits and investments

The Program's deposit and investment portfolio consists of the following at December 31:

	2006	2005
Cash and deposits:		
Cash on hand	$ 106	$ 240
Deposits with financial institutions - demand deposits	5,115,735	899,653
Investments:		
Deposits with financial institutions - money market accounts	9,671,033	9,432,395
Mutual funds:		
Small cap index	-	7,122,494
Large cap index	21,600,256	49,190,198
International emerging markets index	-	4,836,125
International developed markets index	-	19,605,871
Bond index	43,638,281	69,859,624
INTECH Risk Managed Large Cap	8,815,748	-
Artisan Funds Inc. (Int'l Growth)	12,462,918	-
Harbor Funds (Int'l Value)	12,848,871	-
SSGA Funds (Emerging Markets)	5,224,308	-
Western Asset Core Plus (Bond Fund)	16,668,091	-
Investment Managers:		-
Rainier Investment Management (Large Cap Growth)	8,647,578	-
Great Lakes Advisors Large Cap Value)	8,765,291	-
Alliance Bernstein (Large Cap Value)	9,396,272	-
Eagle Asset Management (Small Cap Growth)	4,682,066	-
TAMRO Capital Partners (Small Cap Value)	4,687,294	-
Atlantic Asset Management (Core Fixed Income)	9,294,832	-
Richmond Capital Management (Core Fixed Income)	9,281,722	-
	$ 190,800,402	$ 160,946,600

Deposits – All cash of the Program is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

Investments – In accordance with the Virginia Birth-Related Injury Compensation Act, Section 38.2-5016 of the Code of Virginia, the Board of Directors is given the authority to invest the Program's funds in a careful and prudent manner at the advice of the investment advisor.

Note 2 – Deposits and investments (continued)

Credit risk: The Program manages the credit quality of its investment portfolio by limiting its fixed income portfolio having ratings of less than single "A" quality to 20%. The Program's rated debt investments at December 31, 2006 are as follows:

		Rating	Market value 2006	Market value 2005
Money Market Accounts				
Rated money market accounts	(1)	AA	$ 9,404,383	$ 9,072,525
Unrated money market accounts		N/A	266,650	359,870
Mutual fund				
Bond index	(2)	AA1/AA2	43,638,281	69,859,624
Western Asset Core Plus	(1)	AA	16,668,091	-
Investment Managers:				
Atlantic Asset Management	(1)	AA	9,294,832	-
Richmond Capital Management	(3)	AA	9,281,722	-
Total			$88,553,959	$ 79,292,019

(1) Average of Moodys and Standard & Poors ratings
(2) Moodys Investors Service/Standard & Poors
(3) Lehman rating

Interest rate risk: As of year-end 2006 and 2005 the underlying investments of the above bond index mutual fund have a stated average weighted maturity of 7.2 years. The Western Asset Core Plus bond fund has a stated average weighted maturity of 8.7 years. The investments of Atlantic Asset Management and Richmond Capital Management have an average weighted maturity of 7.8 years and 6.7 years respectively. The Program does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign currency risk: The Program manages its risk associated with foreign currency fluctuations by limiting its investments in international developed and emerging index funds to 20% of its overall portfolio. The Program's investments subjected to foreign currency risk at December 31, 2005 are as follows:

	Fund description	Market Value 2006	Market Value 2005
Mutual funds:			
Artisan Funds Inc. (Int'l Growth)	(1)	$ 12,462,918	$ -
Harbor Funds (Int'l Value)	(2)	12,848,871	-
SSGA Funds (Emerging Markets)	(3)	5,224,308	-
International emerging markets exchange-traded fun	(4)		4,836,125
International developed markets index fund	(5)		19,605,871
		$ 30,536,097	$ 24,441,996
Percentage of total investment portfolio		16.4%	15.3%

Note 2 – Deposits and investments (continued)

1. Artisan Fund typically holds between 80-120 stocks, diversified across most major sectors and typically at least 18 countries. The team invests primarily in developed markets, but also may invest up to 20% of the Fund's net assets at market value at the time of purchase in emerging markets.

2. Harbor Fund holds between 70-90 stocks selected from a select universe of stocks and is usually invested in a minimum of ten countries throughout the world. The fund focuses on companies located in Europe, and the Pacific Basin and emerging industrialized countries whose economies and political regimes appear more stable and are believed to provide some protection to foreign shareholders.

3. SSGA Fund will typically invest at least 80% of its assets in securities issued by companies domiciled, or doing business, in countries determined to have a developing or emerging economy or securities market. The investments are diversified across many countries, usually 10, in order to reduce volatility associated with specific markets. The fund invests primarily in the International Finance Corporation Investable (S&P/IFCI) Index and/or Morgan Stanley Capital International Emerging Market (MSCI EM) countries.

4. This fund invests in common stock of emerging markets, mirroring the MSCI Select Emerging Markets Index. This index includes approximately 660 common stocks of companies located in emerging markets around the world, with the largest markets covered in the index being South Korea, Taiwan, Brazil, South Africa, and China, making up 20%, 15%, 12%, 11% and 8% of the index's investments respectively. The remaining 33% of the index is invested in thirteen other countries.

5. 67% of this fund is invested in the European Stock Index Fund, which invests in common stocks included in the MSCI Europe Index. The MSCI Europe Index consists of approximately 590 common stocks of companies located in sixteen European countries, including the United Kingdom (37%), France (14%), Switzerland (10%) and Germany (10%). Twelve other countries comprise the remaining 29%. The remaining 33% of this fund is invested in the Pacific Stock Index Fund, which invests in common stocks included in the MSCI Pacific Index. The MSCI Pacific Index consists of approximately 540 common stocks of companies located in the Pacific Basin. The Index is dominated by the Japanese stock market, which represents 75% of the funds holdings with the remaining 25% of the holdings being allocated among four other countries.

<u>Custodial Credit Risk:</u> Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Program's deposits are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance and investment securities are held at SunTrust and registered in SunTrust's name.

Note 2 – Deposits and investments (continued)

The Program's return on investments for years ending December 31, 2006 and 2005 is summarized as follows:

	2006	2005
Interest income	$ 201,663	$ 2,799,652
Dividend income	6,604,829	3,108,910
Realized gain (loss) on investments	4,296,732	(1,382,267)
Net appreciation in fair value of investments	7,675,684	1,820,061
Investment fees	(111,949)	(189,293)
Fiduciary fees	(65,130)	(68,910)
Net investment income	$ 18,601,829	$ 6,088,153

The calculation of realized gains and losses is independent of the calculation of the net appreciation in fair value of investments; therefore, realized gains and losses in 2006 and 2005 include realized gains and losses on those same investments recognized in prior periods as part of the net appreciation or deprecation in the fair value of investments.

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.

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 $5,110,121 at December 31, 2006 and $5,142,281 at December 31, 2005.

(continued)

Note 4 – Capital assets

Capital assets at December 31, 2006 and 2005, and the related changes for the years then ended were as follows:

	January 1, 2006	Increases	Decreases	December 31, 2006
Computer equipment	$ 50,623	$ 2,791	$ -	$ 53,414
Office equipment	36,601	2,425	-	39,026
Automobiles	17,237	-	-	17,237
	104,461	5,216	-	109,677
Less accumulated depreciation	(84,706)	(8,669)	-	(93,375)
Capital assets, net	$ 19,755	$ (3,453)	$ -	$ 16,302

	January 1, 2005	Increases	Decreases	December 31, 2005
Computer equipment	$ 53,621	$ 915	$ (3,913)	$ 50,623
Office equipment	33,991	2,610	-	36,601
Automobiles	17,237	-	-	17,237
	104,849	3,525	(3,913)	104,461
Less accumulated depreciation	(77,962)	(10,528)	3,784	(84,706)
Capital assets, net	$ 26,887	$ (7,003)	$ (129)	$ 19,755

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 2006 and 2005). 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.

Note 5 – Estimated liability for unpaid claims (continued)

In 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, 2006 and 2005 (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.
(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:

	2006	2005
Rate of claims inflation (varies based on category of expense)	1.00% - 5.38%	1.00% - 5.35%
Investment earnings / discount rate	6.56%	6.55%
Mortality:		
Average life expectancy of claimant at birth	22.3 years	21.2 years
Average life expectancy of claimant that attains the age of three	24.4 years	23.4 years
Estimated number of claimants born on or before year end not yet admitted to the Program. Estimate is based on review of how long it takes for claimants to be admitted to the Program.	42 claimants	44 claimants

The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 166 and 157 as of December 31, 2006 and December 31, 2005 respectively.

Note 5 – Estimated liability for unpaid claims (continued)

During fiscal year 2004, House Bill No.1407 was enacted, reducing the coverage of additional administrative costs. This legislature repealed a portion of the previous bill mentioned above and became effective January 1, 2005. Management estimates that the effect on the estimated claims reserve was a reduction to the reserve of approximately $28,600,000.

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

	2006	2005
Unpaid claims and claim adjustment expenses at beginning of year	$ 271,200,000	$ 228,800,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	23,000,000	20,717,391
Increase (decrease) in provision for insured events of prior years	3,463,504	16,149,432
Total incurred claims and claim adjustment expenses	26,463,504	36,866,823
Interest due to decrease in the discount period	17,790,720	14,986,400
Total claims provision	44,254,224	51,853,223
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior years	11,054,224	9,453,223
Total payments	11,054,224	9,453,223
Total unpaid claims and claim adjustment expenses at year end	$ 304,400,000	$ 271,200,000

The total undiscounted unpaid claims and claim adjustment expenses amount to $1,115.1 million and $933.1 million at December 31, 2006 and 2005, respectively, and represent unaudited estimates.

Note 6 – Employee benefits

The Program pays each employee an amount equal to 23% 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 $79,736 and $70,763 for the years ending December 31, 2006 and 2005, respectively. These benefits are included as salary and benefits expense on the Program's supplementary schedule of general and administrative expenses.

Note 7 – Related party transactions

A member of the Program's Board of Directors is a member of upper management at Carilion Health System. The Program enters into transactions with various subsidiaries of Carilion Health System during its normal course of business. During 2006 and 2005, payments for medical services to these subsidiaries amounted to approximately $271,000 and $331,000, respectively. There was approximately $56,000 and $40,000 of accounts payable related to these services from subsidiaries for year-end 2006 and 2005 respectively.

Note 8 – 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 $56,494 and $55,185 for fiscal years 2006 and 2005, respectively.
The future minimum obligations under this lease are as follows:

2007	$ 57,616
2008	9,642
	$ 67,258

The Program leases office equipment on a month-to-month basis. Rent expense for this equipment amounted to $2,387 and $2,254 at December 31, 2006 and 2005, respectively, and is included in other expenses on the supplemental schedule of general and administrative expenses.

Note 9 – Liquidity

The actuarial study performed for the year ended December 31, 2006 determined that the Program was not actuarially sound. The forecasted information for the year ended December 31, 2006 resulted in a larger deficit. The increase in the deficit largely is attributed to the change in actuarial assumptions, including the increase in observed nursing cost and reductions in assumed mortality reduced by an increase in the number of claimants deceased at the time of acceptance. 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 10 – Contingencies

Various pending and threatened lawsuits claim eligibility for program benefits. Management believes the Program's claims reserves based upon 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, 2006
(In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1 Premiums and investment revenue:										
Earned	$ 5,781	$ 8,477	$ 4,931	$ 6,001	$ 9,378	$ 18,136	$ 26,131	$ 25,445	$ 26,032	$ 40,292
2 Unallocated expenses	15	-	-	53	-	169	129	137	183	189
3 Estimated losses and expenses, end of birth year:										
Incurred	4,249	4,676	6,880	7,336	12,871	13,661	14,000	20,733	21,652	23,000
4 Net paid (cumulative) as of:										
End of birth year	-	-	-	-	-	-	-	-	-	-
One year later	78	91	142	143	119	143	159	189	-	-
Two years later	311	365	568	574	478	572	663	193	-	-
Three years later	495	582	905	914	761	1,190	1,548	-	-	-
Four years later	861	1,012	1,574	1,589	1,126	2,008	-	-	-	-
Five years later	912	1,072	1,667	2,167	1,892	-	-	-	-	-
Six years later	1,122	1,319	1,750	2,936	-	-	-	-	-	-
Seven years later	1,144	1,875	2,124	-	-	-	-	-	-	-
Eight years later	1,773	2,380	-	-	-	-	-	-	-	-
Nine years later	2,322	-	-	-	-	-	-	-	-	-

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Supplementary Schedule of Claims Development Information
As of December 31, 2006
(In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
5 Reestimated ceded losses and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6 Reestimated net incurred losses and expenses										
End of birth year	4,249	4,676	6,880	7,336	12,871	13,661	14,000	20,733	21,652	23,000
One year later	4,416	6,495	7,368	11,827	12,357	13,244	15,333	22,558	22,038	-
Two years later	6,069	6,826	11,580	11,533	11,963	14,544	16,565	22,927	-	-
Three years later	6,370	9,689	11,305	11,309	13,188	15,747	16,814	-	-	-
Four years later	8,971	9,502	11,094	12,008	14,321	15,990	-	-	-	-
Five years later	8,801	9,359	11,749	12,653	14,550	-	-	-	-	-
Six years later	8,671	9,804	12,355	12,784	-	-	-	-	-	-
Seven years later	9,076	10,215	12,477	-	-	-	-	-	-	-
Eight years later	9,450	10,299	-	-	-	-	-	-	-	-
Nine years later	9,526	-	-	-	-	-	-	-	-	-
7 Increase (decrease) in estimated net incurred losses and expenses from end of birth year	$ 5,201	$ 5,539	$ 5,475	$ 5,317	$ 1,450	$ 2,085	$ 2,565	$ 1,825	$ 385	$ -

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 re-insurers) 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 re-estimated amount of losses assumed by re-insurers 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 re-estimation 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 re-estimated 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 re-estimated 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 Administrative Expenses

	2006	2005
Advertising and brochures	$ 4,260	$ 5,249
Computer services	9,558	13,226
Depreciation and amortization	8,669	10,528
Office	9,460	7,771
Other	48,090	55,111
Postage and mailing	8,879	9,909
Professional fees	282,766	286,744
Rent	60,589	59,143
Salaries and benefits	502,315	458,511
Telephone	8,277	9,625
	942,863	915,818
Less claims administration (allocations)	754,290	732,654
Unallocated expenses	$ 188,573	$ 183,164

CHERRY BEKAERT & HOLLAND

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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 Audit Committee
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, 2006 and 2005, and have issued our report thereon dated April 13, 2007. 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.

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.*

We did note certain other matters that we have reported to management of the Program in a separate letter dated April 13, 2007.

This report is intended solely for the information and use of the Audit Committee, 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, LLP

Richmond, Virginia
April 13, 2007