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*Ennis Knupp + Associates calculates rates of return for each investment manager quarterly. Occasionally discrepancies arise between returns computed by the managers and those calculated by Ennis Knupp + Associates due to differences in computational procedures, securities pricing services, etc. We monitor these discrepancies closely and find that they generally do not tend to persist over time. If a material discrepancy does persist, we will bring the matter to your attention. A description of the policy portfolios and fund universes used throughout this report appears in Appendix II. All rates of return contained in this report for time periods greater than one year are annualized. Returns are calculated net of fees and expenses.*

**HIGHLIGHTS**

# HIGHLIGHTS

## First Quarter 2006

- The Russell 3000 Index gained 5.3% during the first quarter as the U.S. economy continued to gain momentum despite continued interest rate hikes. The transportation and consumer durable sectors, led the way gaining 11.0% and 9.9%, respectively during the period. The energy sector performed strong after struggling during the fourth quarter and gained a robust 9.2%. Value stocks outperformed their growth counterparts during the first quarter and small cap stocks again outperformed large caps over the period.
- Overseas markets again performed well as the MSCI All-Country World ex-U.S. Index advanced 9.7% during the quarter. Emerging markets continued to rally, gaining 12.0% during the first quarter and 47.4% over the past twelve months. High commodity prices and continued foreign investment helped emerging markets post yet another positive quarter. Latin America continued to be the top performing region with a one-year return of 70.1%.
- In January, Ben Bernanke replaced Alan Greenspan as the chairman of the Federal Reserve. In the midst of this change, the bond market continued to suffer from uncertainty over when Federal Reserve interest rate hikes would end. During the first quarter rates were raised two more times to the quarter-end level of 4.75%. Rates have increased fifteen consecutive times since June 2004. The Lehman Brothers Aggregate Bond Index decreased 0.6% during the first quarter, but advanced 2.3% over the trailing one-year period.

### RETURN SUMMARY ENDING 3/31/06

	First Quarter	1 Year Ending 3/31/06	3 Years Ending 3/31/06
Russell 3000 Index	5.3%	14.3%	19.2%
MSCI All-Country World Ex-U.S. Index	9.7	27.6	33.0
LB Aggregate Bond Index	-0.6	2.3	2.9

### Asset Growth

- VCERA's Total Fund increased by \$80.6 million during the quarter. The asset gain is attributable to an investment gain of \$109.9 million which offset withdrawals during the quarter of \$29.3 million.

Market Value (millions) at 12/31/05*	\$2,598.3
Income/Appreciation	109.9
Net Contributions/Withdrawals	(29.3)
Market Value (millions) at 3/31/06	\$2,678.9

\*The 12/31/05 market value listed above is different than the number reported in the fourth quarter report. This is due to the change in how the Prudential real estate account is reported. Prior to January 2006, the Prudential real estate account included separate account assets from a legacy portfolio which were difficult to value in a timely manner, and therefore the market value was reported on a quarter lag. The account is comprised almost entirely of the PRISA I Fund which is valued sooner after quarter end.

## First Quarter 2006

### Asset Allocation

- The table below highlights VCERA's current investment allocations relative to its policy. As of March 31, 2006, VCERA was slightly overweight to non-U.S. equity, global equity, and U.S. equity investments. A corresponding underweight was experienced within the Fund's fixed income and real estate portfolios. As of quarter-end, the portfolio was in compliance with the Investment Policy Statement's rebalancing policy.
- In February, approximately \$35 million was transferred from the non-U.S. equity asset class with \$20 million going to the U.S. equity asset class and \$15 million going to the fixed income asset class.

### ACTUAL VS. CURRENT POLICY

	Actual Allocation	Policy Allocation	Difference
U.S. Equity	47.1%	47.0%	+0.1%
Non U.S. Equity	14.8	14.0	+0.8
Global Equity	4.3	4.0	+0.3
U.S. Fixed Income	28.0	29.0	-1.0
Real Estate	5.8	6.0	-0.2

### Total Investments

- The table on the following page highlights VCERA's total portfolio return for the quarter, as well as the returns for each of the individual asset class components within the Total Fund. During the first quarter, the Total Fund rose 4.2% and exceeded the return of the benchmark by 0.1 percentage point. The relative performance of the fixed income and U.S. equity asset classes offset the underperformance of the non-U.S. equity and global equity portfolios. Despite relative underperformance of the non-U.S. equity portfolio, the Total Fund was helped by holding an overweight allocation to the asset class throughout much of the quarter and an underweight allocation to fixed income.
- The total U.S. equity portfolio advanced 5.4% and outperformed the Russell 3000 index by 0.1 percentage point. Delta was the only active U.S. equity manager that exceeded its respective benchmark during the period. Wasatch detracted the most relative value from the asset class' performance, underperforming its benchmark by 5.9 percentage points. Within the non-U.S. equity portfolio, both Capital Guardian and Sprucegrove underperformed their respective benchmarks. The global equity portfolio underperformed during the first quarter despite the strong performance of the GMO which returned 7.6 percentage points during the quarter. GMO's outperformance was more than offset by the relative underperformance of the Wellington portfolio. The fixed income portfolio, although negative on an absolute basis, outperformed its benchmark by 0.3 percentage points during the first quarter and was greatly aided by the performance of the active managers, as Western, Reams and Loomis Sayles all added value.

# HIGHLIGHTS

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		5 Years Ending 3/31/06		10 Years Ending 3/31/06	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank
<b>Total Fund</b>	4.2%	81	10.7%	76	13.5%	67	16.5%	68	7.4%	70	9.2%	28
Policy Portfolio	4.1	84	10.6	77	13.1	73	16.2	77	6.9	83	8.8	46
<b>Total U.S. Equity</b>	5.4	67	11.2	85	13.6	84	19.2	73	5.8	69	9.2	62
Russell 3000 Index	5.3	71	11.8	78	14.3	75	19.2	73	5.3	80	9.2	62
<b>Total Non-U.S. Equity</b>	8.5	75	28.6	27	29.1	24	31.5	46	11.6	42	9.6	29
Performance Benchmark	9.7	35	27.9	35	27.6	36	33.0	26	10.8	57	7.0	80
<b>Total Global Equity</b>	6.8	68	17.0	77	--	--	--	--	--	--	--	--
MSCI All-Country World Index	7.0	63	19.0	59	--	--	--	--	--	--	--	--
<b>Total U.S. Fixed Income</b>	-0.3	36	0.2	26	3.3	17	4.3	28	5.6	35	6.6	29
LB Aggregate Bond Index	-0.6	60	-0.7	64	2.3	56	2.9	74	5.1	59	6.3	48
<b>Total Real Estate</b>	3.3	--	13.4	--	21.9	--	14.4	--	12.2	--	12.0	--
Policy Benchmark	3.4	--	13.9	--	19.9	--	15.0	--	11.6	--	12.2	--

**MARKET ENVIRONMENT**  
First Quarter 2006

# MARKET ENVIRONMENT

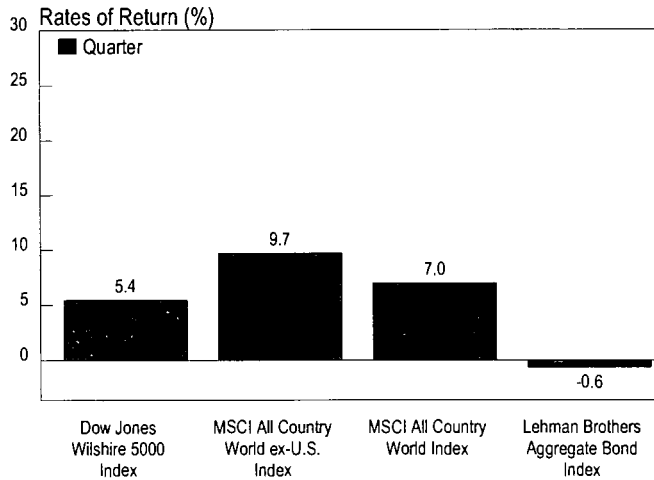
## OVERVIEW

### MAJOR MARKET RETURNS

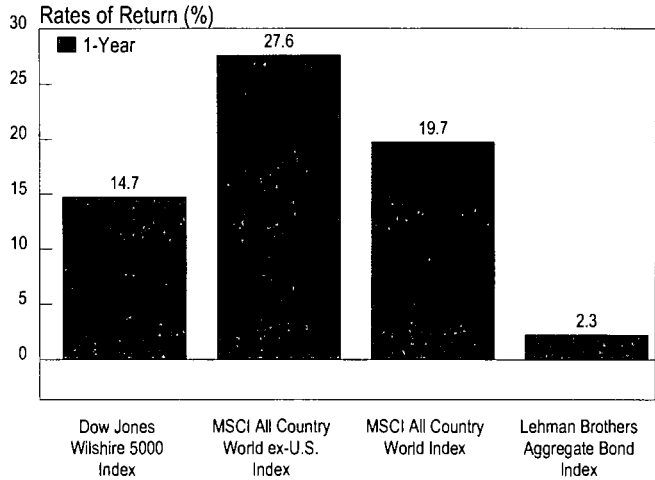
	First Quarter	1 Year Ending 3/31/06	3 Years Ending 3/31/06	5 Years Ending 3/31/06	10 Years Ending 3/31/06
Dow Jones Wilshire 5000 Index	5.4%	14.7%	19.7%	6.0%	9.1%
MSCI All Country World ex-U.S. Index	9.7	27.6	33.0	11.4	7.0
MSCI EAFE Index	9.4	24.4	31.1	9.6	6.5
MSCI Emerging Markets Index	12.0	47.4	46.2	23.2	7.3
MSCI All Country World Index	7.0	19.7	24.5	7.2	7.3
Lehman Brothers Aggregate Bond Index	-0.6	2.3	2.9	5.1	6.3

- During the first quarter of 2006, the broad U.S. equity market continued to gain momentum despite continued interest rate hikes, and remained resilient despite a softer housing market and higher energy costs. The U.S. economy continued to expand as the U.S. Department of Labor reported that 211,000 jobs were added during March. Consumer confidence also rose 4.5 points in March to a strong 107.2 at quarter end, a near four-year high for the index.
- The Dow Jones Wilshire 5000 Index gained 5.4% during the quarter. Transportation and consumer durables were the best performing sectors, gaining 11.0% and 9.9%, respectively. The energy sector continued to do well, gaining 9.2%. The worst performing sectors were consumer non-durables and financials, both of which lagged the broad market index. Posting impressive gains, small cap stocks significantly outperformed their large cap counterparts, while value narrowly outperformed growth.
- Non-U.S. stocks, as measured by the MSCI All Country World ex-U.S. Index, outperformed the U.S. stock market with a 9.7% return for the quarter. Emerging markets continued to rally, gaining 12.0% during the first quarter and 47.4% over the past twelve months, due largely to high commodity prices and continued foreign investment. South Africa was the top-performing region, gaining 18.0% for the quarter. The Latin American region continued to perform well, returning 15.7% for the quarter, and 70.1% over the past twelve months.
- The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, declined 0.6% during the quarter. With the exception of asset backed securities, all sectors within the Lehman Brothers Aggregate Bond Index declined during the quarter. Domestic high yield bonds, which are not included in the index, gained 2.9% in the first quarter and 7.4% over the trailing one-year period. The bond market continued to be hurt by uncertainty regarding when the Federal Reserve interest rate hikes would end. In January, Ben Bernanke replaced Alan Greenspan as the chairman of the Federal Reserve. On March 28, 2006, Mr. Bernanke continued where Mr. Greenspan left off, raising interest rates to the quarter end rate of 4.75%. This marked the fifteenth consecutive rate increase since the Fed began raising rates on June 30, 2004.

## MAJOR MARKET RETURNS FIRST QUARTER

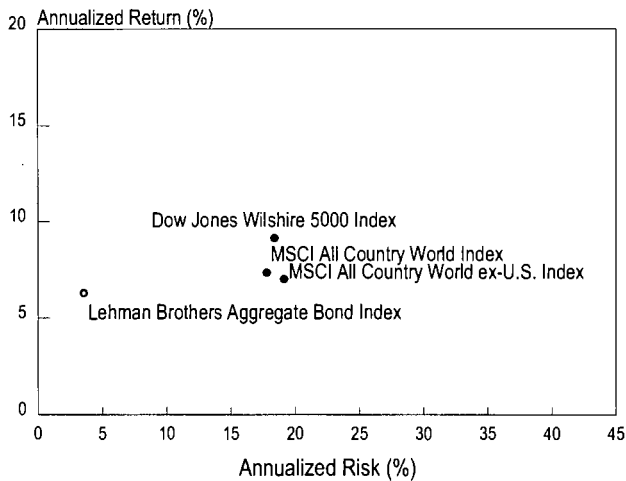


## MAJOR MARKET RETURNS ONE YEAR ENDING 3/31/06

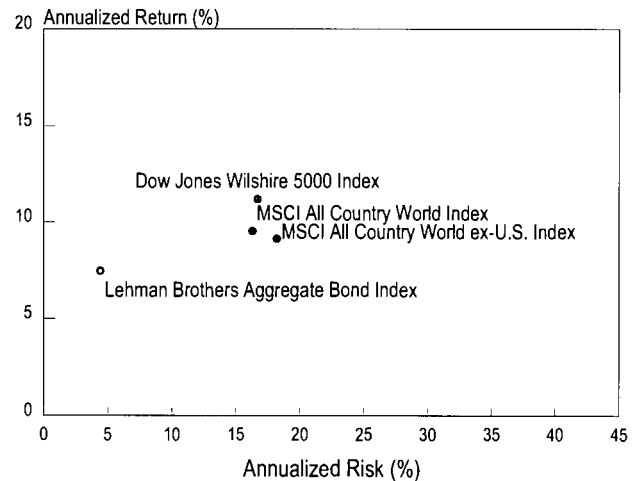


- The exhibits above show the performance of the major capital markets during the first quarter and one-year period.

## ANNUALIZED RISK/RETURN 10 YEARS ENDING 3/31/06



## ANNUALIZED RISK/RETURN 20 YEARS ENDING 3/31/06



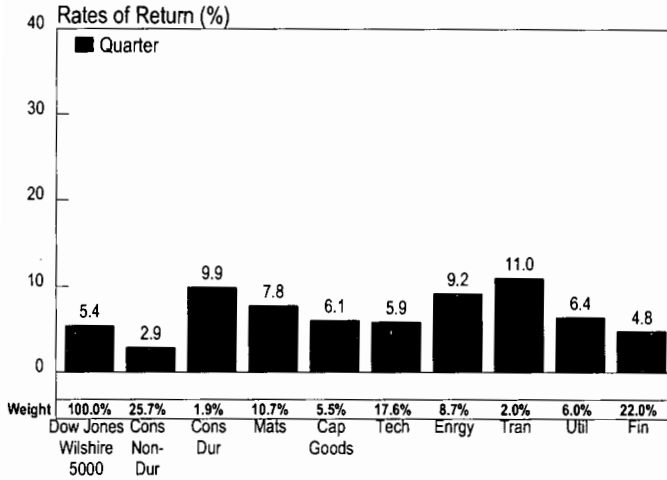
- The exhibits above show the historical performance of the major capital markets adjusted for the amount of risk (volatility of returns) incurred. Points near the top of the chart represent a greater return and points near the right of the chart indicate greater volatility.



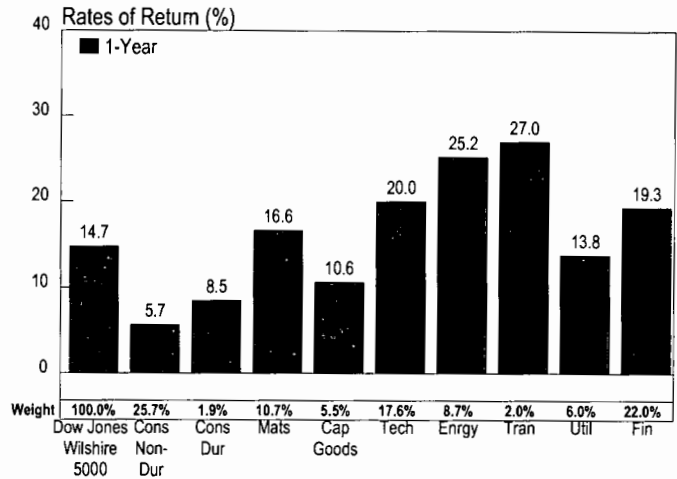
# MARKET ENVIRONMENT

## U.S. STOCK MARKET

### SECTOR RETURNS FIRST QUARTER

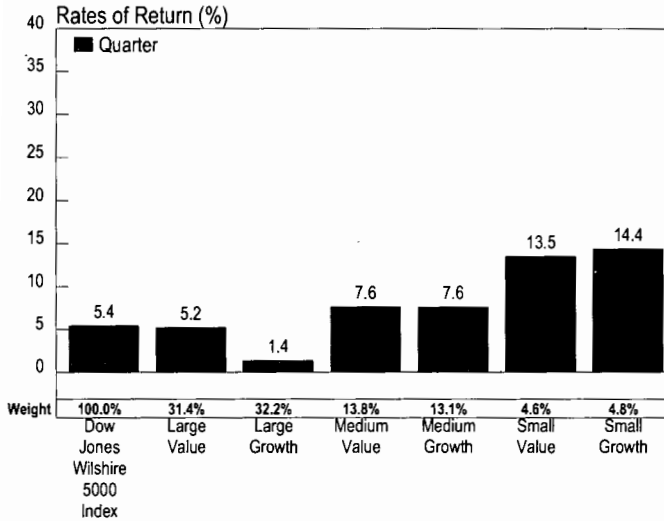


### SECTOR RETURNS ONE YEAR ENDING 3/31/06

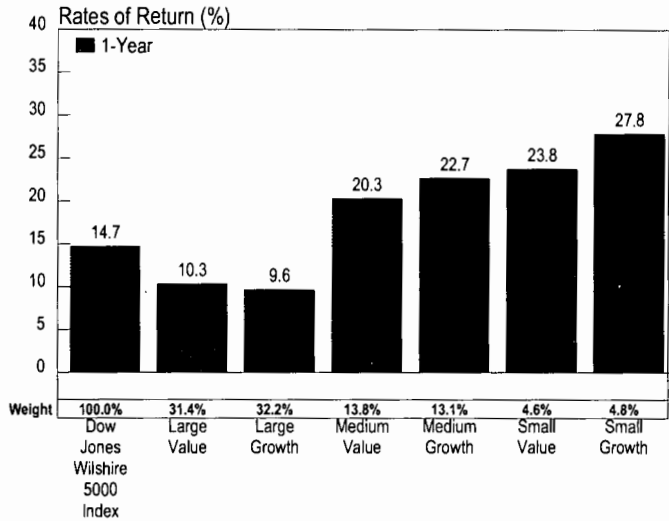


- The Dow Jones Wilshire 5000 Index is the broadest available measure of the aggregate domestic stock market. It includes all domestic common stocks with readily available price data.
- The exhibits above show the performance of the industrial sectors that comprise the Dow Jones Wilshire 5000 Index. The percentage below each bar indicates the sector's weight within the Dow Jones Wilshire 5000 Index at quarter-end.

### STYLE RETURNS FIRST QUARTER



### STYLE RETURNS ONE YEAR ENDING 3/31/06

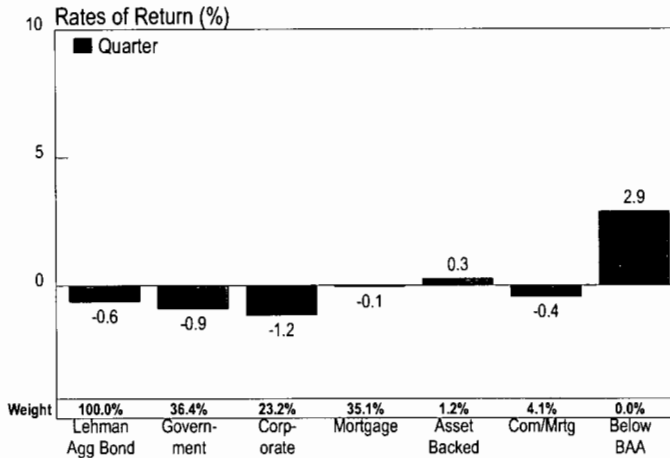


- The exhibits above illustrate the performance of stock investment styles according to capitalization (large and small) and financial characteristics (value and growth). The percentage below each bar indicates the style's weight within the Dow Jones Wilshire 5000 Index at quarter-end.

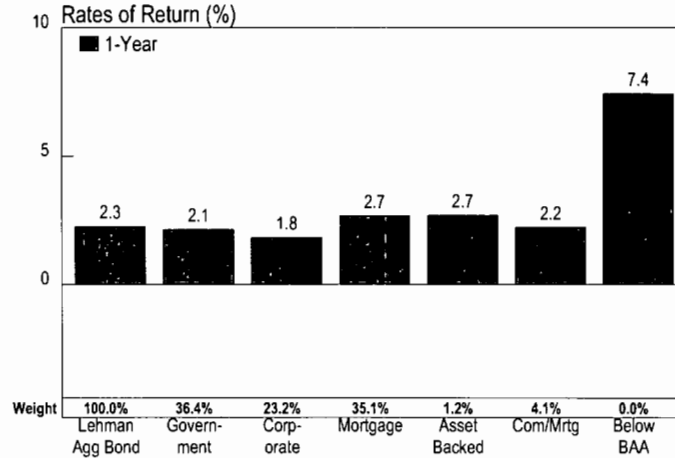
# MARKET ENVIRONMENT

## U.S. BOND MARKET

### SECTOR RETURNS FIRST QUARTER

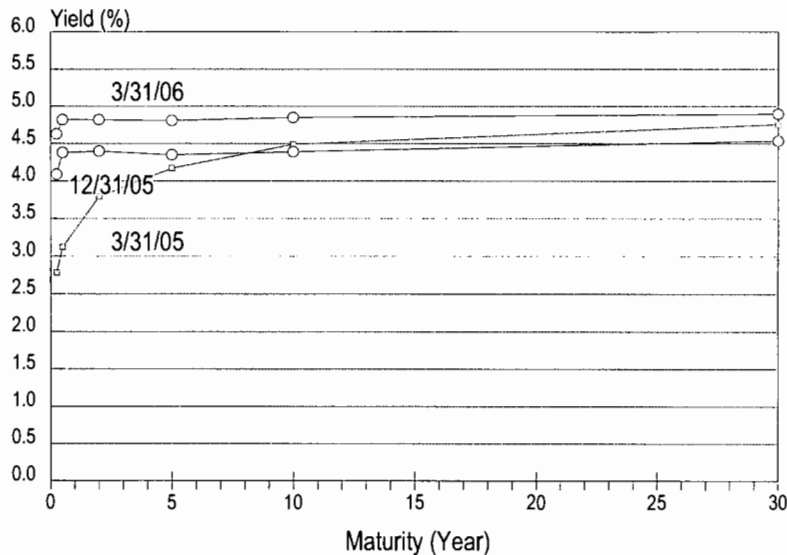


### SECTOR RETURNS ONE YEAR ENDING 3/31/06



- The Lehman Brothers Aggregate Bond Index is a broad measure of the U.S. investment grade fixed income market. The Index consists of the corporate, government, and mortgage-backed indexes and includes credit card, auto, and home equity loan-backed securities.
- The exhibits above show the performance of the sectors that comprise the broad domestic bond market. The percentage below each bar indicates the sector's weight within the Lehman Brothers Aggregate Bond Index at quarter-end.

### U.S. TREASURY YIELD CURVE

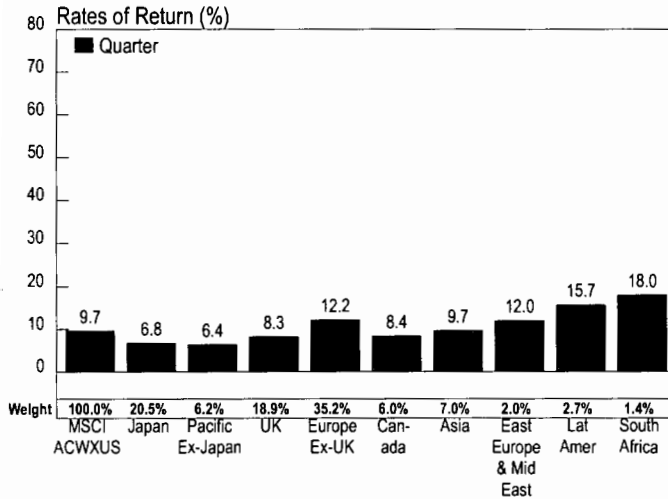


- The exhibit above illustrates yields of Treasury securities of various maturities as of March 31, 2005, December 31, 2005, and March 31, 2006.

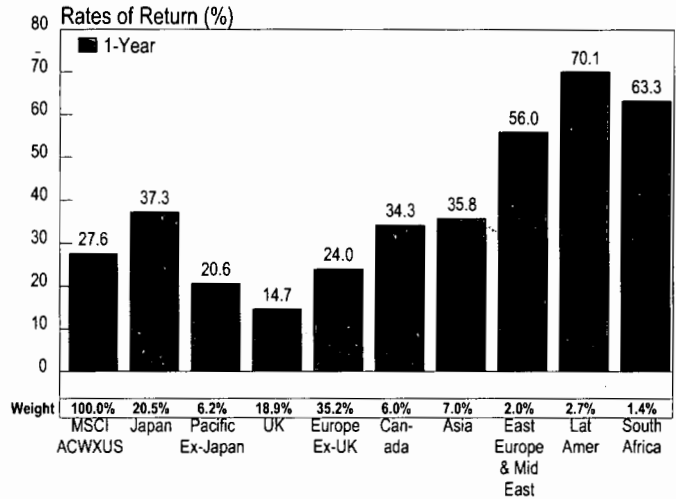
# MARKET ENVIRONMENT

## NON-U.S. STOCK MARKETS

**NON-U.S. STOCK MARKET RETURNS  
FIRST QUARTER**

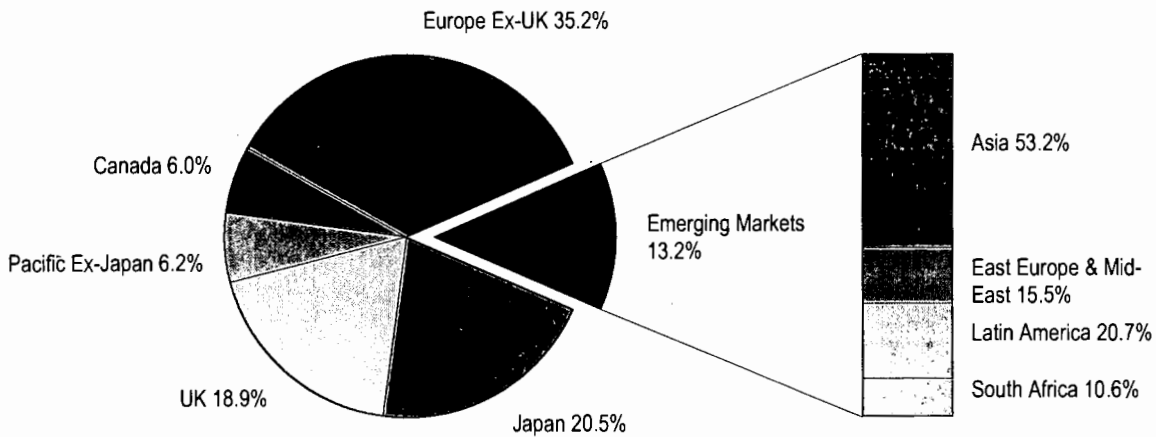


**NON-U.S. STOCK MARKET RETURNS  
ONE YEAR ENDING 3/31/06**



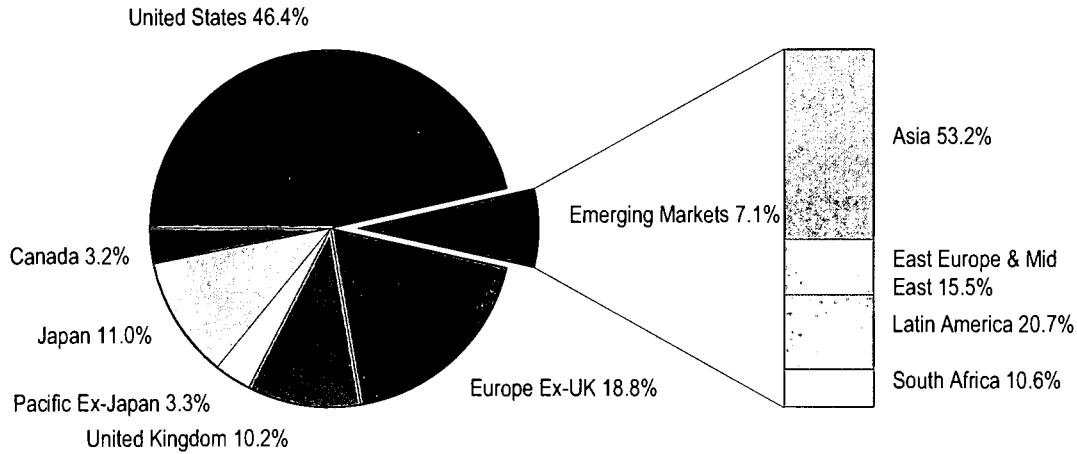
- The MSCI All Country World ex-U.S. Index is a capitalization-weighted index of stocks representing 22 developed stock markets and 26 emerging stock markets around the world. The exhibits above show the performance of the regions that comprise the MSCI All Country World ex-U.S. Index at quarter-end.

**MSCI ALL COUNTRY WORLD EX-U.S. INDEX  
GEOGRAPHIC ALLOCATION AS OF 3/31/06**

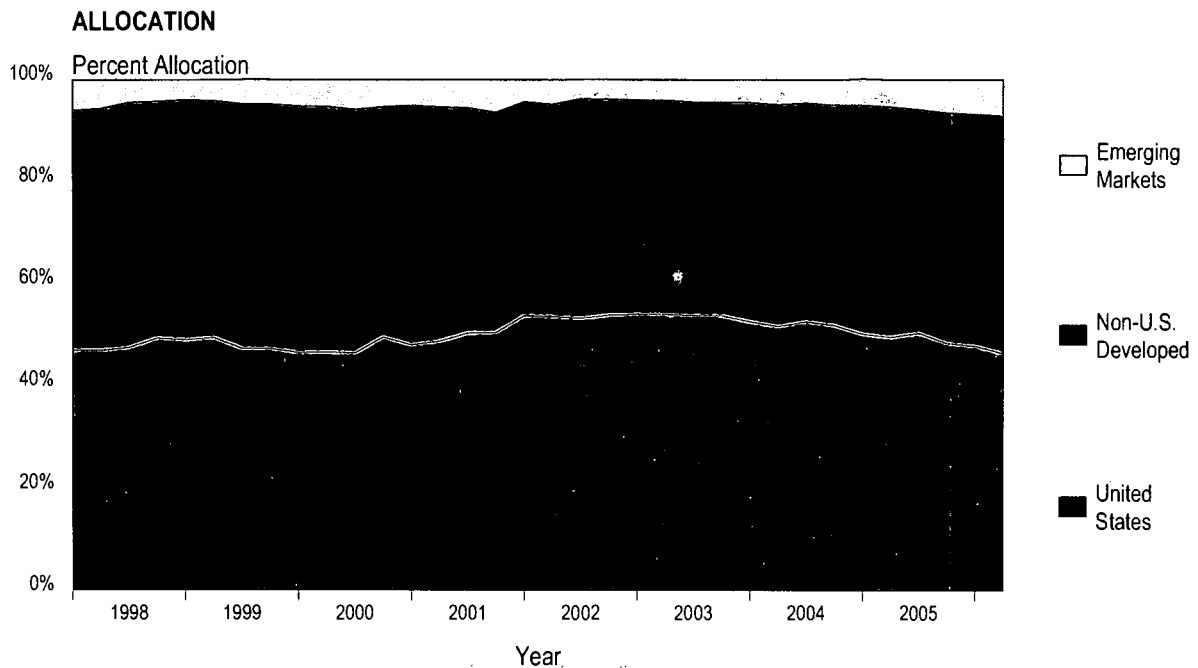


- The exhibit above illustrates the percent each region represents of the non-U.S. stock market as measured by the MSCI All Country World ex-U.S. Index.

**MSCI ALL COUNTRY WORLD INDEX  
GEOGRAPHIC ALLOCATION AS OF 3/31/06**



- The MSCI All Country World Index is a capitalization-weighted index of stocks representing 23 developed stock markets and 26 emerging stock markets around the world. The graph above shows the allocation to each region at quarter-end.



- The graph above shows the changes in the breakdown between the United States, non-U.S. developed markets, and emerging markets in the MSCI All Country World Index over time.

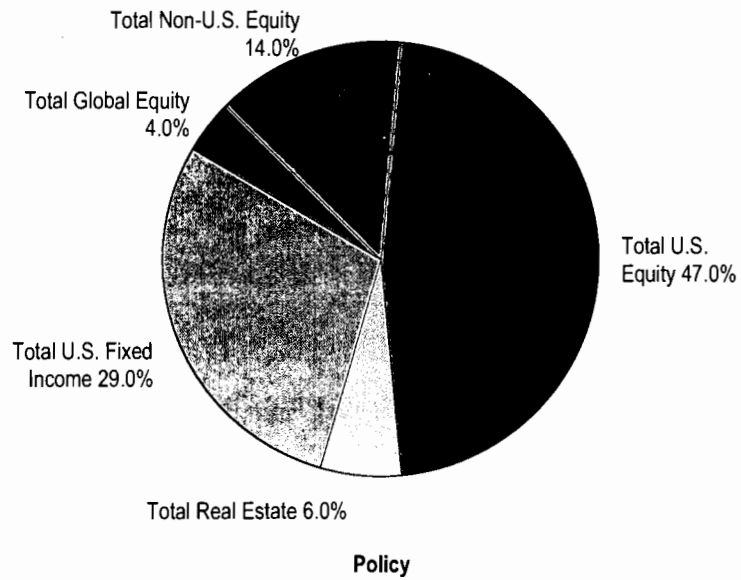
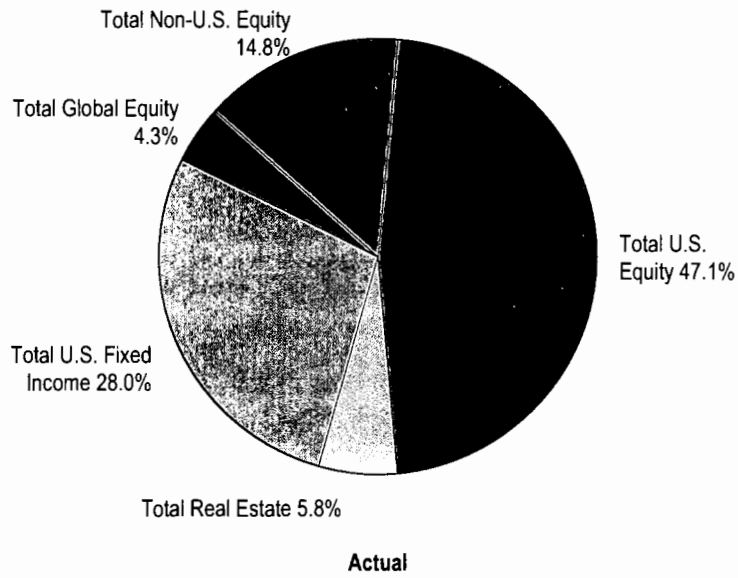
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**ASSET ALLOCATION**

# ASSET ALLOCATION

First Quarter 2006

ASSET ALLOCATION AS OF 3/31/06



First Quarter 2006

ASSET ALLOCATION AS OF 3/31/06

(\$ in thousands)

	U.S. Equity	Foreign Equity	U.S. Bond	Foreign Bond	Real Estate	Cash	Total	Percent of Total	Policy
Delta	\$227,109	--	--	--	--	\$9,709	\$236,818	8.8%	
BGI Equity Index Fund	765,315	--	--	--	--	--	765,315	28.6	
LSV	86,832	--	--	--	--	1,055	87,887	3.3	
Wasatch	72,854	\$6,801	--	--	--	5,356	85,011	3.2	
BGI Extended Equity	88,050	--	--	--	--	--	88,050	3.3	
<b>Total U.S. Equity</b>	<b>1,240,160</b>	<b>6,801</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>16,120</b>	<b>1,263,081</b>	<b>47.1</b>	<b>47.0%</b>
Capital Guardian	\$509	\$247,961	--	--	--	\$5,849	\$254,319	9.5%	
Sprucegrove	--	138,519	--	--	--	3,261	141,780	5.3	
<b>Total Non-U.S. Equity</b>	<b>509</b>	<b>386,480</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>9,110</b>	<b>396,099</b>	<b>14.8</b>	<b>14.0%</b>
GMO	\$20,197	\$38,516	--	--	--	--	\$58,713	2.2%	
Wellington	30,943	24,958	--	--	--	\$553	56,454	2.1	
<b>Total Global Equity</b>	<b>51,140</b>	<b>63,474</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>553</b>	<b>115,167</b>	<b>4.3</b>	<b>4.0%</b>
Western	--	--	\$239,054	\$17,418	--	\$7,442	\$263,914	9.9%	
BGI U.S. Debt Fund	--	--	185,118	--	--	--	185,118	6.9	
Reams	--	--	219,139	--	--	8,184	227,323	8.5	
Loomis Sayles	--	--	60,778	12,396	--	220	73,394	2.7	
<b>Total U.S. Fixed Income</b>	<b>--</b>	<b>--</b>	<b>704,089</b>	<b>29,814</b>	<b>--</b>	<b>15,846</b>	<b>749,749</b>	<b>28.0</b>	<b>29.0%</b>
Prudential Real Estate	--	--	--	--	\$71,674	--	\$71,674	2.7%	
UBS Real Estate	--	--	--	--	83,171	--	83,171	3.1	
<b>Total Real Estate</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>154,845</b>	<b>--</b>	<b>154,845</b>	<b>5.8</b>	<b>6.0%</b>
<b>Total Fund</b>	<b>\$1,291,809</b>	<b>\$456,755</b>	<b>\$704,089</b>	<b>\$29,814</b>	<b>\$154,845</b>	<b>\$41,629</b>	<b>\$2,678,941</b>	<b>100.0%</b>	<b>100.0%</b>
Percent of Total	48.2%	17.0%	26.3%	1.1%	5.8%	1.6%	100.0%		

- The table above highlights VCERA's current investment allocations relative to its policy. As of March 31, 2006, VCERA was slightly overweight to non-U.S. equity, global equity, and U.S. equity investments. A corresponding underweight was experienced within the Fund's fixed income and real estate portfolios. As of quarter-end, the portfolio was in compliance with the Investment Policy Statement's rebalancing policy.
- In February, approximately \$35 million was transferred from the non-U.S. equity asset class with \$20 million going to the U.S. equity asset class and \$15 million going to the fixed income asset class.



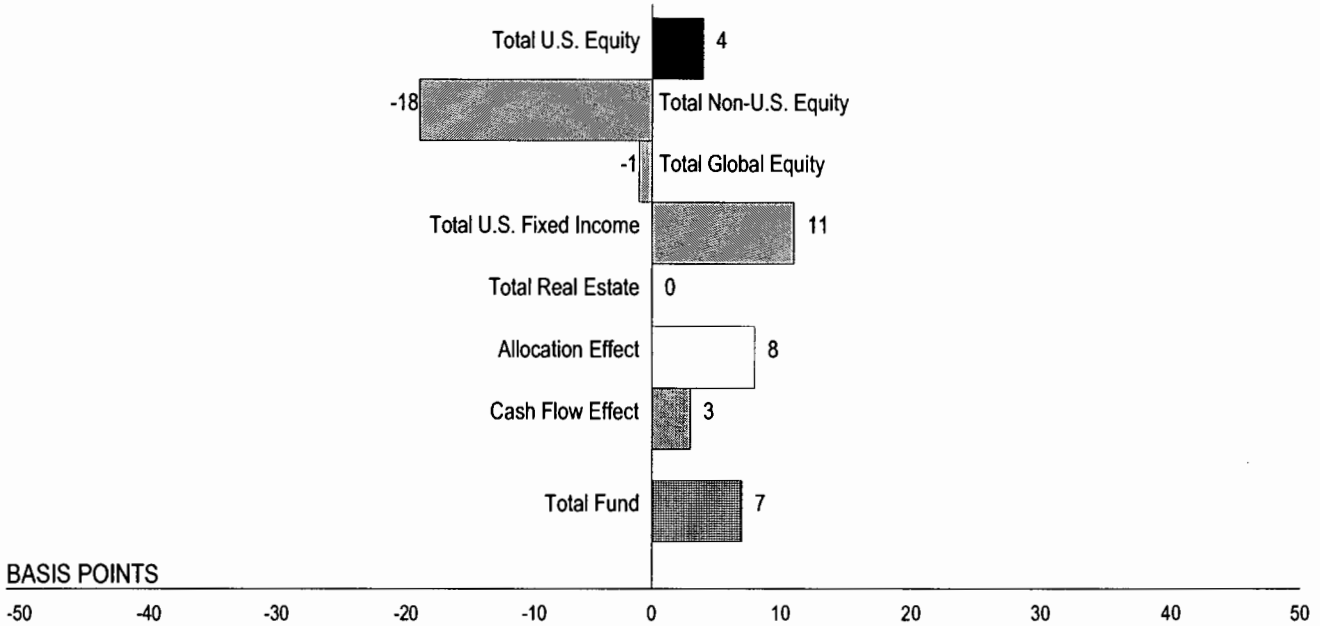
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**PERFORMANCE EVALUATION**

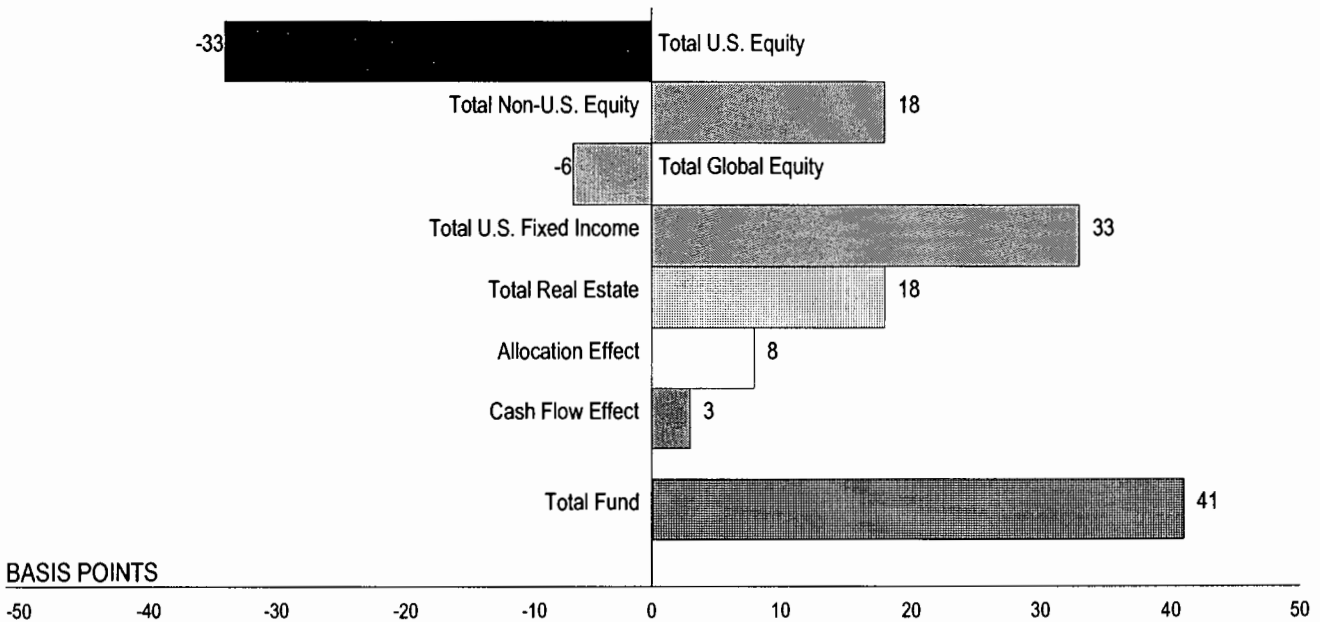
# TOTAL FUND

## First Quarter 2006

### TOTAL FUND ATTRIBUTION ANALYSIS 3 MONTHS ENDING 3/31/06



### TOTAL FUND ATTRIBUTION ANALYSIS 1 YEAR ENDING 3/31/06



## First Quarter 2006

RETURN SUMMARY  
ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		5 Years Ending 3/31/06		10 Years Ending 3/31/06	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Total Fund	4.2%	81	10.7%	76	13.5%	67	16.5%	68	7.4%	70	9.2%	28
Policy Portfolio	4.1	84	10.6	77	13.1	73	16.2	77	6.9	83	8.8	46

## COMMENTARY ON INVESTMENT PERFORMANCE

- The Total Fund advanced 4.2% during the first quarter and exceeded the return of the Fund's benchmark by 0.1 percentage point. Contributing to the quarter's outperformance were the collective returns of the U.S. equity and fixed income portfolios. Also aiding results was the overweight allocation to non-U.S. equities throughout most of the period with a corresponding underweight allocation to fixed income.
- The total U.S. equity portfolio advanced 5.4% and outperformed the Russell 3000 index by 0.1 percentage points. Delta was the only active U.S. equity manager that exceeded its respective benchmark during the period. Wasatch detracted the most relative value from the asset class' performance, underperforming its benchmark by 5.9 percentage points. Within the non-U.S. equity portfolio, both Capital Guardian and Sprucegrove underperformed their respective benchmarks. The global equity portfolio underperformed during the first quarter despite the strong performance of the GMO which returned 7.6 percentage points during the quarter. GMO's outperformance was more than offset by the relative underperformance of the Wellington portfolio. The fixed income portfolio, although negative on an absolute basis, outperformed its benchmark by 0.3 percentage points during the first quarter and was greatly aided by the performance of their active managers, as Western, Reams and Loomis Sayles all added value. The real estate portfolio slightly underperformed during the period in large part due to the underperformance of the UBS portfolio.
- The attribution analysis on the top of the previous page highlights the separate components' contribution within VCERA's total portfolio for the first quarter. As shown, the greatest contributors included the fixed income and U.S. equity portfolios. Also aiding results was the overweight allocation to non-U.S. equities throughout most of the period with a corresponding underweight allocation to fixed income.
- The attribution graph shown on the bottom of the previous page highlights VCERA's performance over the one-year period. During the year, the Total Fund exceeded the performance of its benchmark by 41 basis points. Over the year, the fixed income, real estate, and non-U.S. equity portfolios contributed to the outperformance.

# TOTAL FUND

## First Quarter 2006

### HISTORICAL RETURNS

(BY YEAR)

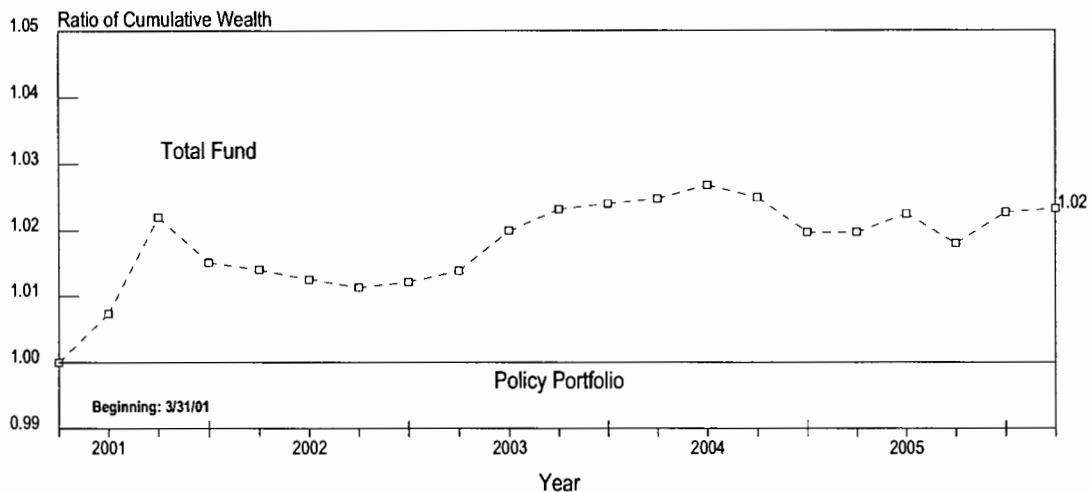
	Total Fund	Policy Portfolio	Return Difference
	Return	Return	
1989	19.6%	21.9%	-2.3
1990	6.1	2.9	3.2
1991	19.8	22.1	-2.3
1992	8.6	7.7	0.9
1993	9.9	8.6	1.3
1994	-2.1	0.8	-2.9
1995	25.2	24.6	0.6
1996	14.9	13.6	1.3
1997	18.8	19.9	-1.1
1998	16.8	20.3	-3.5
1999	13.5	14.3	-0.8
2000	0.7	-1.8	2.5
2001	-2.2	-6.0	3.8
2002	-10.4	-10.1	-0.3
2003	24.4	22.9	1.5
2004	10.8	11.3	-0.5
2005	7.9	7.6	0.3
2006 (3 months)	4.2	4.1	0.1
Trailing 1-Year	13.5%	13.1%	0.4
Trailing 3-Year	16.5	16.2	0.3
Trailing 5-Year	7.4	6.9	0.5
Trailing 10-Year	9.2	8.8	0.4

### COMMENTARY

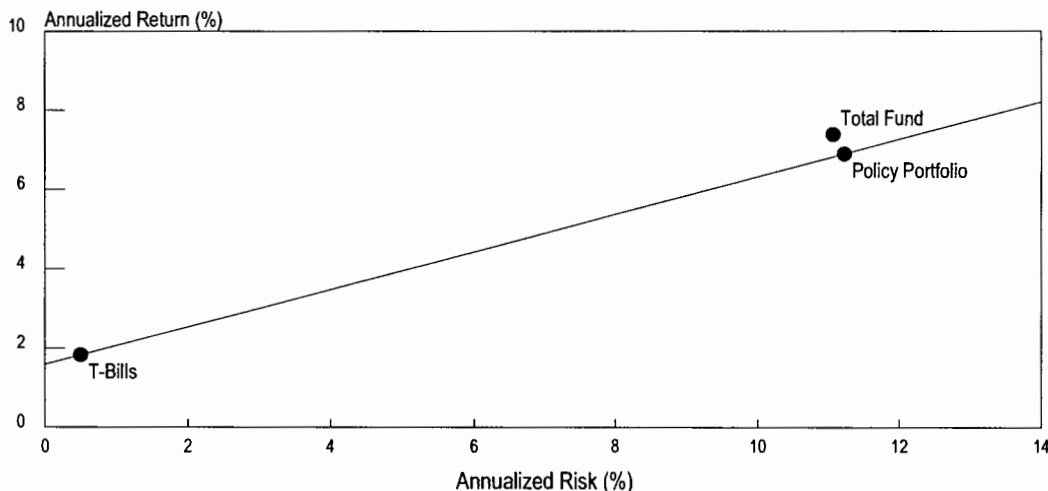
- The table above compares the historical returns of VCERA's Total Fund with those of the policy benchmark. The Total Fund's trailing one-, three-, five-, and ten-year returns have exceeded that of the benchmark by 0.4, 0.3, 0.5, and 0.4 percentage points, respectively.

First Quarter 2006

RATIO OF CUMULATIVE WEALTH  
5 YEARS ENDING 3/31/06



ANNUALIZED RISK/RETURN  
5 YEARS ENDING 3/31/06



- The Ratio of Cumulative Wealth graph above illustrates the Total Fund's cumulative performance relative to that of its benchmark. An upward sloping line between two points indicates that the component's return exceeded that of the benchmark while a downward sloping line indicates a lower return. The Total Fund outperformed its benchmark over the past five years.
- The risk/return graph above exhibits the risk/return characteristics of VCERA's Total Fund, relative to that of its policy portfolio. As seen in the graph, over the past five years, VCERA experienced a higher rate of return than the benchmark, while taking on a slightly lower level of volatility.

# TOTAL FUND

## First Quarter 2006

### IMRS SCORES

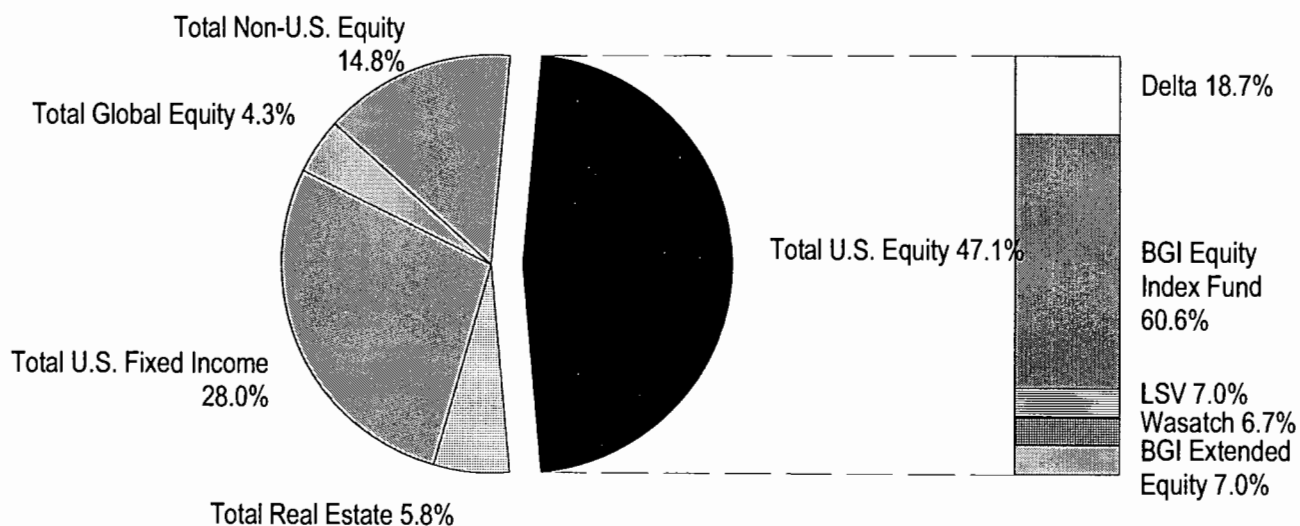
	IMRS Score	IMRS Rating	Any Change During the Quarter
<b>U.S. Equity</b>			
Delta	13	Good	No
LSV	16	Excellent	No
Wasatch	17	Excellent	No
<b>Non-U.S. Equity</b>			
Capital Guardian	19	Excellent	No
Sprucegrove	17	Excellent	No
<b>Global Equity</b>			
GMO	15	Good	No
Wellington	14	Good	No
<b>Fixed Income</b>			
Western	16	Excellent	No
Reams	16	Excellent	No
Loomis Sayles	15	Good	No

- There were no material changes to any of VCERA's pre-existing IMRS ratings during the first quarter.

**TOTAL U.S. EQUITY**  
**\$1,263.1 Million and 47.1% of Fund**

**First Quarter 2006**

**ASSET ALLOCATION AS OF 3/31/06**



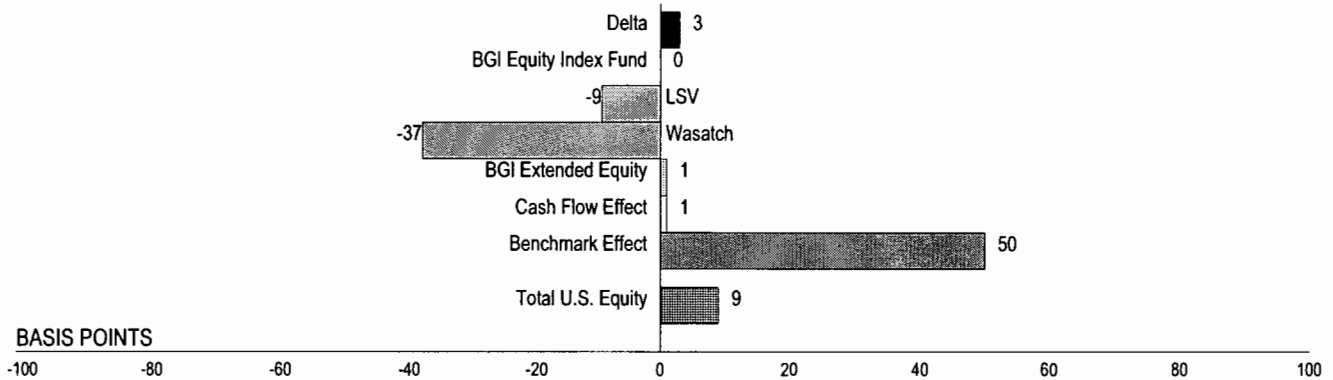


# TOTAL U.S. EQUITY

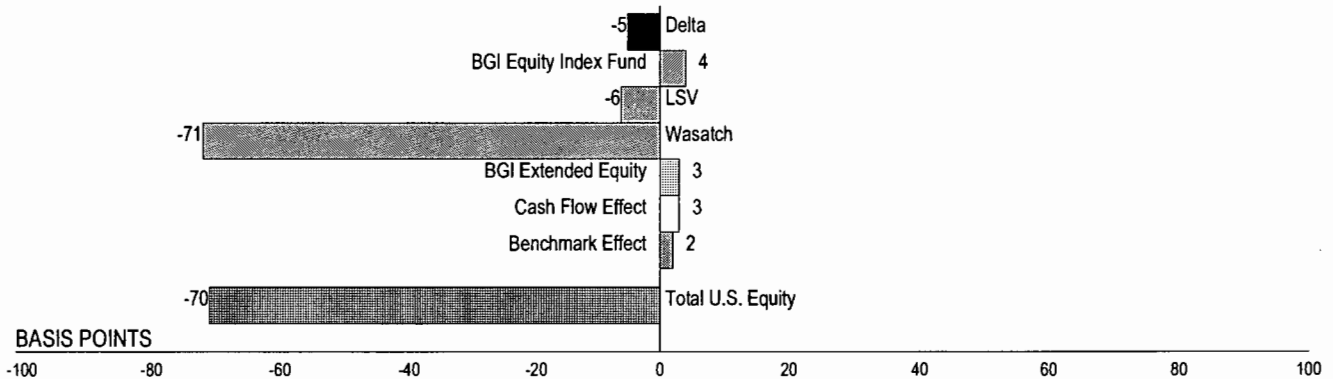
\$1,263.1 Million and 47.1% of Fund

## First Quarter 2006

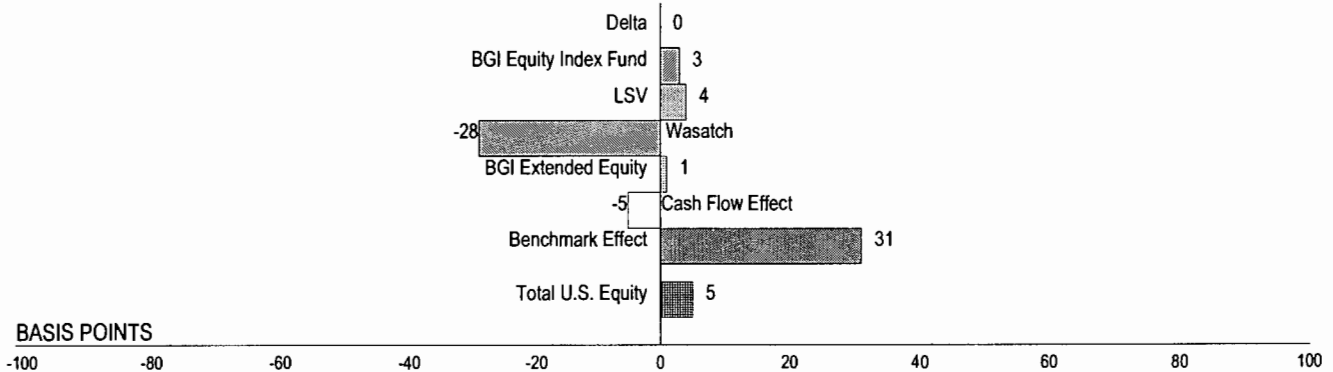
### MANAGER ATTRIBUTION ANALYSIS 3 MONTHS ENDING 3/31/06



### MANAGER ATTRIBUTION ANALYSIS 1 YEAR ENDING 3/31/06



### MANAGER ATTRIBUTION ANALYSIS 3 YEARS ENDING 3/31/06



**TOTAL U.S. EQUITY**  
**\$1,263.1 Million and 47.1% of Fund**

**First Quarter 2006**

**RETURN SUMMARY**  
**ENDING 3/31/06**

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		5 Years Ending 3/31/06		10 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Total U.S. Equity</b>	5.4%	67	11.2%	85	13.6%	84	19.2%	73	5.8%	69	9.2%	62	10.4%	69	12/31/93
Russell 3000 Index	5.3	71	11.8	78	14.3	75	19.2	73	5.3	80	9.2	62	10.7	62	
<b>Delta</b>	4.4	47	10.4	58	11.6	66	17.3	63	4.6	55	9.7	49	11.2	55	9/30/91
S&P 500 Index	4.2	52	10.2	61	11.7	65	17.2	64	4.0	62	9.0	63	10.8	66	
<b>BGI Equity Index Fund</b>	4.2	52	10.2	61	11.8	64	17.3	63	4.0	62	--	--	5.2	--	7/31/97
S&P 500 Index	4.2	52	10.2	61	11.7	65	17.2	64	4.0	62	--	--	5.2	--	
<b>LSV</b>	12.1	35	17.2	50	23.0	41	31.5	36	20.6	13	--	--	16.6	47	9/30/98
Russell 2000 Value Index	13.5	19	17.8	47	23.8	36	30.7	43	16.2	61	--	--	14.9	69	
<b>Wasatch</b>	8.5	96	9.3	99	16.6	96	24.0	81	11.5	34	--	--	16.4	--	11/30/99
Performance Benchmark	14.4	36	23.5	47	27.8	54	28.1	47	9.1	57	--	--	7.3	--	
<b>BGI Extended Equity</b>	9.6	85	18.7	54	25.2	41	28.5	57	--	--	--	--	24.1	--	10/31/02
DJ Wilshire 4500 Index	9.5	86	18.4	59	24.8	43	28.4	59	--	--	--	--	24.2	--	

# TOTAL U.S. EQUITY

\$1,263.1 Million and 47.1% of Fund

## First Quarter 2006

- The Russell 3000 Index gained 5.3% during the first quarter as the U.S. economy continued to gain momentum despite continued interest rate hikes. The transportation and consumer durable sectors, led the way gaining 11.0% and 9.9%, respectively during the period. The energy sector performed strong after struggling during the fourth quarter and gained a robust 9.2%. Value stocks outperformed their growth counterparts during the first quarter and small cap stocks again outperformed large caps over the period.
- The total U.S. equity portfolio's return slightly exceeded that of its benchmark during the period. Delta was the only active manager that outperformed its benchmark during the first quarter. The BGI Extended Equity Index Fund experienced positive tracking during the first quarter, while the other passive option successfully tracked its Index.
- Performance over the fiscal year-to-date, one-year, and since-inception time periods is below that of the Russell 3000 Index. The returns over the five-year period remain favorable.
- The attribution analysis on page 24 highlights each manager's contribution within VCERA's U.S. equity portfolio. The benchmark effect in the quarter, one-, and three-year attribution graphs is the cumulative performance of the individual manager's benchmarks relative to the Russell 3000 Index (the U.S. equity benchmark). During the quarter, the positive benchmark effect is a result of a modest overweight to small cap securities through managers, LSV and Wasatch. As small cap securities outperformed the returns of their large cap counterparts, a positive benchmark effect is evident.

## First Quarter 2006

RETURN SUMMARY  
ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		10 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Delta</b>	4.4%	47	10.4%	58	11.6%	66	17.3%	63	9.7%	49	11.2%	55	9/30/91
S&P 500 Index	4.2	52	10.2	61	11.7	65	17.2	64	9.0	63	10.8	66	

## PHILOSOPHY AND PROCESS

- Delta Asset Management attempts to identify changes in the economic/business environment that could positively impact groupings of stocks. The macroeconomic analysis determines the types of sectors/industries upon which the firm focuses.
- The manager conducts analysis at the security level to identify those companies that are well positioned to benefit from its economic outlook. The manager uses fundamental research to identify those companies that are expected to show an increase in revenue and earnings as a result of changes in the company's business, products or market position.

## COMMENTARY ON INVESTMENT PERFORMANCE

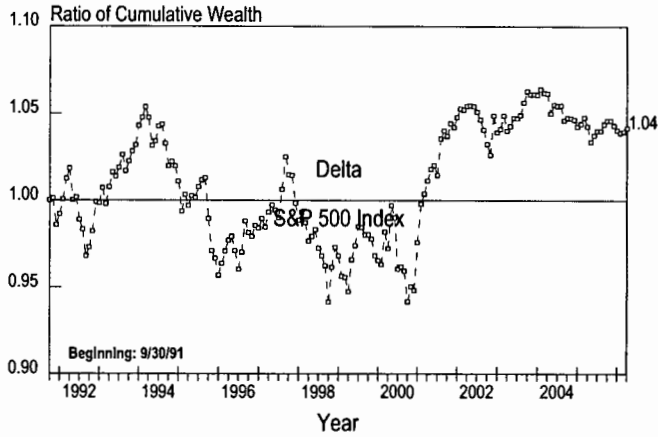
- During the quarter, Delta returned 4.4% and outperformed the S&P 500 Index by 20 basis points primarily due to favorable stock selections within the information technology sector coupled with an underweight allocation to the poor performing utilities sector. Cisco Systems (+26.6%) and ExxonMobil (+8.3%) contributed to the outperformance during the quarter. The portfolio was hindered by holding an underweight in the telecommunications sector.
- The portfolio still holds a large overweight (23% vs. 15%) to the information technology sector and feels the names they hold continue to have potential for future growth. During the first quarter of 2006, the technology sector's return exceeded that of the Index and added relative value.
- Delta's longer-period returns compare favorably with those of the S&P 500 Index, with the exception of the one-year period.

# DELTA

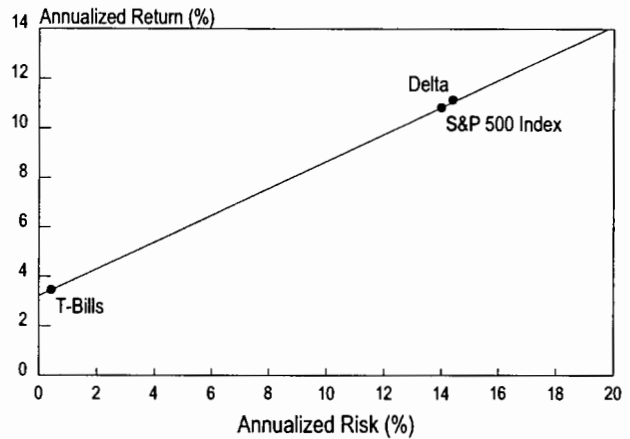
\$236.8 Million and 8.8% of Fund

## First Quarter 2006

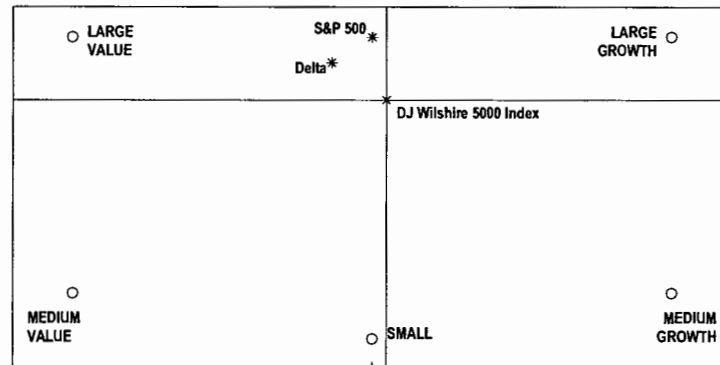
**RATIO OF CUMULATIVE WEALTH**  
14 YEARS 6 MONTHS ENDING 3/31/06



**ANNUALIZED RISK/RETURN**  
14 YEARS 6 MONTHS ENDING 3/31/06



**EFFECTIVE STYLE MAP**  
14 YEARS 6 MONTHS ENDING 3/31/06



- The Ratio of Cumulative Wealth graph above on the left illustrates the manager's cumulative performance relative to that of the S&P 500 Index. An upward sloping line between two points indicates that the component's return exceeded that of the Index, while a downward sloping line indicates a lesser return. As seen in the graph, the manager has added value since inception as relative performance was strong in 2000, 2001, and 2003.
- The risk/return graph above on the right illustrates the risk return characteristics of Delta, relative to the S&P 500 Index. As seen from the chart, Delta's return is greater than that of the Index while taking on a slightly greater level of risk.
- The bottom graph highlights Delta's investment style over time.

## First Quarter 2006

## HISTORICAL RETURNS

(BY YEAR)

	Delta		S&P 500 Index		Return Difference
	Return	Rank	Return	Rank	
1991 (3 months)	7.5%	66	8.4%	58	-0.9
1992	8.3	59	7.6	64	0.7
1993	15.0	35	10.1	74	4.9
1994	-1.8	74	1.3	35	-3.1
1995	30.2	85	37.6	33	-7.4
1996	26.5	18	23.0	46	3.5
1997	34.0	26	33.4	32	0.6
1998	25.9	46	28.6	38	-2.7
1999	20.7	45	21.0	44	-0.3
2000	-8.1	66	-9.1	70	1.0
2001	-5.4	29	-11.9	56	6.5
2002	-22.8	57	-22.1	53	-0.7
2003	31.4	27	28.7	50	2.7
2004	9.0	67	10.9	51	-1.9
2005	4.7	69	4.9	67	-0.2
2006 (3 months)	4.4	47	4.2	52	0.2
Trailing 1-Year	11.6%	66	11.7%	65	-0.1
Trailing 3-Year	17.3	63	17.2	64	0.1
Trailing 5-Year	4.6	55	4.0	62	0.6
Trailing 10-Year	9.7	49	9.0	63	0.7
Since Inception (9/30/91)	11.2	55	10.8	66	0.4

- The chart above shows the historical performance of the Delta portfolio and its benchmark, the S&P 500 Index. As shown, 1994 and 1995 accounted for the greatest below-benchmark performance, while 1993 and 2001 were the calendar years that contributed most to the outperformance since inception. The three-, five-, ten-year, and since-inception returns have added value relative to the benchmark.

	Delta	S&P 500
Capitalization Focus	Large	Large
Number of Holdings	104	500
Top 5 Holdings	Citigroup General Electric ExxonMobil Bank of America Microsoft	ExxonMobil General Electric Microsoft Citigroup Bank of America
Sector Emphasis	Information Technology	Financial Services
Cash Allocation	4.1%	0.0%
Total Strategy Assets	\$4.2 Billion	--
Inception Date	9/30/91	--
Portfolio Manager(s)	Carl Goldsmith, Marla Ryan	

# BGI EQUITY INDEX FUND

\$765.3 Million and 28.6% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>BGI Equity Index Fund</b>	<b>4.2%</b>	<b>52</b>	<b>10.2%</b>	<b>61</b>	<b>11.8%</b>	<b>64</b>	<b>17.3%</b>	<b>63</b>	<b>5.2%</b>	<b>--</b>	<b>7/31/97</b>
S&P 500 Index	4.2	52	10.2	61	11.7	65	17.2	64	5.2	--	

#### PHILOSOPHY AND PROCESS

- The BGI Equity Index Fund is an index fund which is designed to replicate the performance of the S&P 500 Index. BGI looks to replicate the performance of the S&P 500 Index by holding each security within the Index.

#### COMMENTARY ON INVESTMENT PERFORMANCE

- The BGI Equity Index Fund successfully tracked the performance of the S&P 500 Index during the first quarter. Additionally, the Fund closely tracked the benchmark over all longer time periods analyzed.

**BGI EQUITY INDEX FUND**  
**\$765.3 Million and 28.6% of Fund**

**First Quarter 2006**

**HISTORICAL RETURNS**

(BY YEAR)

	BGI Equity Index Fund		S&P 500 Index		Return Difference
	Return	Rank	Return	Rank	
1997 (5 months)	2.4%	—	2.4%	—	0.0
1998	28.6	38	28.6	38	0.0
1999	21.0	44	21.0	44	0.0
2000	-9.1	70	-9.1	70	0.0
2001	-11.9	56	-11.9	56	0.0
2002	-22.1	53	-22.1	53	0.0
2003	28.7	50	28.7	50	0.0
2004	10.9	51	10.9	51	0.0
2005	5.0	67	4.9	67	0.1
2006 (3 months)	4.2	52	4.2	52	0.0
Trailing 1-Year	11.8%	64	11.7%	65	0.1
Trailing 3-Year	17.3	63	17.2	64	0.1
Trailing 5-Year	4.0	62	4.0	62	0.0
Since Inception (7/31/97)	5.2	—	5.2	—	0.0



# BGI EXTENDED EQUITY FUND

\$88.1 Million and 3.3% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>BGI Extended Equity</b>	<b>9.6%</b>	<b>85</b>	<b>18.7%</b>	<b>54</b>	<b>25.2%</b>	<b>41</b>	<b>28.5%</b>	<b>57</b>	<b>24.1%</b>	<b>-</b>	<b>10/31/02</b>
DJ Wilshire 4500 Index	9.5	86	18.4	59	24.8	43	28.4	59	24.2	-	

### PHILOSOPHY AND PROCESS

- The BGI Extended Market Index Fund provides investment in the U.S. equity market excluding those stocks represented in the S&P 500 Index. The Extended Market Index Fund is managed using an optimization technique and as such does not hold all of the securities in the benchmark.

### COMMENTARY ON INVESTMENT PERFORMANCE

- The BGI Extended Equity Index Fund experienced a slight positive tracking versus the DJ Wilshire 4500 Index during the first quarter. While positive tracking is evident over the fiscal year-to-date and one-year time periods, the three-year and since inception returns approximated that of the DJ Wilshire 4500 Index.

**BGI EXTENDED EQUITY FUND****\$88.1 Million and 3.3% of Fund****First Quarter 2006****HISTORICAL RETURNS**

(BY YEAR)

	BGI Extended Equity		DJ Wilshire 4500 Index		Return Difference
	Return	Rank	Return	Rank	
2002 (2 months)	2.1%	--	2.4%	--	-0.3
2003	43.2	45	43.8	44	-0.6
2004	18.1	70	18.1	70	0.0
2005	10.5	26	10.0	34	0.5
2006 (3 months)	9.6	85	9.5	86	0.1
Trailing 1-Year	25.2%	41	24.8%	43	0.4
Trailing 3-Year	28.5	57	28.4	59	0.1
Since Inception (10/31/02)	24.1	--	24.2	--	-0.1

# LSV

\$87.9 Million and 3.3% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>LSV</b>	<b>12.1%</b>	<b>35</b>	<b>17.2%</b>	<b>50</b>	<b>23.0%</b>	<b>41</b>	<b>31.5%</b>	<b>36</b>	<b>16.6%</b>	<b>47</b>	<b>9/30/98</b>
Russell 2000 Value Index	13.5	19	17.8	47	23.8	36	30.7	43	14.9	69	

### PHILOSOPHY AND PROCESS

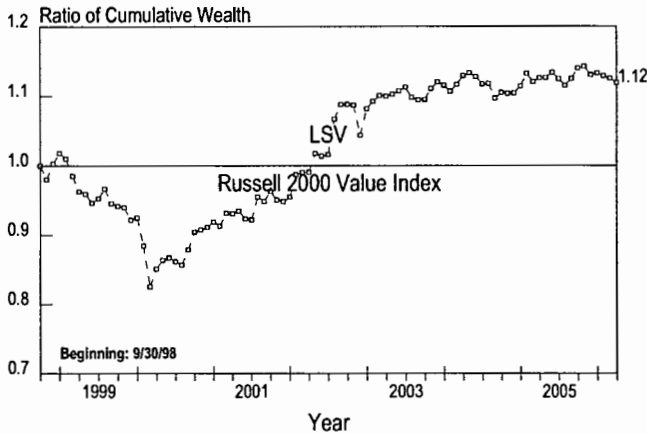
- LSV's small-cap value philosophy attempts to purchase undervalued securities with the expectation that they will appreciate in value. The process uses a quantitative three-factor model that looks at how cheap a security is relative to the company's earnings and cash flows, long-term performance (1 to 5 years before a security is purchased) and momentum factors. Once securities are selected from LSV's 7,500 stock universe, they are ranked and given an expected return. The most attractive stocks make it into the portfolio.

### COMMENTARY ON INVESTMENT PERFORMANCE

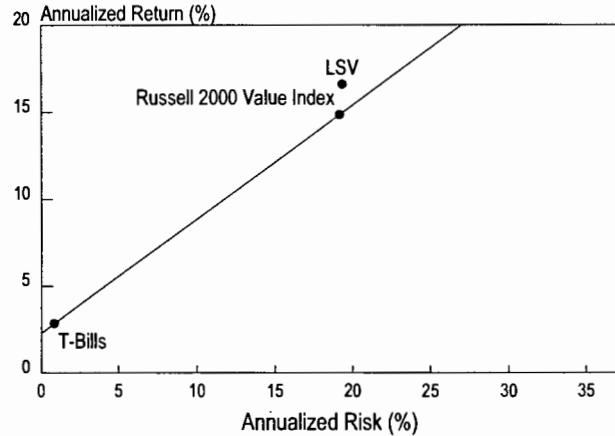
- LSV's first-quarter return was 12.1% which trailed its benchmark, the Russell 2000 Value Index, by 1.4 percentage points. Stock selection in the materials and financial services sectors was the primary reason for the portfolio's underperformance during the quarter. Conversely, stock selection was positive in the utilities and technology sectors. Sector allocation also helped relative results as the portfolio was overweight to the strong performing industrials, and materials sectors where the overweight allocation helped results despite the manager's poor stock selections.
- The performance of all longer time periods analyzed above was mixed. The three-year and since inception returns added value over the benchmark, while the fiscal year-to-date and one-year returns underperformed.
- At quarter-end the portfolio's cash allocation was 1.2%, which was within the limits of their policy guidelines.
- The manager did, however, violate its guideline of a maximum of 140 holdings as of quarter-end, by holding 153 securities.

First Quarter 2006

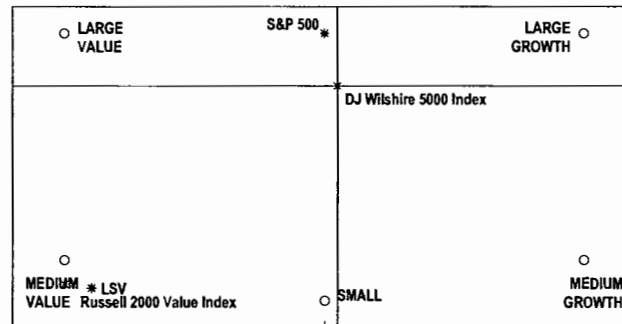
**RATIO OF CUMULATIVE WEALTH  
7 YEARS 6 MONTHS ENDING 3/31/06**



**ANNUALIZED RISK/RETURN  
7 YEARS 6 MONTHS ENDING 3/31/06**



**EFFECTIVE STYLE MAP  
7 YEARS 6 MONTHS ENDING 3/31/06**



- The Ratio of Cumulative Wealth graph above on the left illustrates the manager's cumulative performance relative to that of the benchmark. As seen in the graph, the manager added value relative to the benchmark since inception. Since early 2000, performance has been strong, making up for the deficit in performance experienced early in the portfolio's performance history.
- The risk/return graph above (right) illustrates the portfolio's risk and return characteristics compared to the benchmark. The LSV portfolio has produced a greater return while incurring a similar level of volatility as the benchmark.
- The bottom graph highlights LSV's investment style over time.

# LSV

\$87.9 Million and 3.3% of Fund

## First Quarter 2006

### HISTORICAL RETURNS

(BY YEAR)

	LSV		Russell 2000 Value Index		Return Difference
	Return	Rank	Return	Rank	
1998 (3 months)	11.1%	56	9.1%	70	2.0
1999	-10.5	98	-1.5	73	-9.0
2000	22.1	46	22.8	44	-0.7
2001	18.4	43	14.0	67	4.4
2002	0.4	4	-11.4	49	11.8
2003	50.5	20	46.0	35	4.5
2004	22.1	43	22.3	42	-0.2
2005	6.4	67	4.7	75	1.7
2006 (3 months)	12.1	35	13.5	19	-1.4
Trailing 1-Year	23.0%	41	23.8%	36	-0.8
Trailing 3-Year	31.5	36	30.7	43	0.8
Trailing 5-Year	20.6	13	16.2	61	4.4
Since Inception (9/30/98)	16.6	47	14.9	69	1.7

- The table above shows the historical performance of the LSV portfolio and the Russell 2000 Value Index. 1999 was by far LSV's worst performing calendar year in both absolute and relative terms. 2002 posted the greatest relative return compared to that of its benchmark in terms of calendar years. The manager's since-inception return comfortably outdistanced that of the benchmark.

	LSV	Russell 2000 Value
Capitalization Focus	Small	Small
Number of Holdings	153	1,336
Top 5 Holdings	GATX, Corp. Fuller HB Co. Holly Corp. Alpharma, Inc. Amerus Group Co.	Level 3 Communications, Inc. Vertex Pharmaceuticals, Inc. Cimarex Energy Co. Commercial Metals Co. Flowserve Corp.
Sector Emphasis	Financial Services	Financial Services
Cash Allocation	1.2%	0.0%
Total Strategy Assets	\$2.8 Billion	--
Inception Date	9/30/98	--
Portfolio Manager(s)	Team Managed	

## First Quarter 2006

RETURN SUMMARY  
ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Wasatch</b>	8.5%	96	9.3%	99	16.6%	96	24.0%	81	16.4%	--	11/30/99
Performance Benchmark	14.4	36	23.5	47	27.8	54	28.1	47	7.3	-	

## PHILOSOPHY AND PROCESS

- Wasatch is a bottom-up qualitative manager that typically invests in companies that are ignored by Wall Street analysts because they are too small. The firm conducts hundreds of on-site research visits per year with companies that may or may not end up in their portfolios.
- In order for a company to make it into the 30-40 security Wasatch portfolio, they must have an anticipated annualized growth of 15%, a competitive advantage within their industry, a strong financial position, and an entrepreneurial management environment.
- In early December 2001, the portfolio was transitioned from the Small Cap Core Growth strategy to the Small Cap Growth strategy in an effort to move VCERA's total equity portfolio towards a higher degree of style neutrality. The portfolio's benchmark changed from the Russell 2000 to the Russell 2000 Growth as of December 31, 2001 as a result of the transition.

## COMMENTARY ON INVESTMENT PERFORMANCE

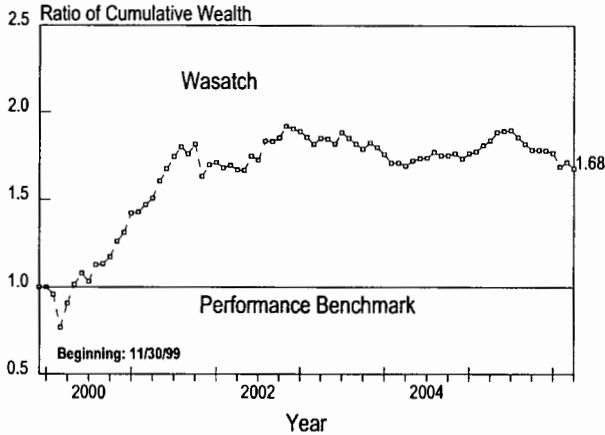
- Wasatch's first-quarter return was 8.5%, which lagged the return of its performance benchmark by 5.9 percentage points. This quarter, the portfolio was hurt by quality selection as a large portion of the names making significant gains that are included in the index are considered by Wasatch to be lower quality names. Wasatch believes that this is reflective of investors' appetite for more risk. However, they continue to remain committed to their belief that "higher-quality" names will outperform in the long-term and will be beneficial to their investors, despite the short-term performance.
- Meritage Homes Corp. and Websense, Inc. are a couple examples of securities that underperformed the market during the quarter. Also hindering results was the portfolio's significant underweight to commodity-driven sectors (ie. energy), as the portfolio held only 0.9% in the sector versus 6.4% for the benchmark. This has also hindered the results of the portfolio during the fiscal year-to-date and one-year periods as the energy sector has performed well during the past year.
- The manager's longer-term returns shown above all detracted value relative to the performance benchmark with the only exception being the since-inception return.
- The portfolio's guidelines were adjusted during the fourth quarter of 2005 and the maximum number of names allowed in the portfolio was increased to 120 names. At the end of the quarter, Wasatch's portfolio held 106 names and was within the parameters of their new guidelines.

# WASATCH

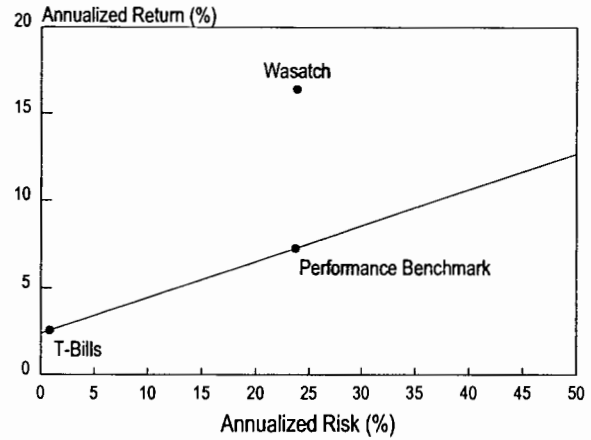
\$85.0 Million and 3.2% of Fund

## First Quarter 2006

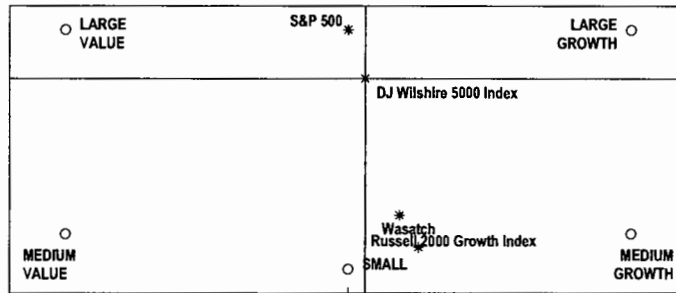
**RATIO OF CUMULATIVE WEALTH  
6 YEARS 4 MONTHS ENDING 3/31/06**



**ANNUALIZED RISK/RETURN  
6 YEARS 4 MONTHS ENDING 3/31/06**



**EFFECTIVE STYLE MAP  
6 YEARS 4 MONTHS ENDING 3/31/06**



- The Ratio of Cumulative Wealth graph above (left) illustrates the manager's cumulative performance relative to that of the performance benchmark. As seen in the graph, the manager has consistently added value relative to its performance benchmark.
- The risk/return characteristics above (right) show the manager's return exceeded that of the Index, while incurring a slightly higher level of volatility.
- The style map shown above reflects VCERA's actual experience since switching from the small cap core strategy to the small cap growth strategy at year-end 2001. Data prior to that represents the manager's small cap growth composite history.

**First Quarter 2006**

**HISTORICAL RETURNS**

(BY YEAR)

	Wasatch		Performance Benchmark		Return Difference
	Return	Rank	Return	Rank	
1999 (1 month)	11.4%	--	11.3%	--	0.1
2000	37.6	1	-3.0	32	40.6
2001	23.5	4	2.5	15	21.0
2002	-23.0	24	-30.3	57	7.3
2003	38.3	86	48.5	46	-10.2
2004	14.7	30	14.3	31	0.4
2005	4.3	76	4.1	77	0.2
2006 (3 months)	8.5	96	14.4	36	-5.9
Trailing 1-Year	16.6%	96	27.8%	54	-11.2
Trailing 3-Year	24.0	81	28.1	47	-4.1
Trailing 5-Year	11.5	34	9.1	57	2.4
Since Inception (11/30/99)	16.4	--	7.3	--	9.1

- The table above shows the historical performance of the Wasatch portfolio. The 2000 calendar year saw a difference of over 40 percentage points between the manager's return and the benchmark. The 2001 calendar year return had a deviation of 21 percentage points between the returns of the portfolio and the Index. 2003 marked the only calendar year period for which performance of the Wasatch portfolio trailed that of the performance benchmark. The since-inception return positively deviates from that of the performance benchmark by 9.1 percentage points.

	Wasatch	Russell 2000 Growth
Capitalization Focus	Small	Small
Number of Holdings	106	1,376
Top 5 Holdings	O'Reilly Automotive, Inc. Knight Transportation, Inc. FactSet Research Systems, Inc. Guitar Center, Inc. Copart Inc.	Amylin Pharmaceuticals, Inc. Intuitive Surgical, Inc. Frontier Oil Corp. Eagle Materials Inc. JLG Industries
Sector Emphasis	Information Technology	Consumer Discretionary
Cash Allocation	6.3%	0.0%
Total Strategy Assets	\$1.3 Billion	--
Inception Date	11/30/99	--
Portfolio Manager(s)	Jeff Cardon	

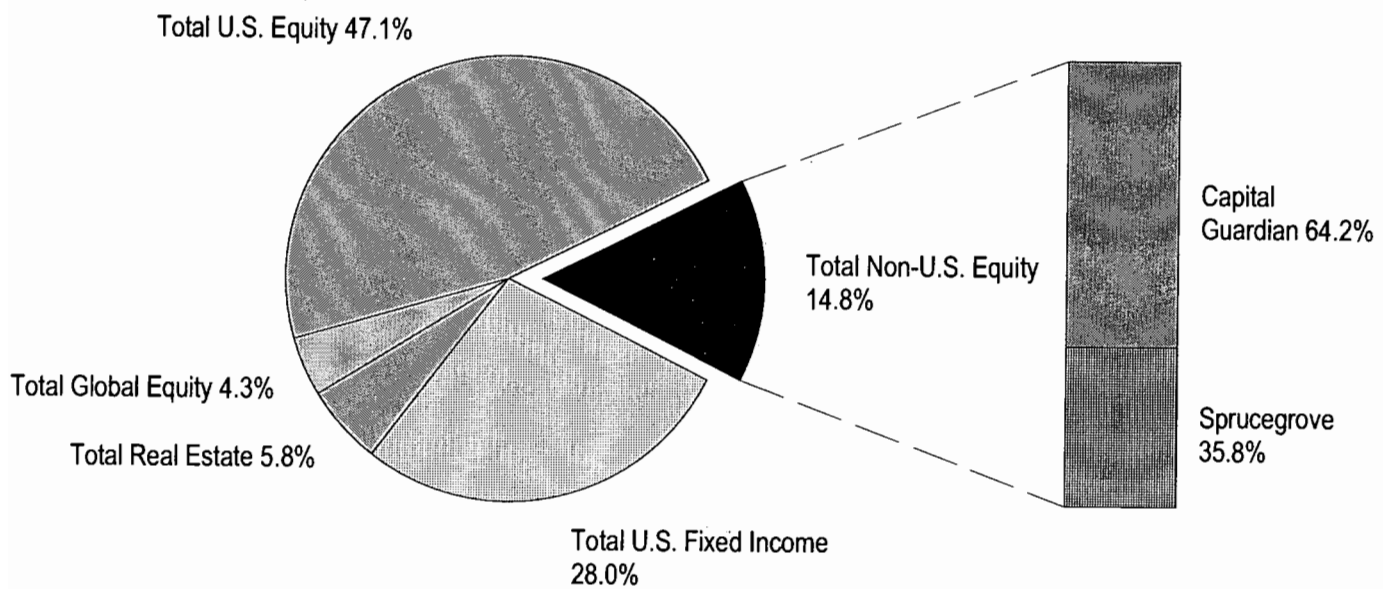


# TOTAL NON-U.S. EQUITY

\$396.1 Million and 14.8% of Fund

First Quarter 2006

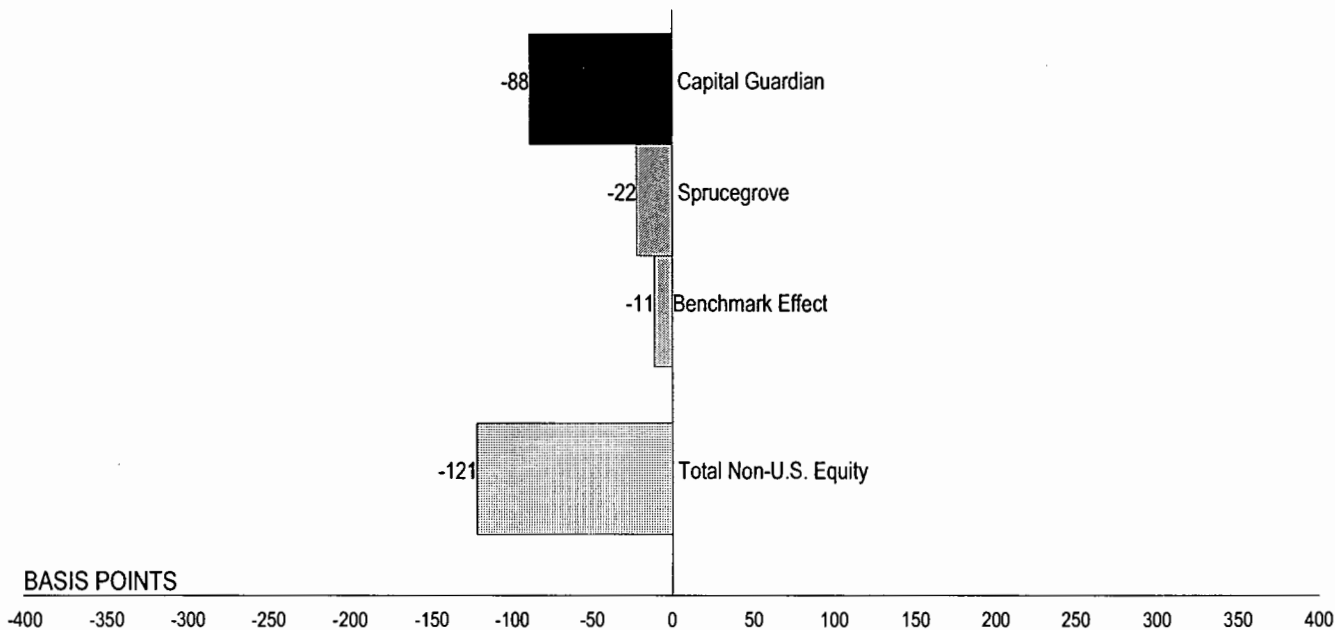
## ASSET ALLOCATION AS OF 3/31/06



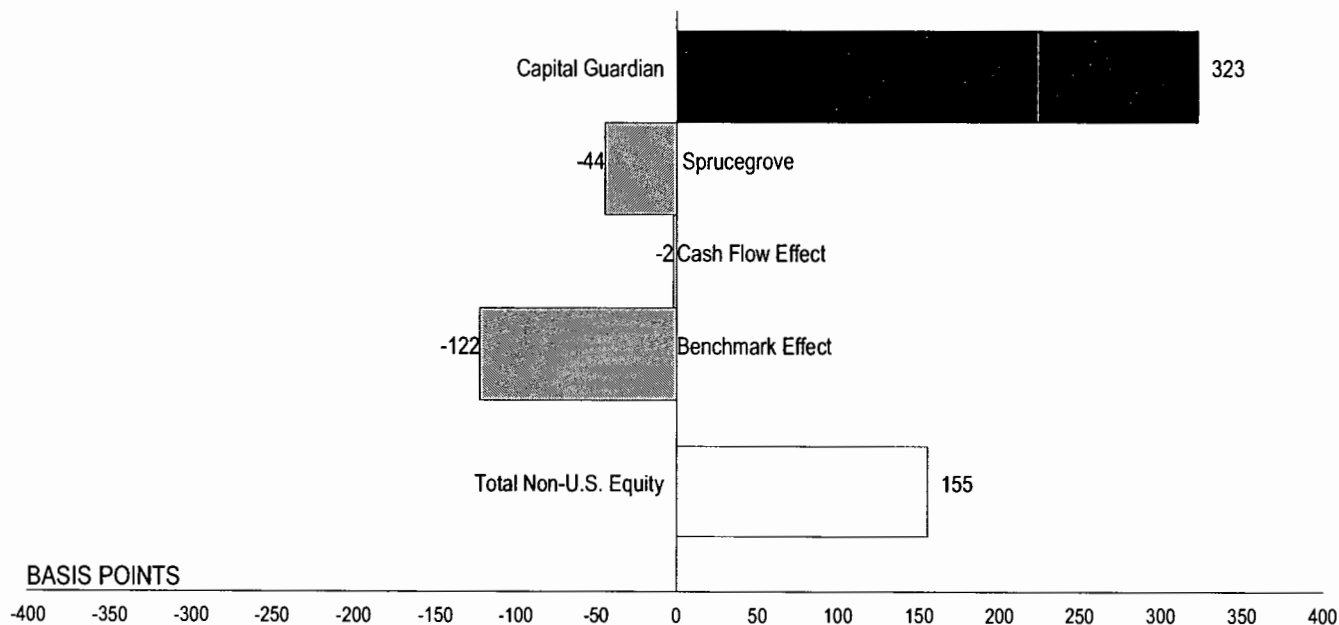
**TOTAL NON-U.S. EQUITY**  
**\$396.1 Million and 14.8% of Fund**

**First Quarter 2006**

**MANAGER ATTRIBUTION ANALYSIS**  
**3 MONTHS ENDING 3/31/06**



**MANAGER ATTRIBUTION ANALYSIS**  
**1 YEAR ENDING 3/31/06**



# TOTAL NON-U.S. EQUITY

\$396.1 Million and 14.8% of Fund

## First Quarter 2006

- Overseas markets again performed well as the MSCI All-Country World ex-U.S. Index advanced 9.7% during the quarter. Emerging markets continued to rally, gaining 12.0% during the first quarter and 47.4% over the past twelve months. High commodity prices and continued foreign investment helped emerging markets post yet another positive quarter. Latin America continued to be the top performing region with a one-year return of 70.1%.
- The non-U.S. equity composite trailed the performance of its benchmark during the period. Both managers lagged the results of their respective benchmarks despite having strong absolute returns. Sprucegrove returned 8.8% and Capital Guardian returned 8.3% during the first quarter.
- Capital Guardian added value during the one-year period and the total non-U.S. equity portfolio outperformed the performance benchmark by 1.5 percentage points. Sprucegrove typically invests in developed market securities, Capital Guardian invests in the entire non-U.S. equity opportunity set. During the one-year period, emerging market securities outperformed developed market securities by a wide margin, increasing the performance of the composite's benchmark, the MSCI All Country World ex-U.S. Index this is shown on page 41 as the bar labeled benchmark effect.
- The performance benchmark for the total non-U.S. equity portfolio is the MSCI All-Country World Ex-U.S. Index. Prior to May 2002, the benchmark was the MSCI EAFE Index.

**TOTAL NON-U.S. EQUITY**  
**\$396.1 Million and 14.8% of Fund**

**First Quarter 2006**

**RETURN SUMMARY**  
**ENDING 3/31/06**

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		5 Years Ending 3/31/06		10 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Total Non-U.S. Equity</b>	8.5%	75	28.6%	27	29.1%	24	31.5%	46	11.6%	42	9.6%	29	9.8%	31	3/31/94
Performance Benchmark	9.7	35	27.9	35	27.6	36	33.0	26	10.8	57	7.0	80	7.4	74	
<b>Capital Guardian</b>	8.3	85	32.5	13	32.8	13	32.1	34	10.8	39	--	--	4.5	--	7/31/00
Performance Benchmark	9.7	52	27.9	43	27.6	44	33.0	26	10.8	39	--	--	5.4	--	
<b>Sprucegrove</b>	8.8	76	22.3	87	23.2	80	30.3	55	--	--	--	--	17.4	20	3/31/02
MSCI EAFE Index	9.4	60	25.7	75	24.4	75	31.1	46	--	--	--	--	14.7	50	

# CAPITAL GUARDIAN

\$254.3 Million and 9.5% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Capital Guardian	8.3%	85	32.5%	13	32.8%	13	32.1%	34	4.5%	--	7/31/00
Performance Benchmark	9.7	52	27.9	43	27.6	44	33.0	26	5.4	--	

### PHILOSOPHY AND PROCESS

- Capital Guardian refers to its investment approach as a multiple-manager system. Under this system, portfolios are divided among nine portfolio managers (75%) and the firm's research analysts (25%). Each sub-portfolio is invested in an individual portfolio at the discretion of the portfolio manager or analyst team. For the analysts' research portfolio, each analyst manages a small percentage of the portfolio based on their industry and/or country research responsibility. All stocks are selected from the firm's "buy" list of about 200 companies. To minimize transaction costs, all sales are posted to an internal list that other portfolio managers have the opportunity to buy. All portfolio managers have the discretion to hedge their portfolio.
- The firm's investment process is driven by value-oriented stock selection. The firm attempts to identify the difference between the underlying value of a company and its stock price through fundamental analysis and direct company contact. Individual company analysis is blended with the firm's macroeconomic and political judgments based on its outlook for world economies, industries, markets and currencies.

### COMMENTARY ON INVESTMENT PERFORMANCE

- Capital Guardian's non-U.S. equity strategy posted a strong absolute return of 8.3%, but underperformed its performance benchmark by 1.4 percentage points. An overweight to telecommunication services, the weakest performing sector, hindered performance as did poor stock selection in the U.K. and Japan. All Japanese internet-related stocks suffered as a result of the Livedoor scandal. Conversely, strong stock selection in the telecom services sector aided relative performance. Among individual holdings, American Movil, KPN, and Bouygues were the best performers while Vodafone, Softbank and Yahoo! Japan were the largest detractors.
- With the exception of the fiscal year-to-date and one-year periods, the manager has been unable to add value relative to its performance benchmark over the longer periods analyzed. Since inception, the portfolio's return trailed that of the benchmark by 0.9 percentage points annually.

**First Quarter 2006**

**COUNTRY ALLOCATION/RETURN**  
**3 MONTHS ENDING 3/31/06**

	Manager Allocation	Index Allocation	Index Return
<b>Europe</b>			
Austria	0.3%	0.4%	13.5%
Belgium	0.6	0.9	10.5
Czech Republic*	--	0.1	10.9
Denmark	0.3	0.5	9.4
Finland	1.0	1.2	19.6
France	8.0	7.9	13.2
Germany	5.2	5.7	13.8
Greece	--	0.5	14.9
Hungary*	0.0	0.2	7.6
Ireland	0.4	0.7	15.0
Italy	0.3	3.1	8.7
Netherlands	4.5	2.8	11.6
Norway	0.3	0.7	23.4
Poland*	--	0.2	6.3
Portugal	--	0.3	21.3
Russia*	0.6	0.8	28.4
Spain	3.5	3.0	12.8
Sweden	0.9	2.0	14.2
Switzerland	7.0	5.4	7.1
United Kingdom	13.3	18.9	8.3
<b>Asia/Pacific</b>			
Australia	2.2%	4.1%	5.8%
China*	0.8	1.1	21.4
Hong Kong	1.6	1.3	7.1
India*	0.9	0.9	21.3
Indonesia*	0.4	0.2	25.5
Japan	25.2	20.5	6.8
Korea*	3.3	2.4	5.5
Malaysia*	0.4	0.4	8.4
New Zealand	--	0.1	-4.5
Pakistan*	--	0.0	22.5
Philippines*	0.0	0.1	11.0
Singapore	0.4	0.7	11.1
Sri Lanka*	--	--	13.9
Taiwan, China*	1.7	1.8	2.6
Thailand*	0.2	0.2	8.0
<b>Americas</b>			
Argentina*	0.1%	0.1%	27.6%
Brazil*	1.3	1.5	21.5
Canada	4.5	6.0	8.4
Chile*	0.0	0.2	7.6
Colombia*	0.1	0.1	17.5
Mexico*	2.0	0.8	7.1
Peru*	--	0.1	11.3
United States	0.2	--	--
Venezuela*	--	0.0	50.2
<b>Other</b>			
Israel*	0.4%	0.4%	-3.3%
Jordan*	--	0.0	-14.6
South Africa*	2.1	1.4	18.0
Turkey*	0.4	0.3	6.7
Other Countries*	3.3	0.1	--
Cash	2.3	--	--
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>9.7%</b>
Developed	79.7	86.7	
Emerging*	18.0	13.3	
Cash	2.3	--	

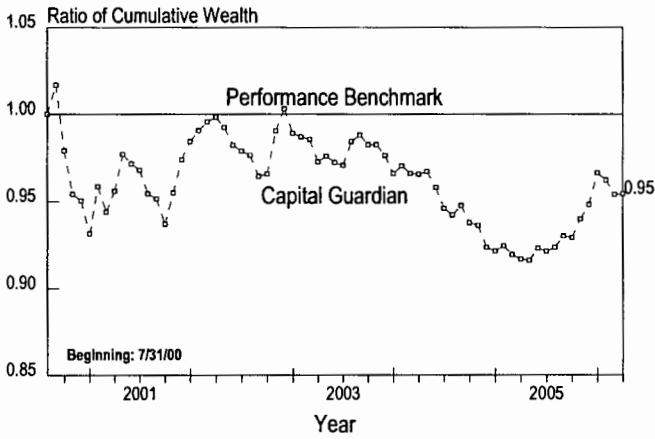
\*Emerging market countries

# CAPITAL GUARDIAN

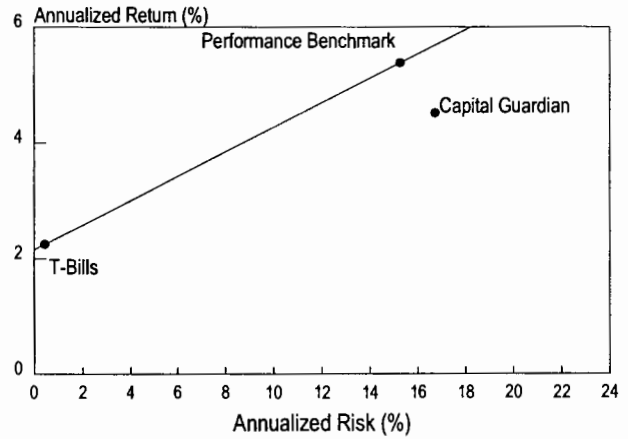
\$254.3 Million and 9.5% of Fund

## First Quarter 2006

**RATIO OF CUMULATIVE WEALTH**  
5 YEARS 8 MONTHS ENDING 3/31/06



**ANNUALIZED RISK/RETURN**  
5 YEARS 8 MONTHS ENDING 3/31/06



- The graph above on the left illustrates that Capital Guardian's performance has lagged that of the Index since inception.
- The graph above on the right depicts the manager's risk and reward characteristics versus its benchmark. As shown, the manager's return was lower than that of the benchmark while taking on a greater level of risk over the since inception period.

**First Quarter 2006**

**HISTORICAL RETURNS**  
 (BY YEAR)

	Capital Guardian		Performance Benchmark		Return Difference
	Return	Rank	Return	Rank	
2000 (5 months)	-13.0%	–	-6.6%	–	-6.4
2001	-17.0	28	-21.4	54	4.4
2002	-15.4	53	-15.8	56	0.4
2003	37.5	44	40.8	21	-3.3
2004	15.3	70	20.9	28	-5.6
2005	22.3	10	16.6	38	5.7
2006 (3 months)	8.3	85	9.7	52	-1.4
Trailing 1-Year	32.8%	13	27.6%	44	5.2
Trailing 3-Year	32.1	34	33.0	26	-0.9
Trailing 5-Year	10.8	39	10.8	39	0.0
Since Inception (7/31/00)	4.5	–	5.4	–	-0.9



# SPRUCEGROVE

\$141.8 Million and 5.3% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Sprucegrove</b>	<b>8.8%</b>	<b>76</b>	<b>22.3%</b>	<b>87</b>	<b>23.2%</b>	<b>80</b>	<b>30.3%</b>	<b>55</b>	<b>17.4%</b>	<b>20</b>	<b>3/31/02</b>
MSCI EAFE Index	9.4	60	25.7	75	24.4	75	31.1	46	14.7	50	

### PHILOSOPHY AND PROCESS

- Sprucegrove is a value manager, following a bottom-up approach, and seeking to invest in quality companies selling at attractive valuations. As a value manager, Sprucegrove believes that the international markets are inefficient and that through research, a disciplined valuation process to utilize that research and by maintaining a long term perspective, they can capitalize on mispricings in the market. Investment objectives are: to maximize the long-term rate of return while preserving the investment capital of the fund by avoiding investment strategies that expose fund assets to excessive risk; to outperform the benchmark over a full market cycle; and to achieve a high ranking relative to similar funds over a market cycle.
- High emphasis is given to balance sheet fundamentals, historical operating results, and company management. If a company is truly promising, the portfolio management team instructs the analyst to do a full research report to ensure the company qualifies for inclusion in Sprucegrove's investable universe. There are approximately 300 companies on Sprucegrove's working list.

### COMMENTARY ON INVESTMENT PERFORMANCE

- Sprucegrove's first-quarter return trailed that of the benchmark by 0.6 percentage points. The portfolio's results were hindered by an underweight allocation to France, coupled with allocations to underperforming, out-of-benchmark countries, such as Mexico and Canada. Additionally, individual holdings that performed poorly included Northern Foods (-35.6%), Carnival (-14.2%), and Santen Pharmaceutical (-13.2%).
- The strongest performing securities within the Sprucegrove portfolio during the first quarter included Schindler (+33.4%), BAA (+32.2%), BOC (+29.1%), Impala Platinum (+25.0%), and Bodycote (+24.3%).
- The manager's longer term returns shown above have been mixed compared with those of the MSCI EAFE Index. The fiscal year-to-date, one-, and three-year returns lagged the benchmark, but since-inception the portfolio has outperformed.

First Quarter 2006

COUNTRY ALLOCATION/RETURN  
3 MONTHS ENDING 3/31/06

	Manager Allocation	Index Allocation	Index Return
<b>Europe</b>			
Austria	--	0.5%	13.5%
Belgium	--	1.2	10.5
Czech Republic*	--	--	10.9
Denmark	0.5%	0.7	9.4
Finland	0.4	1.5	19.6
France	3.6	9.8	13.2
Germany	4.1	7.1	13.8
Greece	1.1	0.7	14.9
Hungary*	0.4	--	7.6
Ireland	6.3	0.8	15.0
Italy	2.7	3.8	8.7
Netherlands	3.5	3.5	11.6
Norway	0.2	0.8	23.4
Poland*	--	--	6.3
Portugal	--	0.3	21.3
Russia*	--	--	28.4
Spain	2.1	3.8	12.8
Sweden	--	2.4	14.2
Switzerland	10.1	6.7	7.1
United Kingdom	25.3	23.4	8.3
<b>Asia/Pacific</b>			
Australia	2.2%	5.1%	5.8%
China*	--	--	21.4
Hong Kong	7.1	1.6	7.1
India*	--	--	21.3
Indonesia*	--	--	25.5
Japan	12.0	25.4	6.8
Korea*	1.6	--	5.5
Malaysia*	0.5	--	8.4
New Zealand	--	0.2	-4.5
Pakistan*	--	--	22.5
Philippines*	--	--	11.0
Singapore	3.5	0.8	11.1
Sri Lanka*	--	--	13.9
Taiwan, China*	--	--	2.6
Thailand*	--	--	8.0
<b>Americas</b>			
Argentina*	--	--	27.6%
Brazil*	2.1%	--	21.5
Canada	3.8	--	8.4
Chile*	--	--	7.6
Colombia*	--	--	17.5
Mexico*	3.6	--	7.1
Peru*	--	--	11.3
Venezuela*	--	--	50.2
<b>Other</b>			
Israel*	--	--	-3.3%
Jordan*	--	--	-14.6
South Africa*	1.0%	--	18.0
Turkey*	--	--	6.7
Cash	2.3	--	--
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>9.4%</b>
Developed	88.5	100.0	--
Emerging*	9.2	--	--
Cash	2.3	--	--

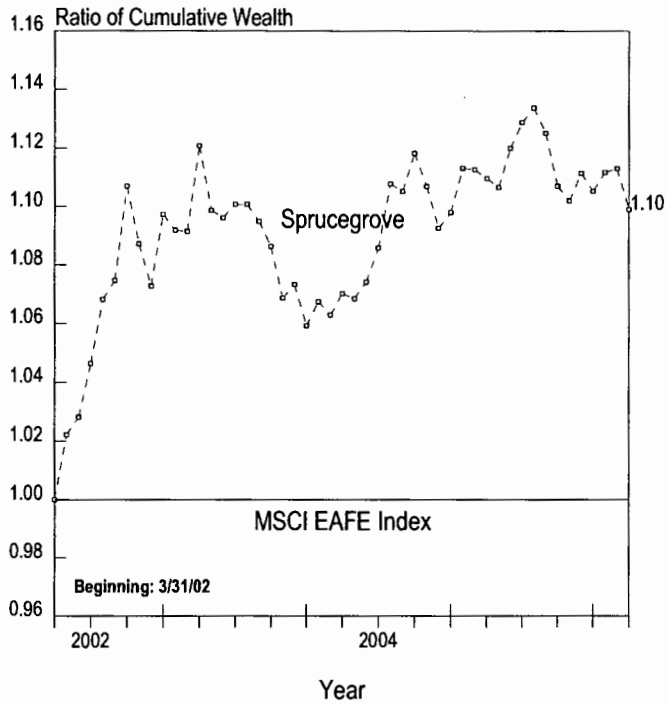
\*Emerging market countries

# SPRUCEGROVE

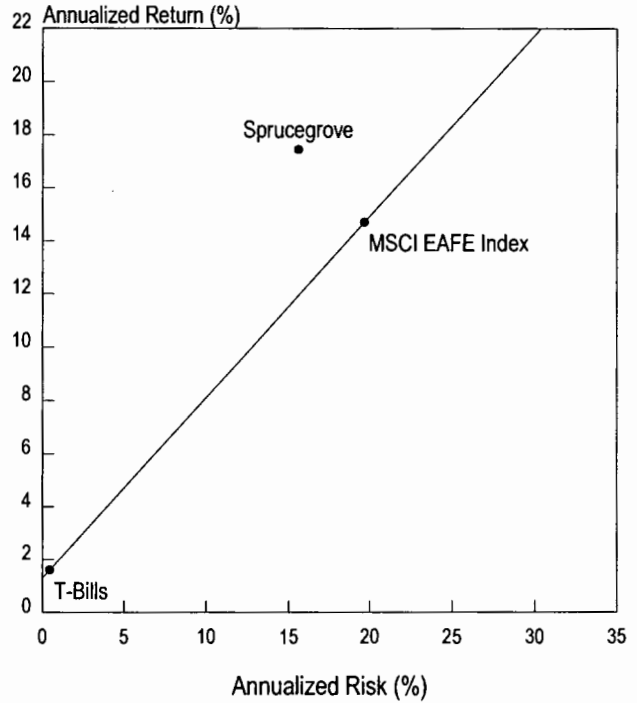
\$141.8 Million and 5.3% of Fund

## First Quarter 2006

**RATIO OF CUMULATIVE WEALTH  
4 YEARS ENDING 3/31/06**



**ANNUALIZED RISK/RETURN  
4 YEARS ENDING 3/31/06**

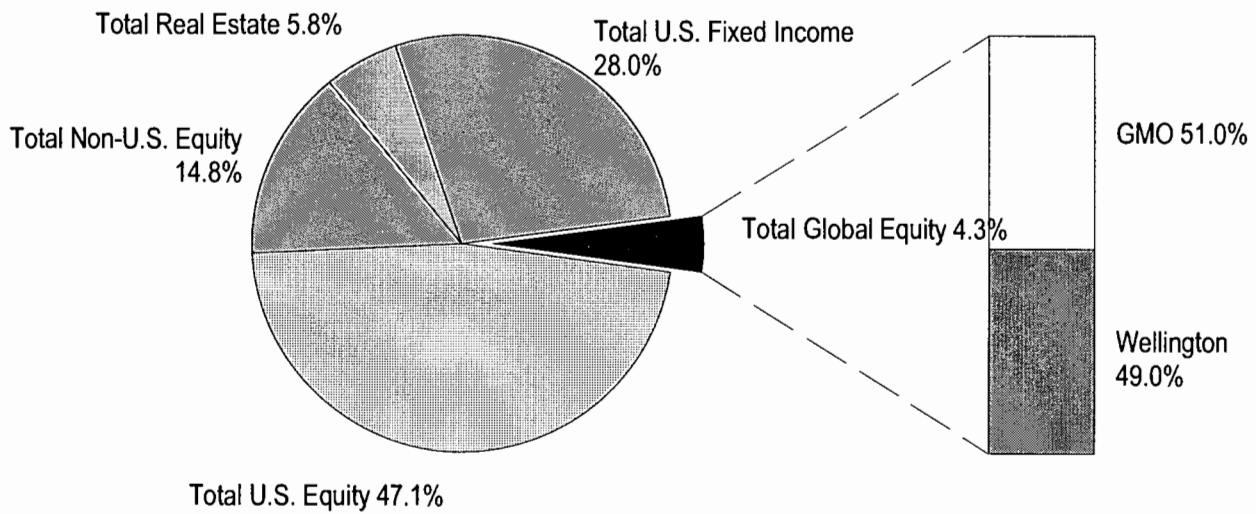


- The graph above illustrates that Sprucegrove's performance has exceeded that of the Index since inception.
- The risk return graph shown above shows the manager compared favorably on a risk adjusted basis versus the benchmark.

**TOTAL GLOBAL EQUITY**  
**\$115.2 Million and 4.3% of Fund**

**First Quarter 2006**

**ASSET ALLOCATION AS OF 3/31/06**



# TOTAL GLOBAL EQUITY

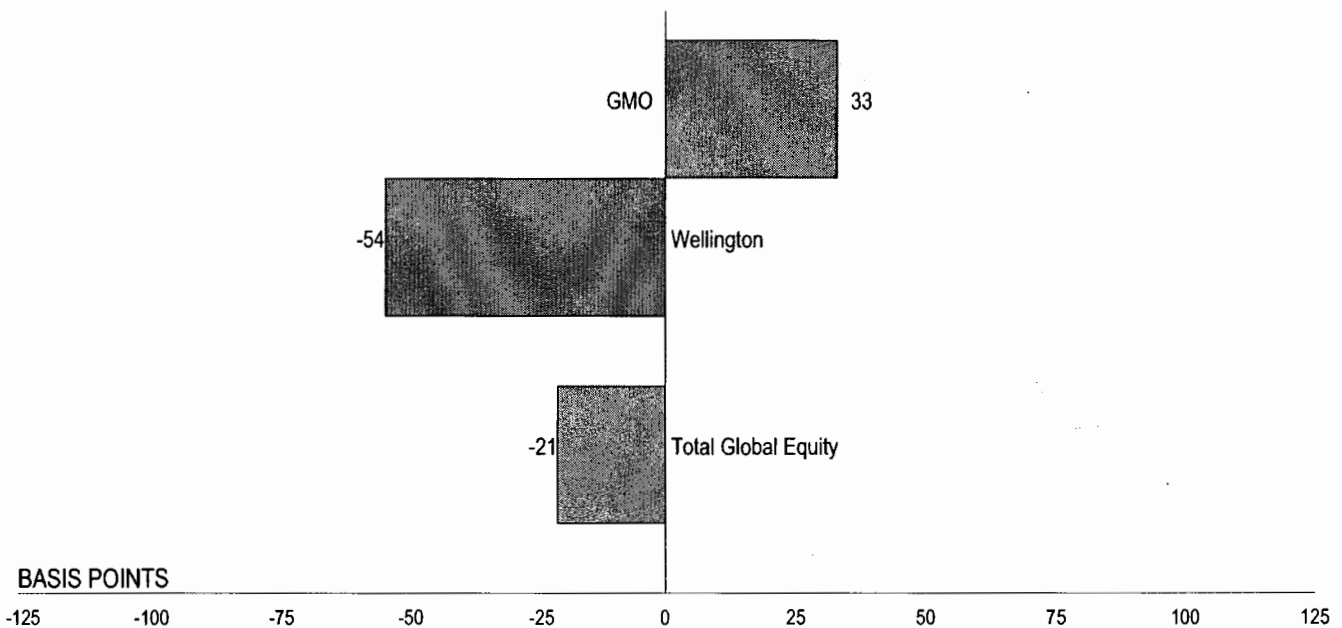
\$115.2 Million and 4.3% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	
<b>Total Global Equity</b>	<b>6.8%</b>	<b>68</b>	<b>17.0%</b>	<b>77</b>	<b>20.3%</b>	<b>--</b>	<b>4/30/05</b>
MSCI All-Country World Index	7.0	63	19.0	59	22.4	--	
<b>GMO</b>	<b>7.6</b>	<b>42</b>	<b>18.7</b>	<b>60</b>	<b>22.4</b>	<b>--</b>	<b>4/30/05</b>
MSCI All-Country World Index	7.0	63	19.0	59	22.4	--	
<b>Wellington</b>	<b>5.9</b>	<b>81</b>	<b>15.3</b>	<b>87</b>	<b>17.0</b>	<b>--</b>	<b>5/31/05</b>
MSCI All-Country World Index	7.0	63	19.0	59	20.2	--	

### MANAGER ATTRIBUTION ANALYSIS 3 MONTHS ENDING 3/31/06



**First Quarter 2006**

- During the quarter, the global equity market, as represented by the MSCI All-Country World Index, advanced 7.0%. Performance was driven by the international markets, representing roughly half of the benchmark. The collective return of emerging market countries also benefited performance. The U.S. equity market proved a drag on performance during the quarter.
- The total global equity portfolio return of 6.8% during the first quarter failed to match the return of the MSCI All-Country World Index. GMO contributed positively to results, but the underperformance of the Wellington portfolio more than offset those results.
- Since the inception of the global equity allocation in April 2005, the total portfolio has trailed the return of the MSCI All-Country World Index by 2.1 percentage points.
- VCERA allocated a policy weight of 4.0% to the global equity segment of the market during the second quarter of 2005.

# GMO

\$58.7 Million and 2.2% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	
<b>GMO</b>	7.6%	42	18.7%	60	22.4%	--	4/30/05
MSCI All-Country World Index	7.0	63	19.0	59	22.4	--	

### PHILOSOPHY AND PROCESS

- Grantham Mayo Van Otterloo's (GMO) Global Asset Allocation strategy uses quantitative methods to allocate among the firm's mutual funds including U.S. equity, non-U.S. developed market equity, emerging markets, fixed income, and real estate funds. GMO attempts to add value from allocations across sectors as well as security selection within sectors. The firm desires to make large bets on a few high-conviction opportunities, while still incurring less absolute risk than the benchmark.
- GMO does not employ a traditional team of fundamental security analysts. Instead, they attempt to exploit market inefficiencies by evaluating asset classes and individual securities largely through quantitative analysis. They believe their edge lies in their ability to interpret already available information, as opposed to an explicit information edge. Although the process will consider both valuation and momentum factors in selecting stocks, the portfolio will tend to exhibit value characteristics.

### COMMENTARY ON INVESTMENT PERFORMANCE

- GMO's global equity strategy returned 7.6% during the first quarter and outperformed the benchmark by 0.6 percentage points. The portfolio was helped during the period by having an overweight allocation to the international equity portion of the portfolio relative to U.S. equities. Favorable sector allocations and stock selection in the international equity portion of the portfolio. However, most of the positive implementation gains were negated by poor implementation results domestically.
- The portfolio continued to be underweight U.S. securities in favor of international equities which continued to outperform during the quarter.
- Performance over the since-inception period matched the return of the Index.

## First Quarter 2006

RETURN SUMMARY  
ENDING 3/31/06

	First Quarter		Since 6/30/05		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	
Wellington	5.9%	81	15.3%	87	17.0%	--	5/31/05
MSCI All-Country World Index	7.0	63	19.0	59	20.2	--	

## PHILOSOPHY AND PROCESS

- The Wellington Global Research Equity portfolio focuses on stock selection within industries; industry weights are kept similar to those of the MSCI All Country World Index. The strategy is formally re-balanced to the industry weight of the Index on a quarterly basis. Country weights are a result of the security selection process. The Global Research Equity strategy consists of multiple sub-portfolios, each actively managed by one of Wellington's global industry analysts. The allocation of assets to each of the sub-portfolios corresponds to the relative weight of each research analyst's coverage of the MSCI All Country World Index. Each analyst can hold up to the number of stocks equal to their benchmark weight plus one.

## COMMENTARY ON INVESTMENT PERFORMANCE

- Wellington's Global Research Equity portfolio lagged the performance of its benchmark, the MSCI All-Country World Index by 1.1 percentage points over the first quarter. Unfavorable stock selection in the health care and materials sectors negatively impacted the portfolio's relative results. Within the health care sector, portfolio holdings Schering-Plough and UnitedHealth hindered results. Schering-Plough fell as a result of lower than expected profits while UnitedHealth suffered from implementation issues surrounding a new medicare drug benefit which led to customer confusion. In the materials sector, holdings Smurfit-Stone and DuPont were both hurt by lower than expected profit announcements during the quarter.
- Since inception, the manager's return lagged that of the benchmark by 3.2 percentage points.



# WELLINGTON

\$56.5 Million and 2.1% of Fund

## First Quarter 2006

### COUNTRY ALLOCATION/RETURN 3 MONTHS ENDING 3/31/06

	Manager Allocation	Index Allocation	Index Return
<b>Europe</b>			
Austria	--	0.2%	13.5%
Belgium	--	0.5	10.5
Czech Republic*	--	0.1	10.9
Denmark	--	0.3	9.4
Finland	0.6%	0.7	19.6
France	7.7	4.2	13.2
Germany	3.9	3.1	13.8
Greece	--	0.3	14.9
Hungary*	--	0.1	7.6
Ireland	1.5	0.3	15.0
Italy	2.3	1.6	8.7
Netherlands	1.2	1.5	11.6
Norway	1.0	0.3	23.4
Poland*	--	0.1	6.3
Portugal	--	0.1	21.3
Russia*	0.3	0.4	28.4
Spain	2.4	1.6	12.8
Sweden	1.3	1.1	14.2
Switzerland	4.0	2.9	7.1
United Kingdom	4.1	10.2	8.3
<b>Asia/Pacific</b>			
Australia	1.1%	2.2%	5.8%
China*	0.6	0.6	21.4
Hong Kong	0.5	0.7	7.1
India*	--	0.5	21.3
Indonesia*	--	0.1	25.5
Japan	6.5	11.0	6.8
Korea*	0.7	1.3	5.5
Malaysia*	--	0.2	8.4
New Zealand	--	0.1	-4.5
Pakistan*	--	0.0	22.5
Philippines*	0.4	0.0	11.0
Singapore	--	0.4	11.1
Sri Lanka*	--	--	13.9
Taiwan, China*	1.1	1.0	2.6
Thailand*	--	0.1	8.0
<b>Americas</b>			
Argentina*	--	0.1%	27.6%
Brazil*	0.7%	0.8	21.5
Canada	0.7	3.2	8.4
Chile*	--	0.1	7.6
Colombia*	--	0.0	17.5
Mexico*	--	0.4	7.1
Peru*	--	0.0	11.3
United States	54.8	46.4	4.0
Venezuela*	--	0.0	50.2
<b>Other</b>			
Israel*	--	0.2%	-3.3%
Jordan*	--	0.0	-14.6
South Africa*	1.1%	0.8	18.0
Turkey*	0.6	0.1	6.7
Other Countries*	--	0.1	--
Cash	1.0	--	--
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7.0%</b>
Developed	93.7	92.9	
Emerging*	5.4	7.2	
Cash	1.0	--	

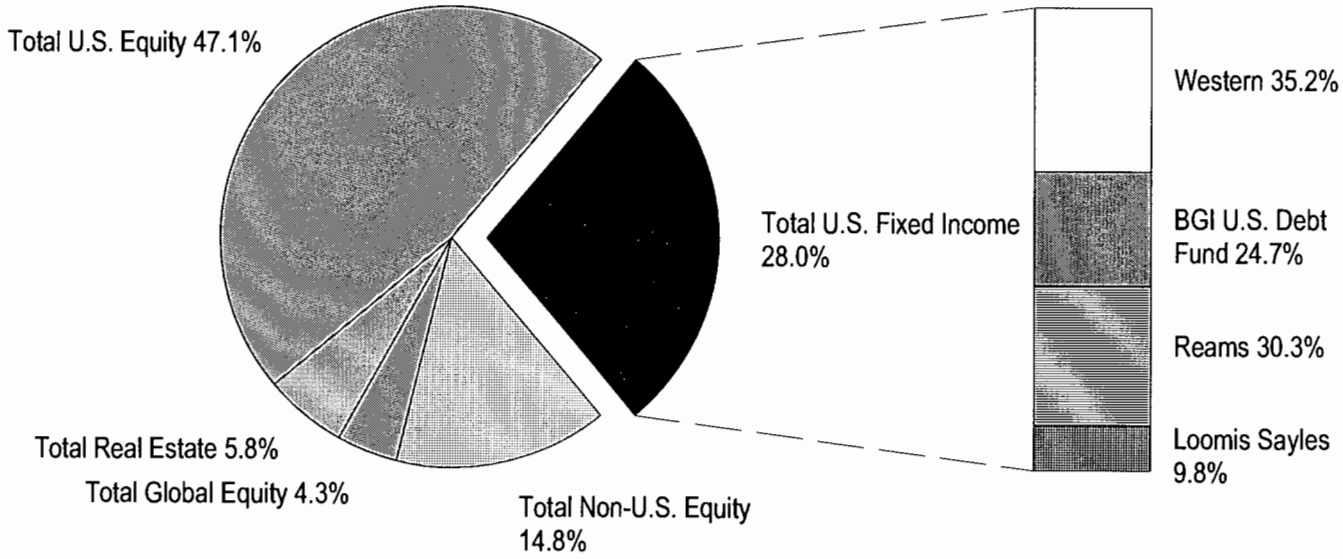
\*Emerging market countries

**TOTAL U.S. FIXED INCOME**

**\$749.7 Million and 28.0% of Fund**

**First Quarter 2006**

**ASSET ALLOCATION AS OF 3/31/06**

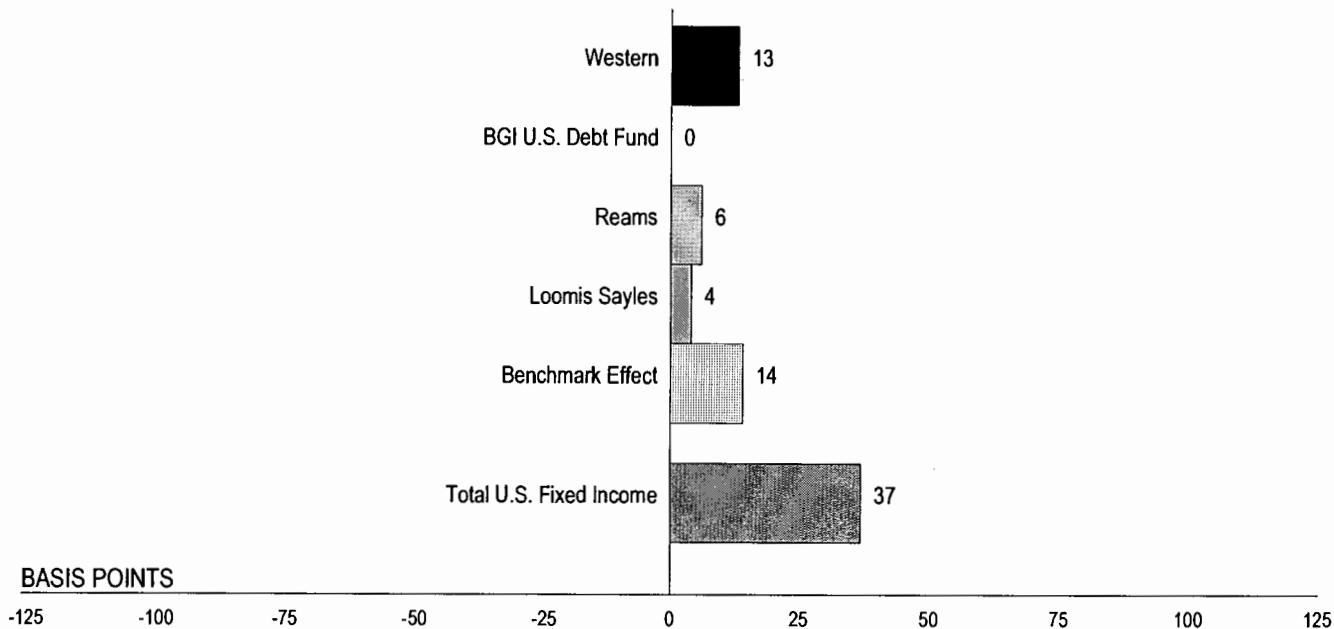


# TOTAL U.S. FIXED INCOME

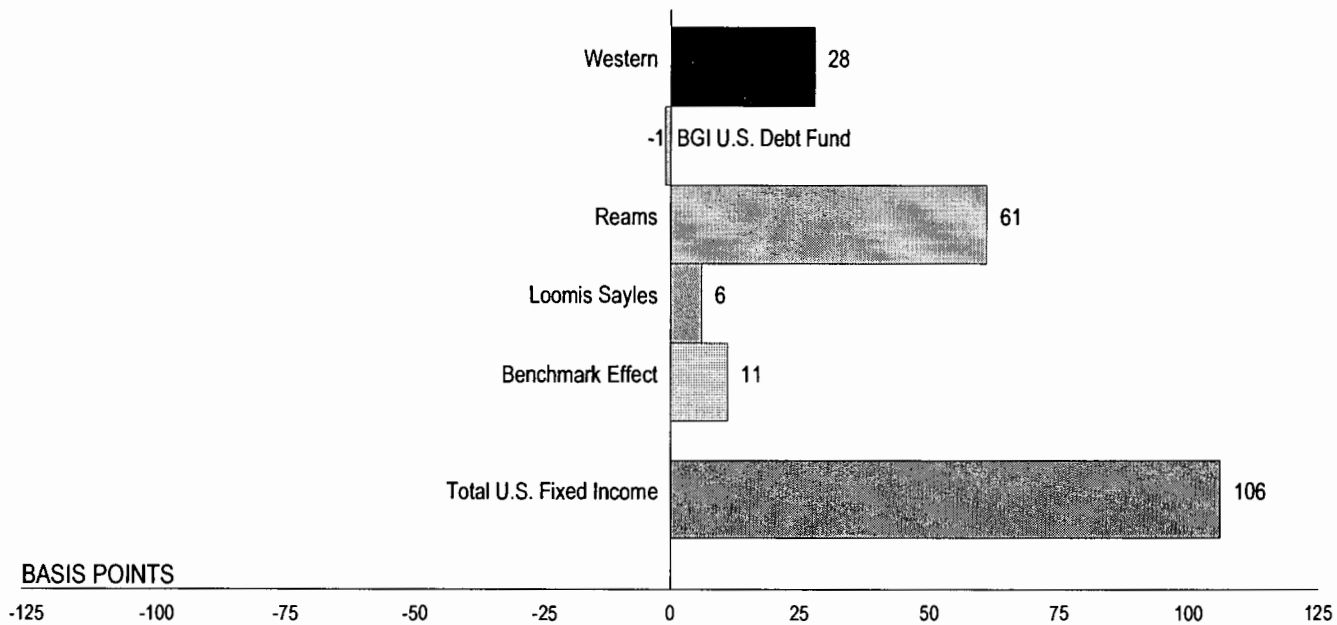
\$749.7 Million and 28.0% of Fund

## First Quarter 2006

### MANAGER ATTRIBUTION ANALYSIS 3 MONTHS ENDING 3/31/06



### MANAGER ATTRIBUTION ANALYSIS 1 YEAR ENDING 3/31/06



**First Quarter 2006**

- In January, Ben Bernanke replaced Alan Greenspan as the chairman of the Federal Reserve. In the midst of this change, the bond market continued to suffer from uncertainty over when Federal Reserve interest rate hikes would end. During the first quarter rates were raised two more times to the quarter-end level of 4.75%. Rates have increased fifteen consecutive times since June 2004. The Lehman Brothers Aggregate Bond Index decreased 0.6% during the first quarter, but advanced 2.3% over the trailing one-year period.
- The fixed income portfolio added 37 basis of performance over the Lehman Brothers Aggregate Bond Index during the quarter. The above-benchmark result was attributable to the relative gains experienced by all of the component's underlying active fixed income managers. The component's passive option, BGI, successfully tracked its benchmark during the quarter.
- The long-term performance of the fixed income portfolio remained favorable as the portfolio added value relative to the Index over all time periods shown on the following page with the exception of the since inception period.

**TOTAL U.S. FIXED INCOME**  
**\$749.7 Million and 28.0% of Fund**

**First Quarter 2006**

**RETURN SUMMARY**  
**ENDING 3/31/06**

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		5 Years Ending 3/31/06		10 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Total U.S. Fixed Income</b>	-0.3%	36	0.2%	26	3.3%	17	4.3%	28	5.6%	35	6.6%	29	6.2%	--	2/28/94
LB Aggregate Bond Index	-0.6	60	-0.7	64	2.3	56	2.9	74	5.1	59	6.3	48	6.3	--	
<b>Western</b>	-0.3	13	-0.1	18	3.1	6	5.2	5	6.6	4	--	--	7.1	3	12/31/96
LB Aggregate Bond Index	-0.6	53	-0.7	61	2.3	47	2.9	65	5.1	46	--	--	6.2	33	
<b>BGI U.S. Debt Fund</b>	-0.6	53	-0.8	70	2.2	57	2.9	65	5.1	46	6.3	34	6.0	--	11/30/95
LB Aggregate Bond Index	-0.6	53	-0.7	61	2.3	47	2.9	65	5.1	46	6.3	34	6.0	--	
<b>Reams</b>	-0.5	31	1.1	3	4.3	2	4.9	7	--	--	--	--	4.5	50	9/30/01
LB Aggregate Bond Index	-0.6	53	-0.7	61	2.3	47	2.9	65	--	--	--	--	4.5	50	
<b>Loomis Sayles</b>	1.2	--	--	--	--	--	--	--	--	--	--	--	2.0	--	7/31/05
Performance Benchmark	0.8	--	--	--	--	--	--	--	--	--	--	--	1.2	--	

## First Quarter 2006

RETURN SUMMARY  
ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		5 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Western</b>	-0.3%	13	-0.1%	18	3.1%	6	5.2%	5	6.6%	4	7.1%	3	12/31/96
LB Aggregate Bond Index	-0.6	53	-0.7	61	2.3	47	2.9	65	5.1	46	6.2	33	

## PHILOSOPHY AND PROCESS

- Western Asset Management seeks to add value in fixed income accounts by employing multiple investment strategies while controlling risk. Western is an active sector rotator and attempts to exploit market inefficiencies by making opportunistic trades. The firm emphasizes non-Treasury sectors such as corporate and mortgages. The firm's team approach to fixed income management revolves around an investment outlook developed by the Investment Strategy Group. This group interacts on a daily basis, evaluating developments in both the market and the economy. Additionally, the group meets formally twice a month to review its outlook and investment strategy.

## COMMENTARY ON INVESTMENT PERFORMANCE

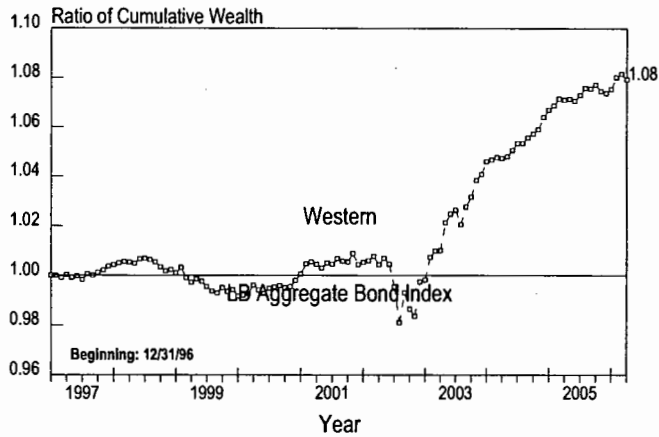
- Western's first-quarter return of -0.3% outpaced that of the LB Aggregate Bond Index by approximately 30 basis points. The Portfolio primarily benefited from its exposures to high yield and emerging market debt. The manager's long duration position (5.6 years versus the Index's 4.7 years) was the primary detractor as interest rates rose.
- The manager has added a significant level of value during all longer time periods analyzed and ranks well within a universe of its fixed income peers.
- The manager again violated its guideline of a maximum of 10% in high yield issues due to the downgrade of General Motors during the first quarter 2005. This is the fifth quarter in a row the manager has been outside its stated guideline range with the portfolio's allocation to high yield securities. The portfolio also violated its guideline of having a minimum of 90% in securities rated BBB or better due to General Motors' downgrade.

# WESTERN

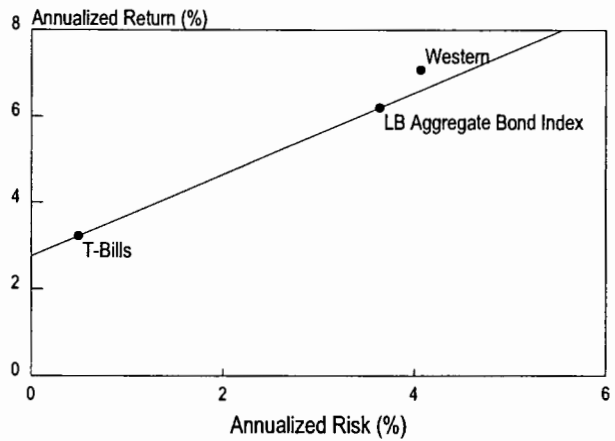
\$263.9 Million and 9.9% of Fund

## First Quarter 2006

**RATIO OF CUMULATIVE WEALTH  
9 YEARS 3 MONTHS ENDING 3/31/06**



**ANNUALIZED RISK/RETURN  
9 YEARS 3 MONTHS ENDING 3/31/06**



- The Ratio of Cumulative Wealth graph shown above on the left illustrates the manager's cumulative performance relative to that of the Aggregate Bond Index. As seen in the graph, the manager's performance has exceeded that of the performance benchmark since inception. Performance in mid-2002 was especially trying for the manager. However, the manager experienced a subsequent turn-around in performance during 2003.
- The second graph above on the right illustrates the risk/return characteristics of the Western portfolio relative to the Aggregate Bond Index. As shown in the graph, the manager's return exceeded that of the benchmark with a slightly greater level of volatility.

## First Quarter 2006

## HISTORICAL RETURNS

(BY YEAR)

	Western		LB Aggregate Bond Index		Return Difference
	Return	Rank	Return	Rank	
1997	10.1%	30	9.7%	50	0.4
1998	8.3	55	8.7	41	-0.4
1999	-1.7	78	-0.8	49	-0.9
2000	12.6	10	11.6	42	1.0
2001	8.9	15	8.4	38	0.5
2002	9.5	42	10.3	23	-0.8
2003	9.1	5	4.1	68	5.0
2004	6.4	5	4.3	57	2.1
2005	3.2	8	2.4	57	0.8
2006 (3 months)	-0.3	13	-0.6	53	0.3
Trailing 1-Year	3.1%	6	2.3%	47	0.8
Trailing 3-Year	5.2	5	2.9	65	2.3
Trailing 5-Year	6.6	4	5.1	46	1.5
Since Inception (12/31/96)	7.1	3	6.2	33	0.9

- The table above shows Western's historical performance relative to that of the Index. Since inception, the manager's return exceeded that of the benchmark.
- The table below shows Western's portfolio characteristics compared with those of the Aggregate Bond Index.

	Western Fixed Income Portfolio		LB Aggregate Bond Index	
	% at 12/31/05	% at 3/31/06	% at 3/31/06	First Quarter Return
<b>Sector Weightings:</b>				
Treasury/Agency	16 %	18 %	37 %	-0.9 %
Corporate	21	22	23	-1.2
Mortgage-Related	49	50	39	-0.1
Asset-Backed	2	1	1	0.3
Foreign Bonds	8	6	-	-
Other	--	-	-	-
Cash & Equiv.	4	3	-	-
Total	100 %	100 %	100 %	-0.6 %
Average Duration	4.4 years	5.6 years	4.7 years	--



# BGI U.S. DEBT FUND

\$185.1 Million and 6.9% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		10 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>BGI U.S. Debt Fund</b>	-0.6%	53	-0.8%	70	2.2%	57	2.9%	65	6.3%	34	6.0%	-	11/30/95
LB Aggregate Bond Index	-0.6	53	-0.7	61	2.3	47	2.9	65	6.3	34	6.0	-	

### PHILOSOPHY AND PROCESS

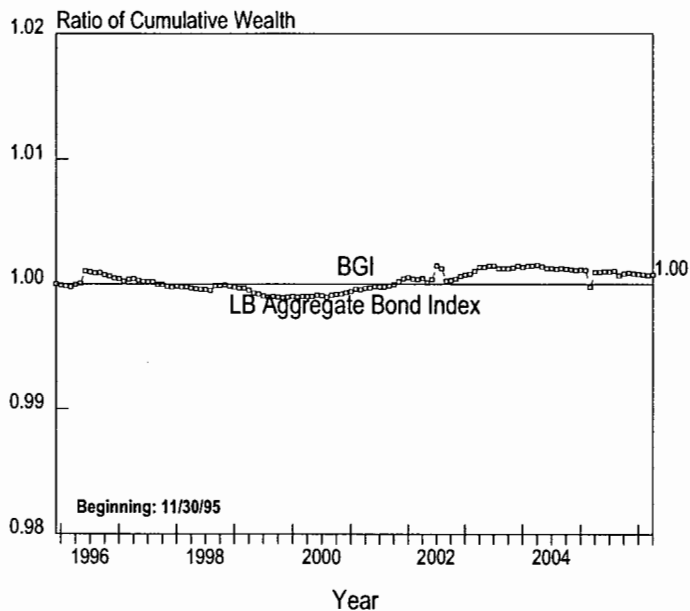
- The BGI U.S. Debt Fund is an index fund which is designed to replicate the performance of the Aggregate Bond Index. The U.S. Debt Fund is constructed by holding 7 different sub-funds that track specific sector/maturity combinations of the Lehman Brothers Aggregate Bond Index.

### COMMENTARY ON INVESTMENT PERFORMANCE

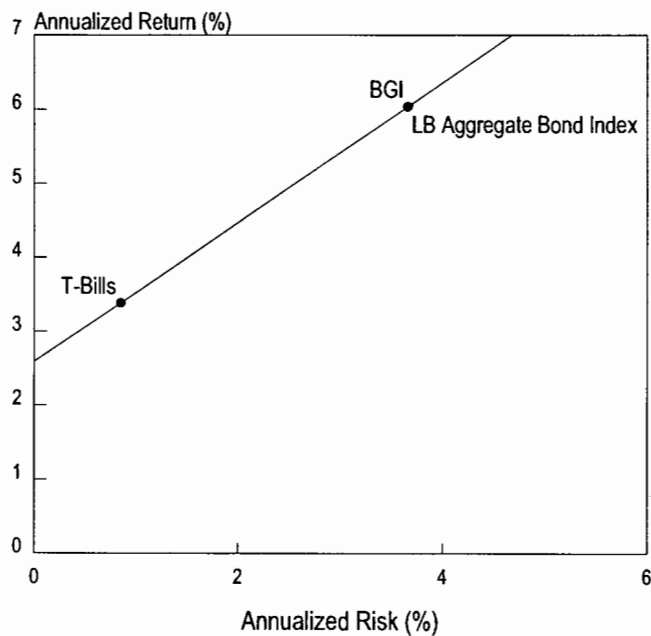
- The BGI U.S. Debt Fund successfully tracked the performance of the Aggregate Bond Index during the first quarter. The longer-term returns shown above also successfully tracked those of the Aggregate Bond Index.

First Quarter 2006

RATIO OF CUMULATIVE WEALTH  
10 YEARS 4 MONTHS ENDING 3/31/06



ANNUALIZED RISK/RETURN  
10 YEARS 4 MONTHS ENDING 3/31/06



- The Ratio of Cumulative Wealth and Risk/Return graphs above show how similar the Aggregate Bond Index and BGI have performed since the inception of the portfolio.

# BGI U.S. DEBT FUND

\$185.1 Million and 6.9% of Fund

First Quarter 2006

## HISTORICAL RETURNS

(BY YEAR)

	BGI U.S. Debt Fund		LB Aggregate Bond Index		Return Difference
	Return	Rank	Return	Rank	
1995 (1 month)	1.4%	—	1.4%	—	0.0
1996	3.7	46	3.6	50	0.1
1997	9.6	58	9.7	50	-0.1
1998	8.7	41	8.7	41	0.0
1999	-0.9	53	-0.8	49	-0.1
2000	11.7	36	11.6	42	0.1
2001	8.6	31	8.4	38	0.2
2002	10.3	23	10.3	23	0.0
2003	4.2	66	4.1	68	0.1
2004	4.3	57	4.3	57	0.0
2005	2.4	57	2.4	57	0.0
2006 (3 months)	-0.6	53	-0.6	53	0.0
Trailing 1-Year	2.2%	57	2.3%	47	-0.1
Trailing 3-Year	2.9	65	2.9	65	0.0
Trailing 5-Year	5.1	46	5.1	46	0.0
Since Inception (11/30/95)	6.0	—	6.0	—	0.0

## First Quarter 2006

RETURN SUMMARY  
ENDING 3/31/06

	First Quarter		Since 6/30/05		1 Year Ending 3/31/06		3 Years Ending 3/31/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Reams	-0.5%	31	1.1%	3	4.3%	2	4.9%	7	4.5%	50	9/30/01
LB Aggregate Bond Index	-0.6	53	-0.7	61	2.3	47	2.9	65	4.5	50	

## PHILOSOPHY AND PROCESS

- Reams' investment process revolves around the manager's ability to combine top-down macroeconomic portfolio positioning with bottom-up bond selection. The top-down interest rate positioning is somewhat contrarian in that the manager uses real interest rates to gauge when the market is expensive and when it is cheap, increasing duration when the market is cheap and decreasing duration when it is expensive.
- The manager attempts to exploit its relatively small size and uncover issues not widely followed by Wall Street. The manager prefers to hold securities by underlying collateral. The firm tends to avoid residential mortgages in favor of commercial mortgages.

## COMMENTARY ON INVESTMENT PERFORMANCE

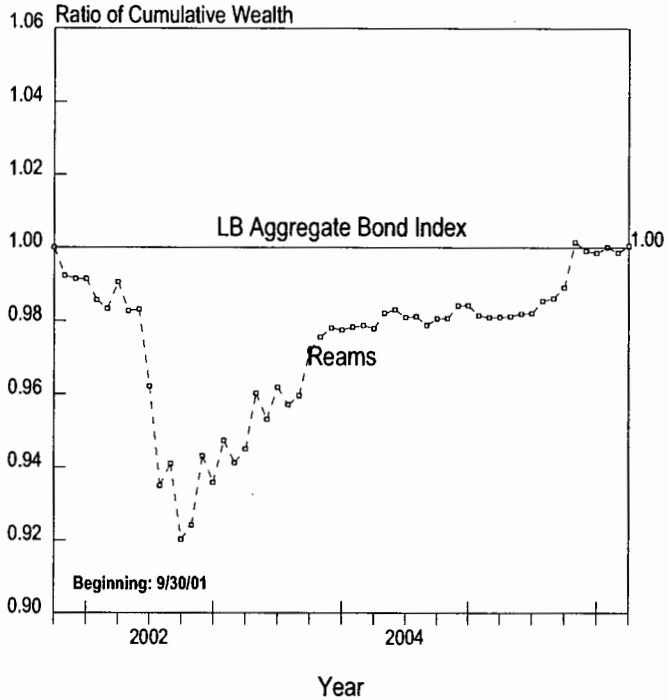
- Reams performed well on a relative basis as its first-quarter return outpaced that of the LB Aggregate Bond Index by 10 basis points. Performance was primarily driven by the portfolio's high yield exposure, notably its holdings in the auto sector. The portfolio also benefited from the manager's holdings in structured mortgage product.
- The portfolio's one-year performance exceeded that of the Index by 2.0 percentage points. The result was aided heavily by the proceeds from the WorldCom settlement which occurred during the fourth quarter of 2005. The one- and three-year returns continued to exceed those of the Index. The portfolio matched the return of the Aggregate Bond Index since inception.
- Reams' holdings in Enron, and the aforementioned WorldCom, coupled with losses sustained from their holdings in airline Enhanced Equipment Trust Certificates (EETCs), which fell sharply during the latter portion of the third and entire fourth quarters of 2001 and most of 2002, constitute the bulk of the portfolio's negative performance since the inception of the portfolio. The manager has offset these losses over the past 36 months with good performance and last quarter's WorldCom lawsuit recovery.

# REAMS

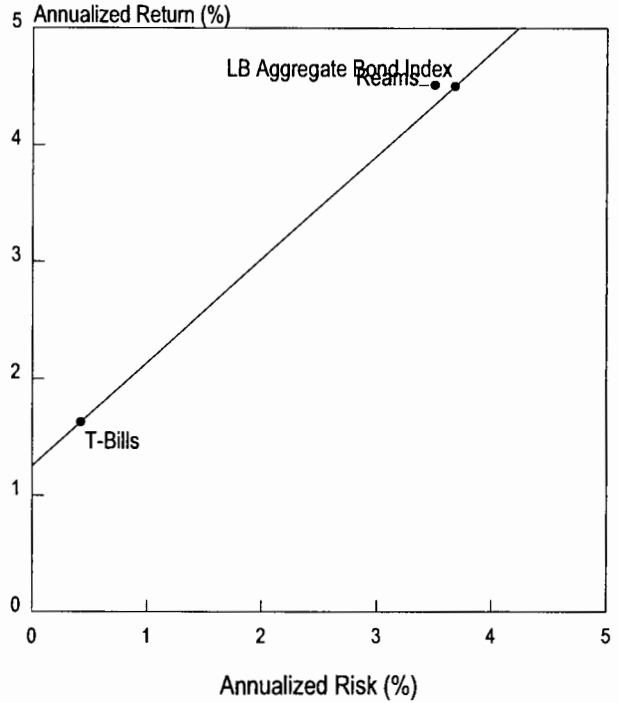
\$227.3 Million and 8.5% of Fund

## First Quarter 2006

**RATIO OF CUMULATIVE WEALTH  
4 YEARS 6 MONTHS ENDING 3/31/06**



**ANNUALIZED RISK/RETURN  
4 YEARS 6 MONTHS ENDING 3/31/06**



- The graph on the left illustrates that Reams' performance has matched that of the Index since inception.
- The second graph shows the manager's performance in a risk adjusted basis. As shown, since the inception of the strategy, the manager's performance matched that of the benchmark with a slightly lower level of volatility.

## First Quarter 2006

## HISTORICAL RETURNS

(BY YEAR)

	Reams		LB Aggregate Bond Index		Return Difference
	Return	Rank	Return	Rank	
2001 (3 months)	-0.8%	90	0.0%	53	-0.8
2002	4.1	97	10.3	23	-6.2
2003	8.7	7	4.1	68	4.6
2004	5.0	22	4.3	57	0.7
2005	3.9	4	2.4	57	1.5
2006 (3 months)	-0.5	31	-0.6	53	0.1
Trailing 1-Year	4.3%	2	2.3%	47	2.0
Trailing 3-Year	4.9	7	2.9	65	2.0
Since Inception (9/30/01)	4.5	50	4.5	50	0.0

- The table above shows Reams' historical performance relative to that of the Index. Since inception, the manager has matched the benchmark.
- The table below shows Reams' portfolio characteristics compared with those of the Aggregate Bond Index.

	Reams Fixed Income Portfolio		LB Aggregate Bond Index	
	% at 12/31/05	% at 3/31/06	% at 3/31/06	Fourth Quarter Return
<b>Sector Weightings:</b>				
Treasury/Agency	16 %	20 %	37 %	-0.9 %
Corporate	19	18	23	-1.2
Mortgage-Related	63	57	39	-0.1
Asset-Backed	1	1	1	0.3
Foreign Bonds	-	-	-	-
Other	-	-	-	-
Cash & Equiv.	1	4	-	-
Total	100 %	100 %	100 %	-0.6 %
Average Duration	4.4 years	4.8 years	4.7 years	--

# LOOMIS SAYLES

\$73.4 Million and 2.7% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter	Since Inception	Inception Date
Loomis Sayles	1.2%	2.0%	7/31/05
Performance Benchmark	0.8	1.2	
LB Aggregate Bond Index	-0.6	0.2	

### PHILOSOPHY AND PROCESS

- Loomis, Sayles' fixed income philosophy is rooted in identifying undervalued securities through in-house credit research. Its philosophy emphasizes identifying issuers whose credit ratings appear likely to be upgraded or downgraded. The fixed income analysts use forward-looking analyses of cash flow, along with source and application of funds, to identify factors that may affect a debt issuer's future credit rating. Loomis, Sayles believes that considerable value can be added by holding under-rated issues for which the firm has projected a credit upgrading.
- Loomis typically allocates up to 40% of its assets to high yield securities and its portfolio's duration is significantly higher than that of the broad bond market. The manager also invests in convertible securities.
- The performance benchmark for the strategy is 60% Lehman Brothers Aggregate Bond Index and 40% Lehman Brothers High Yield Index.

### COMMENTARY ON INVESTMENT PERFORMANCE

- Loomis Sayles outperformed the performance benchmark during the first quarter by 0.4 percentage points. The manager's emphasis on lower quality securities helped results this quarter as the lowest rated bonds added the most value. Also helping performance was the managers issue selections in bonds with maturities between three and seven years, these issues added 52 basis points of relative value during the period.
- However, issue selection was not positive at every quality level as bonds rated BAA detracted 15 basis points of value during the quarter. Also, treasuries underperformed during the quarter and hindered results by 14 basis points.

**TOTAL REAL ESTATE**  
**\$154.8 Million and 5.8% of Fund**

**First Quarter 2006**

**RETURN SUMMARY**  
**ENDING 3/31/06**

	First Quarter	Since 6/30/05	1 Year Ending 3/31/06	3 Years Ending 3/31/06	5 Years Ending 3/31/06	Since Inception	Inception Date
<b>Total Real Estate</b>	3.3%	13.4%	21.9%	14.4%	12.2%	11.3%	3/31/94
Policy Benchmark	3.4	13.9	19.9	15.0	11.6	11.4	
NCREIF Open End Fund Index	3.4	13.0	18.7	14.4	11.0	11.6	
<b>Prudential Real Estate</b>	3.9	16.3	26.8	–	–	11.5	6/30/04
Policy Benchmark	3.4	13.9	19.9	–	–	18.4	
<b>UBS Real Estate</b>	2.8	11.1	18.1	14.4	–	14.4	3/31/03
NCREIF Open End Fund Index	3.4	13.0	18.7	14.4	–	14.4	

- The total real estate portfolio underperformed the Policy Benchmark during the first quarter by 0.1 percentage point. UBS's portfolio was a drag on performance during the quarter as it returned 2.8% and trailed its benchmark by 0.6 percentage points. The portfolio's allocation to Prudential Fund helped results as the portfolio outperformed the NCREIF NPI Open End Fund Index during the quarter.
- Prudential Real Estate assumed control of the INVESCO portfolio in the third quarter of 2004. The portfolio's performance track record began July 1, 2004. Prudential took over the properties that were historically managed by Invesco. Those properties were sold and an investment has been made into Prudential's open-end core real estate fund, PRISA. The returns shown above for Prudential includes the separate account properties and the investment in the commingled fund, which was initially funded at the end of the first quarter 2005. Beginning January 2006, the return stream for Prudential solely represents the commingled fund as the sale of the remaining separate account property took place in December.
- The Board approved the change of the total real estate policy benchmark from the National Council of Real Estate Investment Fiducianies (NCREIF) Property Index (Property Index) to the NCREIF Open-End Fund Property Index (Open Fund Index). Both of these indices are sponsored by the NCREIF, a leading real estate investment management advocacy group. Consistent with the motion approved, the benchmark changed when the funding of a second open-end real estate fund manager (Prudential PRISA Fund) was complete and no separate account properties remained. The new benchmark went into effect in January 2006 and is represented as the Policy Benchmark for the real estate asset class.



# PRUDENTIAL

\$71.7 Million and 2.7% of Fund

## First Quarter 2006

### RETURN SUMMARY ENDING 3/31/06

	First Quarter	Since 6/30/05	1 Year Ending 3/31/06	Since Inception	Inception Date
<b>Prudential Real Estate</b>	<b>3.9%</b>	<b>16.3%</b>	<b>26.8%</b>	<b>11.5%</b>	<b>6/30/04</b>
Policy Benchmark	3.4	13.9	19.9	18.4	
<b>PRISA Fund I</b>	<b>3.9</b>	<b>15.8</b>	<b>22.5</b>	<b>22.5</b>	<b>3/31/05</b>
NCREIF Open End Fund Index	3.4	13.0	18.7	18.7	

#### Investment Approach

- PRISA is a core-only product with no value-added component. In addition the manager utilizes low leverage (max 30%) and is diversified across both property types and regions. PRISA has a dedicated team of 15 regional research professionals who work on the portfolio. In constructing the PRISA portfolio, the lead portfolio manager annually develops a forward-looking three-year forecast. The forecast is based on macroeconomic predictions, along with input from the manager's proprietary software systems. The transaction team utilizes this forward-looking forecast in its search for potential properties.
- The real estate fund had 164 properties as of quarter-end. The sector breakdown is as follows: office properties account for 32%, retail 15%, industrial 20%, apartments 19%, self-storage 9%, and hotels 5%.
- Approximately 33% of the portfolio is located in the east, 23% in the south, 11% in the midwest and 33% in the west. The portfolio's leverage was 11.1% at quarter-end.

#### COMMENTARY ON INVESTMENT PERFORMANCE

- Prudential's real estate portfolio outperformed the policy benchmark during the first quarter by 0.5 percentage points.
- The Prudential Real Estate return, includes the investment in the PRISA commingled fund which initially took place at the end of the first quarter 2005.
- At the end of the fourth quarter 2005, Prudential closed on the Courthouse Plaza Shopping Center property for a price of \$17.9 million, roughly \$7.4 million above the manager's anticipated sale price and about \$10.0 million above the cost basis which significantly benefited the quarter's return. This was the final property from the legacy INVESCO portfolio and beginning January 2006 the fund consists almost entirely of the Prudential commingled fund. There is still a small interest in the Soule Park Golf Course (Approximately \$90,000) which was inherited by INVESCO from the legacy portfolio.
- The policy benchmark for the Prudential Real Estate account changed from the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (Property Index) to the NCREIF Open-End Fund Property Index (Open Fund Index) in January 2006.

## First Quarter 2006

RETURN SUMMARY  
ENDING 3/31/06

	First Quarter	Since 6/30/05	1 Year Ending 3/31/06	Since Inception	Inception Date
<b>UBS Real Estate</b>	<b>2.8%</b>	<b>11.1%</b>	<b>18.1%</b>	<b>14.4%</b>	<b>3/31/03</b>
NCREIF Open End Fund Index	3.4	13.0	18.7	14.4	
NCREIF NPI	3.6	14.1	20.2	15.1	

**PORTFOLIO CHARACTERISTICS**

- UBS Realty's Real Estate Separate Account (RESA) investment strategy utilizes broad market and economic trends as well as future forecasts. The real estate portfolio attempts to recognize long-term trends, capitalize on short-term pricing opportunities and minimize risk by diversifying its assets. RESA is a core fund that occasionally purchases new development or redevelopment properties that the manager feels could enhance the portfolio's return.
- The real estate fund had 137 properties as of quarter-end. The sector breakdown is as follows: office properties account for 26%, retail 24%, industrial 11%, apartments 33%, and hotels 6%.
- Approximately 35% of the portfolio is located in the east, 26% in the south, 9% in the midwest and 30% in the west. The portfolio's leverage was 11.1% at quarter-end.

**COMMENTARY ON INVESTMENT PERFORMANCE**

- UBS generated a first-quarter return of 2.8%, which lagged the return of the NCREIF Open End Fund Index by 0.6 percentage points.
- During the quarter, RESA made eight additional investments. RESA acquired apartment complexes in Rhode Island and New York for \$52.1 million and \$59.4 million, respectively, a retail property in Massachusetts for \$72.2 million, and five additional properties in the Vestar Portfolio for roughly \$307.4 million.
- One property was sold during the quarter, an office/retail investment in San Jose, California at a total net sale price of \$26.8 million.
- Net unrealized gains during the quarter amounted to approximately \$107.4 million.

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## RETURNS OF THE MAJOR CAPITAL MARKETS

## RETURNS OF THE MAJOR CAPITAL MARKETS

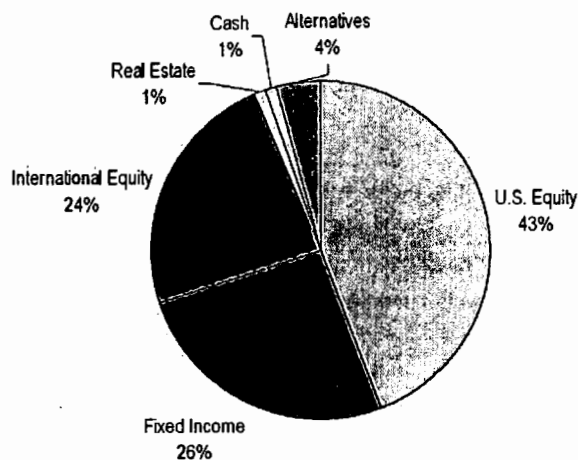
	First Quarter	Annualized Periods Ending 3/31/06			
		1-Year	3-Year	5-Year	10-Year
<b>Stock Indices:</b>					
DJ Wilshire 5000 Index	5.4%	14.7%	19.7%	6.0%	9.1%
S&P 500 Index	4.2	11.7	17.2	4.0	9.0
Russell 3000 Index	5.3	14.3	19.2	5.3	9.2
Russell 1000 Value Index	5.9	13.3	21.8	7.8	11.0
Russell 1000 Growth Index	3.1	13.2	14.8	1.7	6.5
Russell MidCap Value Index	7.6	20.3	29.2	14.7	13.9
Russell MidCap Growth Index	7.6	22.7	25.7	9.0	9.4
Russell 2000 Value Index	13.5	23.8	30.7	16.2	14.0
Russell 2000 Growth Index	14.4	27.8	28.1	8.6	5.5
<b>Bond Indices:</b>					
Lehman Brothers Aggregate	-0.6%	2.3%	2.9%	5.1%	6.3%
Lehman Brothers Gov't/Credit	-1.0	2.0	2.8	5.2	6.3
Lehman Brothers Long-Term Gov't/Credit	-3.4	1.7	4.6	7.0	7.7
Lehman Brothers Intermed. Gov't/Credit	-0.4	2.1	2.3	4.7	5.9
Lehman Brothers Mortgage-Backed	-0.1	2.7	3.1	4.9	6.2
Lehman Brothers 1-3 Yr Gov't	0.4	2.4	1.5	3.3	4.9
Lehman Brothers Universal	-0.4	2.9	3.8	5.5	6.5
<b>Real Estate Indices:</b>					
NCREIF Open End Fund Index	3.4%	18.7%	14.4%	11.0%	12.3%
DJ Wilshire Real Estate Securities Index	15.4	40.7	34.0	22.7	16.3
<b>Foreign Indices:</b>					
MSCI All-Country World Ex-U.S. Index	9.7%	27.6%	33.0%	11.4%	7.0%
MSCI EAFE Index	9.4	24.4	31.1	9.6	6.5
MSCI Emerging Markets Index	12.0	47.4	46.2	23.2	7.3
MSCI Hedged EAFE Foreign Stock Index	--	--	--	--	--
SSB Non-U.S. World Gov't Bond	-0.2	-6.5	5.1	8.3	4.6
Citigroup Non-US World Gov't Bond Hedged	-0.9	3.4	3.5	4.4	7.0
<b>Cash Equivalents:</b>					
Treasury Bills (30-Day)	0.9%	2.9%	1.7%	1.8%	3.3%
EnnisKnupp STIF Index	1.3	3.7	2.2	2.4	4.1
<b>Inflation Index</b>					
Consumer Price Index	1.5%	3.4%	2.7%	2.5%	2.5%

## APPENDIX II

### DESCRIPTION OF BENCHMARKS

- Policy Portfolio- As of June 2005, the return was based on a combination of 47% Russell 3000 Index, 29% Lehman Brothers Aggregate Bond Index, 14% MSCI All Country World Ex-U.S. Index, 4% MSCI All Country World Index and 6% NCREIF Real Estate Index. Prior to June 2005, the return was based on a combination of 49% Russell 3000 Index, 29% Lehman Brothers Aggregate Bond Index, 16% MSCI All Country World Ex-U.S. Index and 6% NCREIF Real Estate Index. Prior to April 2003, the return was based on a combination of 49% Russell 3000 Index, 32% Lehman Brothers Aggregate Bond Index, 16% MSCI All Country World Ex-U.S. Index and 3% NCREIF Real Estate Index. Prior to May 2002 the return was based on a combination of 49% Russell 3000 Index, 32% Lehman Brothers Aggregate Bond Index, 16% MSCI EAFE Index and 3% NCREIF Real Estate Index. Prior to April 2002 the return was based on a combination of 53% Russell 3000 Index, 32% Lehman Brothers Aggregate Bond Index, 12% MSCI Europe, Australasia and Far East (EAFE) Index and 3% NCREIF Real Estate Index. Prior to October 2001, the policy portfolio consisted of a combination of 53% Russell 3000, 22% Lehman Brothers Aggregate Bond Index, 12% MSCI Europe, Australasia and Far East (EAFE) Index, 3% NCREIF Real Estate Index, and 10% Solomon Brothers World Government Bond Index Hedged. Historically, the policy return is based on the historic policy allocations provided by the VCERA staff.
- Public Fund Universe- An equal-weighted index that is designed to represent the average return earned by U.S. public funds. The index is calculated based on data provided by Russell/Mellon Analytical Services, and includes 58 funds with an aggregate market value of \$657.8 billion.

Russell/Mellon Aggregate Public Fund as of 3/31/2006



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**DESCRIPTION OF BENCHMARKS (Continued)**

- Russell 3000 Stock Index- A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.
- S&P 500 Stock Index- A capitalization-weighted index representing the 500 largest publicly traded U.S. stocks.
- Russell 1000 Value Stock Index - An index that measures the performance of those stocks included in the Russell 1000 Index with lower price-to-book ratios and lower I/B/E/S earnings growth forecasts.
- Russell 2000 Stock Index - A capitalization-weighted index of the 2000 smallest stocks in the Russell 3000 Index. This index excludes the largest-and smallest-capitalization issues in the domestic stock market.
- Russell 2000 Value Stock Index- A capitalization-weighted index representing those companies within the Russell 2000 Index with lower price-to-book ratios and lower I/B/E/S earnings growth forecasts.
- Russell 2000 Growth Stock Index- A capitalization-weighted index representing those companies within the Russell 2000 Index with higher price-to-book ratios and higher I/B/E/S earnings growth forecasts.
- MSCI Europe, Australasia, Far East (EAFE) Foreign Stock Index- A capitalization-weighted index of 20 stock markets in Europe, Australia, Asia and the Far East.
- MSCI All-Country World Index - An index of major world stock markets, including the U.S., representing countries according to their approximate share of world market capitalization. The weights are adjusted to reflect foreign currency fluctuations relative to the U.S. dollar.
- Lehman Brothers Aggregate Bond Index- A market value-weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Indices. This index is the broadest available measure of the aggregate U.S. fixed income market.
- NCREIF Property Index- A capitalization-weighted index of privately owned investment grade income-producing properties representing approximately \$67 billion in assets.

### DESCRIPTION OF TERMS

- **Rank-** A representation of the percentile position of the performance of a given portfolio, relative to a universe of similar funds. For example, a rank of 25 for a given manager indicates outperformance by that manager of 75% of other funds in that same universe.
- **Universe-** A distribution of the returns achieved by a group of funds with similar investment objectives.
- **U.S. Stock Universe-** The rankings are based on a universe that is designed to represent the average equity return earned by U.S. institutional investors (public funds, corporate funds, and endowment/foundations). The universe is calculated based on data provided by Russell/Mellon Analytical Services, and includes 472 funds with an equity aggregate market value of \$612.5 billion.
- **Non-U.S. Equity Universe-** The rankings are based on a universe that is designed to represent the average international equity return earned by U.S. institutional investors (public funds, corporate funds, and endowment/foundations). The universe is calculated based on data provided by Russell/Mellon Analytical Services, and includes 429 funds with an international equity aggregate market value of \$306.2 billion.
- **Global Equity Universe-** The rankings are based on a universe that is designed to represent the average global equity return earned by U.S. institutional investors (public funds, corporate funds, and endowment/foundations). The universe is calculated based on data provided by Russell/Mellon Analytical Services, and includes 54 funds with a global equity aggregate market value of \$93.2 billion.
- **Fixed Income Universe-** The rankings are based on a universe that is designed to represent the average fixed income return earned by U.S. institutional investors (public funds, corporate funds, and endowment/foundations). The universe is calculated based on data provided by Russell/Mellon Analytical Services, and includes 462 funds with a fixed income aggregate market value of \$340.1 billion.
- **Ratio of Cumulative Wealth Graph-** An illustration of a portfolio's cumulative, unannualized performance relative to that of its benchmark. An upward sloping line indicates superior fund performance. Conversely, a downward sloping line indicates underperformance by the fund. A flat line is indicative of benchmark-like performance.
- **Risk-Return Graph-** The horizontal axis, annualized standard deviation, is a statistical measure of risk, or the volatility of returns. The vertical axis is the annualized rate of return. As most investors generally prefer less risk to more risk and always prefer greater returns, the upper left corner of the graph is the most attractive place to be. The line on this exhibit represents the risk and return tradeoffs associated with market portfolios or index funds.
- **Style Map-** This illustration represents the manager's style compared to that of the broadest stock index (the Wilshire 5000). Any manager falling above the axis is referred to as large-cap and any manager falling below the axis is considered to be medium- to small-cap.

Manager	Restrictions	In Compliance as of 3/31/06
BGI	-Portfolio is a commingled fund.	N/A
BGI	-Portfolio is a commingled fund.	N/A
Delta	-Holdings range from 50 to 110 securities -Maximum allocation to one stock is no greater than 5% of the portfolio's value -Maximum cash allocation is 10% under normal circumstances -Median market capitalization greater than or equal to the S&P 500 -The portfolio contains no prohibited securities named in the investment guidelines -Derivatives are not used to lever the portfolio*	YES YES YES YES YES YES
LSV	-Holdings range from 90 to 140 securities -Maximum allocation to one security is no greater than 3% of the portfolio's value -The market capitalization of securities purchased falls between \$100 million and \$2.5 billion -The market capitalization of any one stock can not exceed \$4 billion -Maximum cash allocation is 3% under normal circumstances -The portfolio contains no prohibited securities named in the investment guidelines -Derivatives are not used to lever the portfolio*	<b>No - 153</b> YES YES YES YES YES YES
Wasatch	-Holdings range from 50 to 120 securities -Maximum allocation to one security is no greater than 10% of the portfolio's value -Maximum cash allocation is 10% with a long-term target maximum of 5% -The weighted average market capitalization of the portfolio should not exceed \$2.0 billion -The portfolio contains no prohibited securities named in the investment guidelines -Derivatives are not used to lever the portfolio*	YES YES YES YES YES YES
Capital Guardian	-Portfolio is a commingled fund.	N/A
Sprucegrove	-Portfolio is a commingled fund.	N/A
GMO	-Portfolio is a separate account of mutual funds.	N/A
Wellington	-Portfolio is a commingled fund.	N/A
BGI U.S. Debt	-Portfolio is a commingled fund.	N/A
Reams	-Duration may be managed to a maximum 25% deviation relative to the Aggregate Bond Index -The total portfolio shall maintain an average quality rating of A -A maximum of 20% of the portfolio may be invested in bonds issued by a non-U.S. entity -A maximum of 15% of the portfolio may be invested in high yield bonds -A maximum of 5% of the portfolio may be invested in any single investment grade U.S. issuer -A maximum of 5% of the portfolio may be invested in high interest rate sensitivity mortgage-backed securities -The portfolio's combined allocation may not exceed 30% to the following securities; non-U.S. bonds, privately placed debt, excluding 144A securities and mortgage-backed securities that exhibit unusually high interest rate sensitivity -Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least 90% of the total portfolio -The portfolio contains no prohibited securities named in the investment guidelines -Derivatives are not used to lever the portfolio*	YES YES YES YES YES YES YES YES YES YES YES
Loomis Sayles	-At least 50% of the portfolio must be invested in investment grade securities at time of purchase -A maximum of 5% of the portfolio may be invested in any single investment grade U.S. issuer -60% of the portfolio must be invested in U.S. domiciled issues	YES YES YES
Western	-Duration may be managed to a maximum 20% deviation relative to the Aggregate Bond Index -The total portfolio shall maintain an average quality rating of AA -A maximum of 20% of the portfolio may be invested in bonds issued by a non-U.S. entity at time of purchase -A maximum of 10% of the portfolio may be invested in high yield bonds at time of purchase -A maximum of 5% of the portfolio may be invested in any single investment grade U.S. issuer at time of purchase -A maximum of 5% of the portfolio may be invested in high interest rate sensitivity mortgage-backed securities at the time of purchase -The portfolio's combined allocation may not exceed 30% to the following securities; non-U.S. bonds, privately placed debt, excluding 144A securities and mortgage-backed securities that exhibit unusually high interest rate sensitivity and bonds not receiving an investment grade rating -Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least 90% of the total portfolio at the time of purchase -The portfolio contains no prohibited securities named in the investment guidelines -Derivatives are not used to lever the portfolio*	YES YES YES <b>NO - 10.2%</b> YES YES YES <b>NO - 89.8%</b> YES YES

\* Based on affirmative statement from manager

An update on each of the violations can be found in the manager's quarterly writeup found earlier in this report.



INVESTMENT MANAGEMENT FEES

	Fee in Basis Points	Liquidity	Investment Vehicle
Delta	23	Daily	Separate Acct.
BGI Equity Index Fund	2	Daily	Commingled Fund
BGI Extended Market Fund	4	Daily	Commingled Fund
LSV	64	Daily	Separate Acct.
Wasatch	79	Daily	Separate Acct.
Capital Guardian	46	Monthly	Commingled Fund
Sprucegrove	41	Monthly	Commingled Fund
GMO	66	Daily	Commingled Fund
Wellington	74	Monthly	Commingled Fund
BGI U.S. Debt Fund	6	Daily	Commingled Fund
Reams	18	Daily	Separate Acct.
Western	24	Daily	Separate Acct.
Loomis Sayles	43	Daily	Separate Acct.
Prudential	50	Quarterly	Commingled Fund
UBS Realty	90	Monthly	Commingled Fund
Total Fund	24	--	--

### **Manager "Watch" Status Policy**

A manager may be placed on "Watch" status for:

- Failure to meet one or more of the standards, objectives, goals, or risk controls as set forth in this policy statement
- Violation of ethical, legal, or regulatory standards
- Material adverse change in the ownership of the firm or personnel changes
- Failure to meet reporting or disclosure requirements
- Failure to meet performance objectives or goals
- Any actual or potentially adverse information, trends, or developments that the Board feels might impair the investment manager's ability to deliver successful outcomes for the participants of the plan
  
- The Board may take action to place a manager on Watch status. Managers placed on Watch status shall be notified in writing, and be made aware of the reason for the action and the required remediation. Watch status is an optional interim step that may be used to formally communicate dissatisfaction to the investment manager and the potential for termination. Watch status is not a required step in terminating a manager. Watch status will normally be for a period of six months, but the time frame may be determined by action of the Board. The Board retains the right to terminate the manager at any time, extend the period of the Watch status, or remove the manager from Watch status at any time.
  
- Watch status indicates that the manager shall be subject to increased focus on the remediation of the factors that caused the manager to be placed on Watch status. Discussion of the manager on Watch status shall become a regular monthly reporting agenda item for the Board. Staff or retained Consultant shall prepare a written monthly report addressing the progress of the manager in the remediation of the dissatisfaction.
  
- Currently, Capital Guardian is on watch for performance reasons.

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