

PERFORMANCE REPORT

Independent
advice for
the institutional
investor

Ventura County
Employees'
Retirement
Association

Third Quarter 2006

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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.

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HIGHLIGHTS

HIGHLIGHTS

Third Quarter 2006

The Russell 3000 Index advanced 4.6% during the third quarter and gained 10.2% over the one-year period. The technology and utility sectors led the way gaining 9.1% and 8.1%, respectively. After posting strong gains during the first half of the year, the energy sector declined 3.2% during the third quarter. Despite the poor quarter, energy stocks remain one of the best-performing sectors year-to-date, returning 9.5%. Transportation stocks also suffered during the quarter, declining 5.7%. Large-cap stocks outperformed their small-cap counterparts and value stocks outperformed growth.

Non-U.S. stocks, as measured by the MSCI All Country World ex-U.S. Index, returned 3.9% during the quarter. Asian markets were the best performers as economic growth accelerated in the region. Emerging markets rebounded from last quarter's disappointing performance and posted a strong gain of 4.9% during the third quarter, bringing the year-to-date return to 12.4%.

The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, increased 3.8% during the quarter. All major sectors within the Index posted material gains. The Fed met on September 20th and did not raise the federal funds rate for the second consecutive meeting. The last two 'non-increases' came on the heels of 17 consecutive quarter-point rate hikes over the last two-plus years.

RETURN SUMMARY ENDING 09/30/06

	Third Quarter	Year-To-Date	1 Year Ending 9/30/06	3 Years Ending 9/30/06
Russell 3000 Index	4.6 %	8.0 %	10.2 %	13.0 %
MSCI All Country World Ex-U.S. Index	3.9	13.9	18.9	23.4
LB Aggregate Bond Index	3.8	3.1	3.7	3.4

Asset Growth

VCERA's Total Fund decreased by \$198.4 million during the quarter. The asset gain is attributable to investment gains of \$122.8 million and contributions during the quarter of \$75.6 million.

Market Value (millions) as of 6/30/06	\$2,621.5
Income/Appreciation	122.8
Net Contributions/Withdrawals	75.6
Market Value (millions) at 9/30/06	\$2,819.9

Third Quarter 2006
Asset Allocation

The table below highlights VCERA's current investment allocations relative to its policy. As of September 30, 2006, VCERA was slightly overweight to U.S. equity and global equity investments. A corresponding underweight was experienced within the Fund's non-U.S. equity and real estate portfolios. As of quarter-end, the portfolio was in compliance with the Investment Policy Statement's rebalancing policy.

In July, VCERA's annual contribution of approximately \$95 million was made. \$60 million was invested into the BGI Equity Index Fund and the additional \$35 million was dispersed among the Fund's fixed income managers. During the remainder of the quarter two withdrawals totaling approximately \$20.2 million were made to pay employees' benefits.

ACTUAL VS. CURRENT POLICY

	Actual Allocation	Policy Allocation	Difference
U.S. Equity	47.4%	47.0%	+0.4%
Non-U.S. Equity	13.5	14.0	-0.5
Global Equity	4.2	4.0	+0.2
U.S. Fixed Income	28.0	28.0	--
Real Estate	6.8	7.0	-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 third quarter, the Total Fund increased 4.5% and exceeded the return of the benchmark by 0.3 percentage points. The relative outperformance of the non-U.S. equity and fixed income asset classes were the main reason for the Total Fund's outperformance.

The total U.S. equity portfolio increased 4.7% and approximated the Russell 3000 index during the quarter. Wasatch experienced the most relative gains, outperforming its benchmark by 2.6 percentage points. The underperformance of LSV, however, erased much of Wasatch's value added. Within the non-U.S. equity portfolio, both Capital Guardian and Sprucegrove outperformed their respective benchmarks. The global equity portfolio detracted from performance during the third quarter due to weak relative performance by both managers.

The fixed income portfolio exceeded its benchmark during the third quarter as all of the asset class' managers outpaced or matched their benchmarks during the period. The relative performance of the Loomis Sayles and Western portfolios accounted for a majority of the gains. The total real estate portfolio exceeded its policy benchmark by 10 basis points as RESA and Guggenheim outperformed their benchmarks.

HIGHLIGHTS

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		5 Years Ending 9/30/06		10 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Total Fund	4.5 %	14	7.7 %	45	10.6 %	42	12.0 %	68	8.8 %	73	8.9 %	31	9.8 %	--	3/31/80
Policy Portfolio	4.2	17	7.7	45	10.1	49	12.0	68	8.8	73	8.6	48	--	--	
Total U.S. Equity	4.7	16	7.8	27	9.8	41	12.6	76	7.7	82	8.5	66	10.2	64	12/31/93
Russell 3000 Index	4.6	17	8.0	24	10.2	30	13.0	61	8.1	71	8.7	61	10.5	59	
Total Non-U.S. Equity	5.0	17	13.0	58	20.6	11	22.5	40	16.1	43	9.5	32	9.7	32	3/31/94
Performance Benchmark	3.9	60	13.9	37	18.9	47	23.4	21	15.3	56	7.3	79	7.4	78	
Total Global Equity	4.0	56	10.3	48	12.8	69	--	--	--	--	--	--	16.6	--	4/30/05
MSCI All-Country World Index	4.5	38	10.9	44	14.6	45	--	--	--	--	--	--	18.3	--	
Total U.S. Fixed Income	4.1	23	3.7	21	4.6	23	4.3	35	5.4	38	6.7	35	6.3	--	2/28/94
LB Aggregate Bond Index	3.8	53	3.1	64	3.7	58	3.4	75	4.8	68	6.4	65	6.3	--	
Total Real Estate	3.6	--	10.6	--	20.8	--	15.5	--	12.6	--	12.1	--	11.5	--	3/31/94
Policy Benchmark	3.5	--	11.3	--	17.3	--	16.3	--	12.4	--	12.5	--	11.6	--	

MARKET ENVIRONMENT
Third Quarter 2006

MARKET ENVIRONMENT

OVERVIEW

MAJOR MARKET RETURNS

	Third Quarter	Year-To-Date	1 Year Ending 9/30/06	3 Years Ending 9/30/06	5 Years Ending 9/30/06	10 Years Ending 9/30/06
Dow Jones Wilshire 5000 Index	4.5 %	8.0 %	10.4 %	13.3 %	8.6 %	8.6 %
MSCI All-Country World Ex-US Free	3.9	13.9	18.9	23.4	15.9	7.3
MSCI EAFE Free	3.9	14.5	19.2	22.3	14.3	6.8
MSCI Emerging Markets	4.9	12.4	20.5	30.6	28.5	7.3
MSCI All Country World Index	4.5	10.9	14.6	17.5	10.9	7.3
Lehman Brothers Aggregate Bond Index	3.8	3.1	3.7	3.4	4.8	6.4

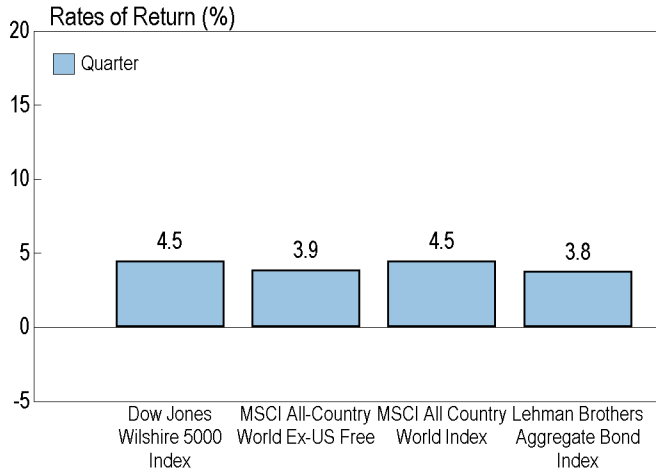
During the third quarter the broad U.S. equity market posted impressive gains. Economic growth continued to moderate during the third quarter which, along with falling crude oil prices, reduced inflation worries and resulted in the Federal Reserve holding Federal Funds Rate steady after 17 consecutive rate increases. The sharp decline of crude oil prices helped ease inflation worries as oil prices fell from their record highs due to increased supply, reduced political threats, and limited disruptions to production over the past quarter. The positive news seemed to outweigh government reports that showed a slowing U.S. housing market. Housing prices continued to fall and new housing start-ups and new home sales also declined. Despite the continued slower economic growth and housing worries, the major U.S. markets posted solid gains for the quarter.

The Dow Jones Wilshire 5000 Index advanced 4.5% during the third quarter, and gained 8.0% over the year-to-date period. The utility and financial sectors continued to perform well gaining 7.3% and 7.2%, respectively. The utility sector advanced an impressive 17.6% over the year-to-date period. After posting strong gains during the first half of the year, the energy sector declined 3.2% during the third quarter. Despite the poor quarter, energy stocks remain one of the best performing sectors year-to-date, having returned 9.5%. Transportation stocks also suffered during the quarter, declining 9.7%. Large-cap stocks outperformed their small-cap counterparts and value stocks outperformed growth.

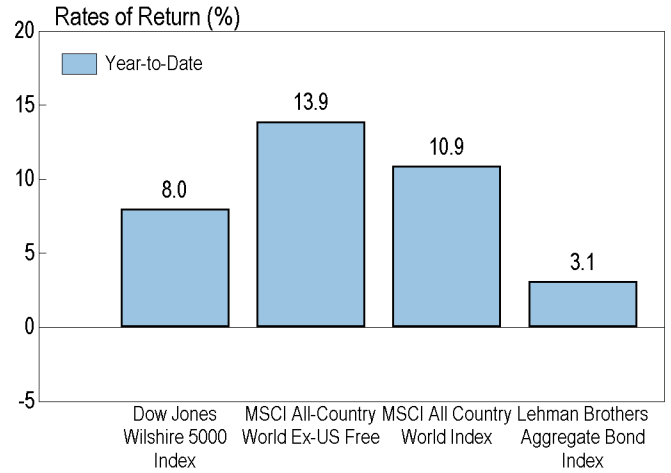
Non-U.S. stocks also advanced after a slow second quarter. The MSCI All Country World ex-U.S. Index gained 3.9% during the third quarter, which resulted in a year-to-date return of 13.9%. Asia was the best performing region, advancing 7.6% during the third quarter, due to continued economic growth in the region. European markets, excluding the United Kingdom, remained strong with a 20.8% year-to-date return. Emerging markets also posted impressive gains as the MSCI Emerging Markets Index gained 4.9% during the quarter totaling 12.4% year-to-date.

The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, advanced 3.8% during the third quarter resulting in a 3.1% year-to-date return. All sectors within the Index posted solid gains, with the corporate sector leading the way gaining 4.5%. The bond market responded to the Federal Reserve's decision not to change interest rates due to reduced inflationary concerns and slower economic growth. The Federal Funds Rate remained at 5.25% after 17 rate increases that began on June 30, 2004. The Federal Reserve's decision to stop rate hikes caused all U.S. Treasury yields to decline, which resulted in a slightly inverted yield curve.

**MAJOR MARKET RETURNS
THIRD QUARTER**

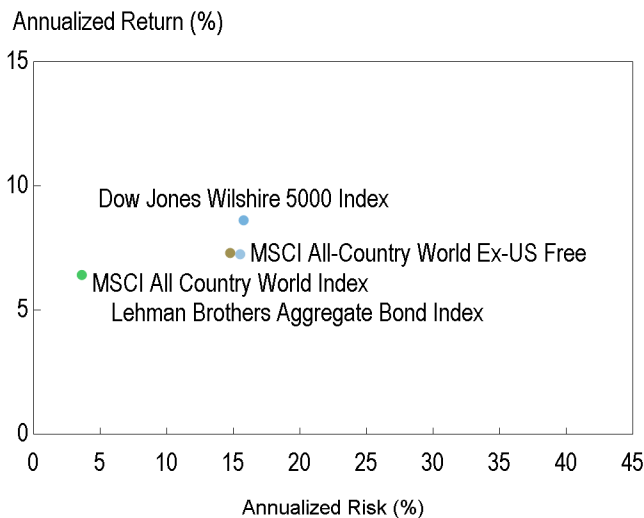


**MAJOR MARKET RETURNS
YEAR-TO-DATE ENDING 09/30/06**

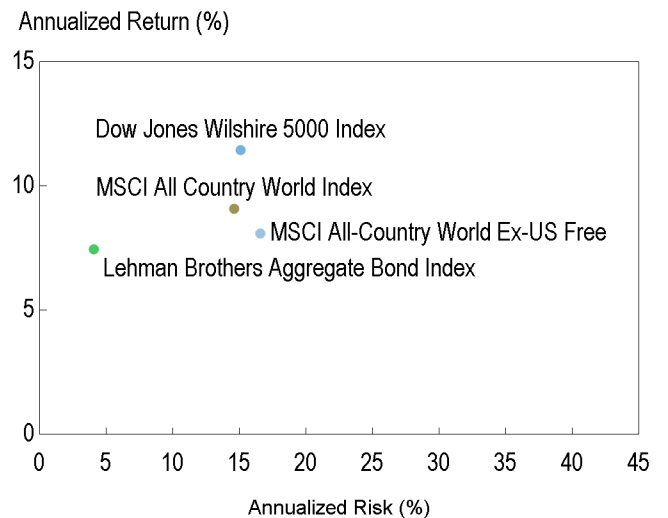


The exhibits above show the performance of the major capital markets during the third quarter and year-to-date period.

**MARKET RISK/RETURN
10 YEARS ENDING 09/30/06**



**MARKET RISK/RETURN
20 YEARS ENDING 09/30/06**

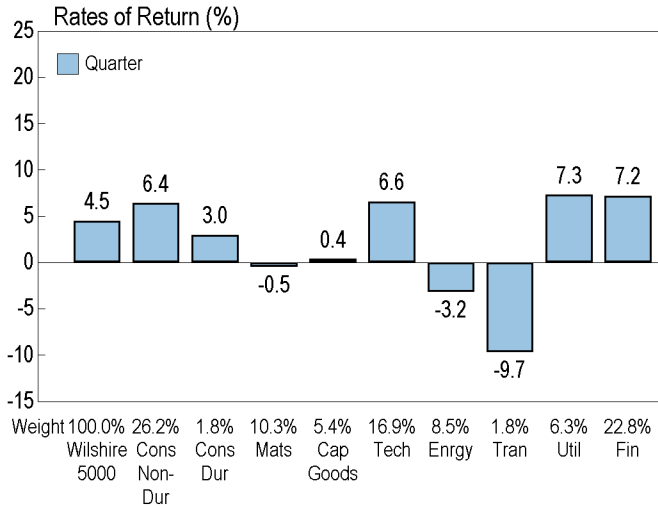


The exhibits above show the historical performance of the major capital markets adjusted for the amount of risk (volatility of returns) incurred. Points near the top of the chart represent a greater return and points near the right of the chart indicate greater volatility.

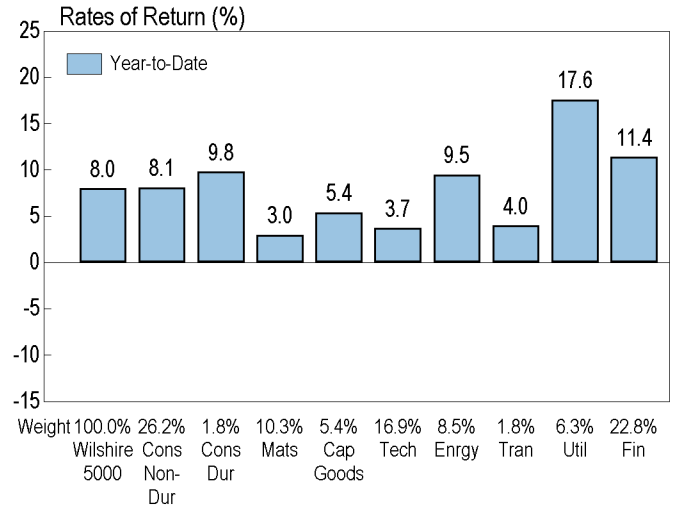
MARKET ENVIRONMENT

U.S. STOCK MARKET

SECTOR RETURNS THIRD QUARTER



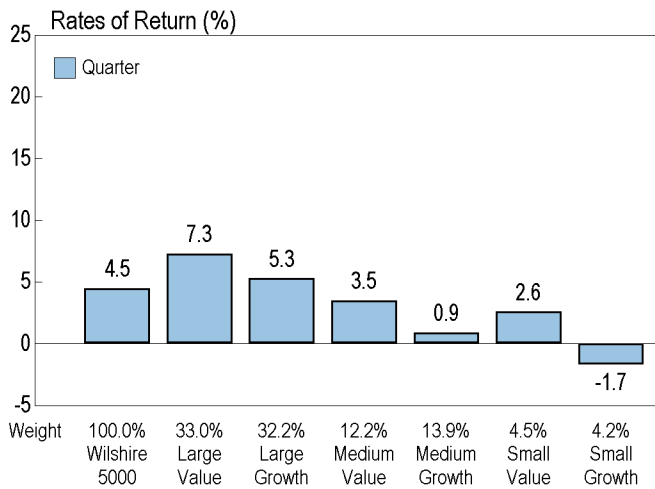
SECTOR RETURNS YEAR-TO-DATE ENDING 09/30/06



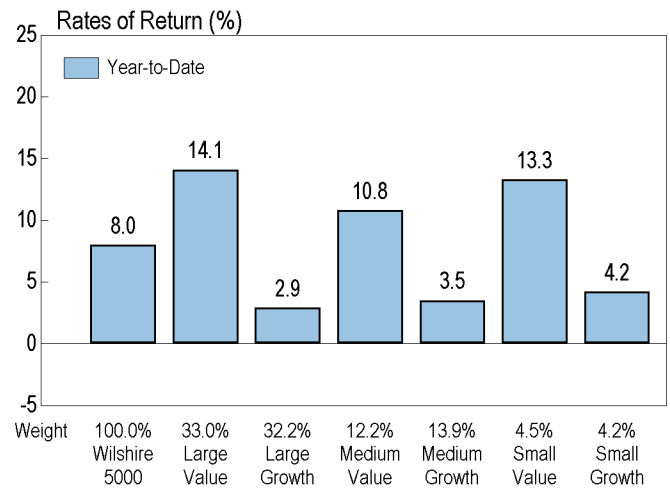
The Dow Jones Wilshire 5000 Index is the broadest available measure of the aggregate domestic stock market. It includes all domestic common stocks with readily available price data.

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 THIRD QUARTER

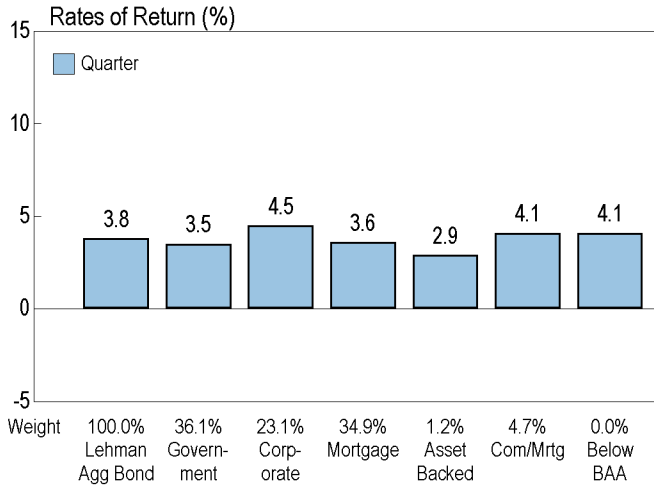


STYLE RETURNS YEAR-TO-DATE ENDING 09/30/06

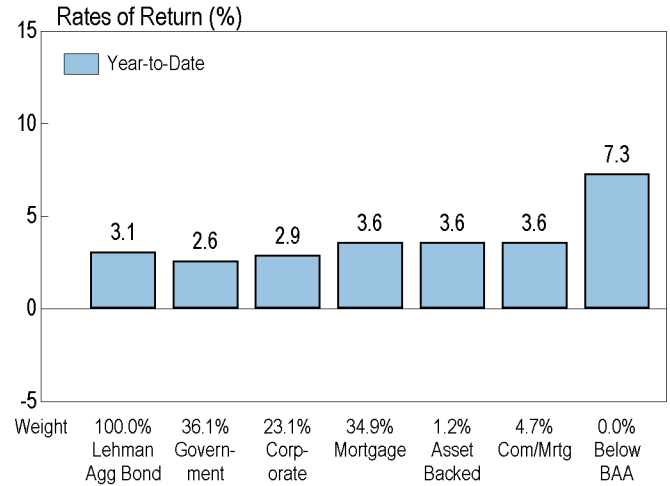


The exhibits above illustrate the performance of stock investment styles according to capitalization (large and small) and financial characteristics (value and growth). The percentage below each bar indicates the style's weight within the Dow Jones Wilshire 5000 Index at quarter-end.

**SECTOR RETURNS
THIRD QUARTER**



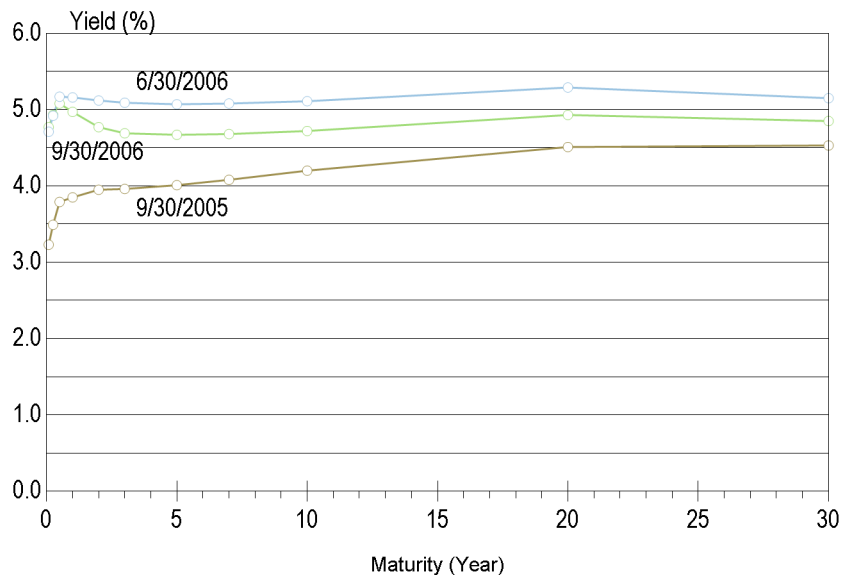
**SECTOR RETURNS
YEAR-TO-DATE ENDING 09/30/06**



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 CURVE

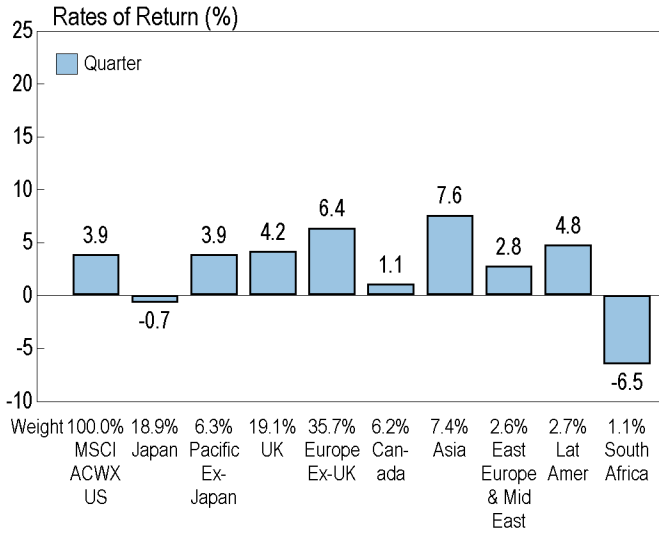


The exhibit above illustrates yields of Treasury securities of various maturities as of September 30, 2005, June 30, 2006, and September 30, 2006.

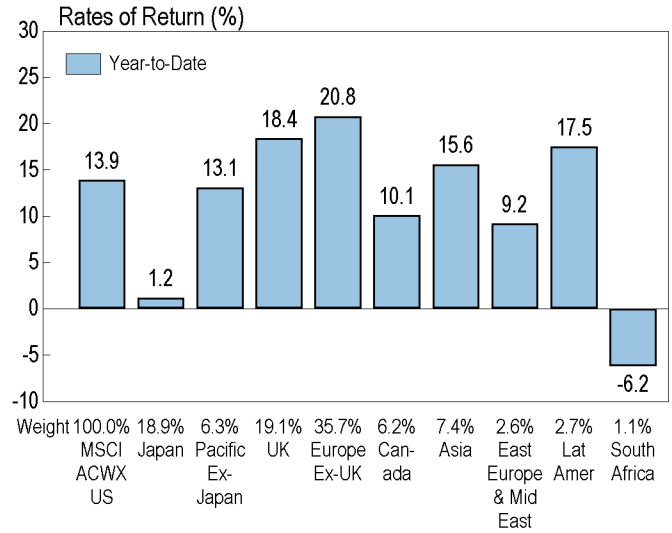
MARKET ENVIRONMENT

NON-U.S. STOCK MARKETS

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

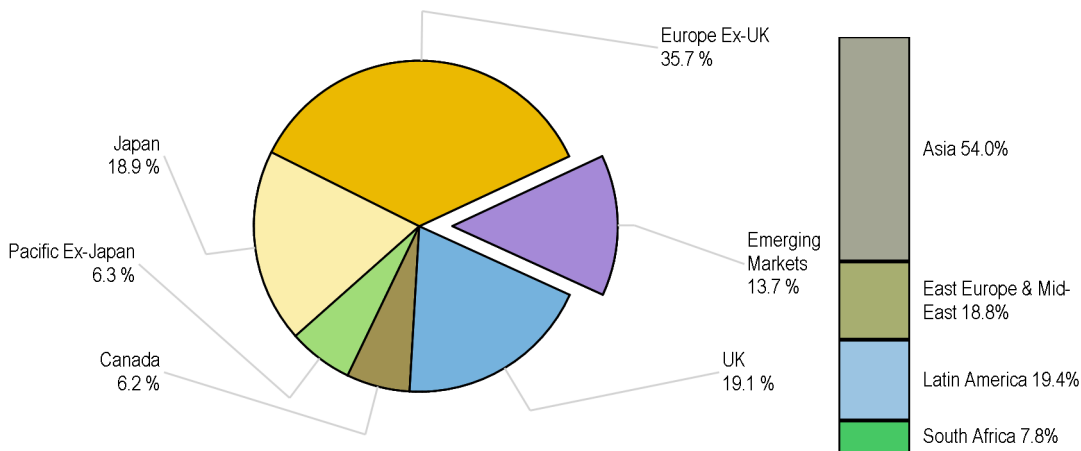


**NON-U.S. STOCK MARKET RETURNS
YEAR-TO-DATE ENDING 09/30/06**



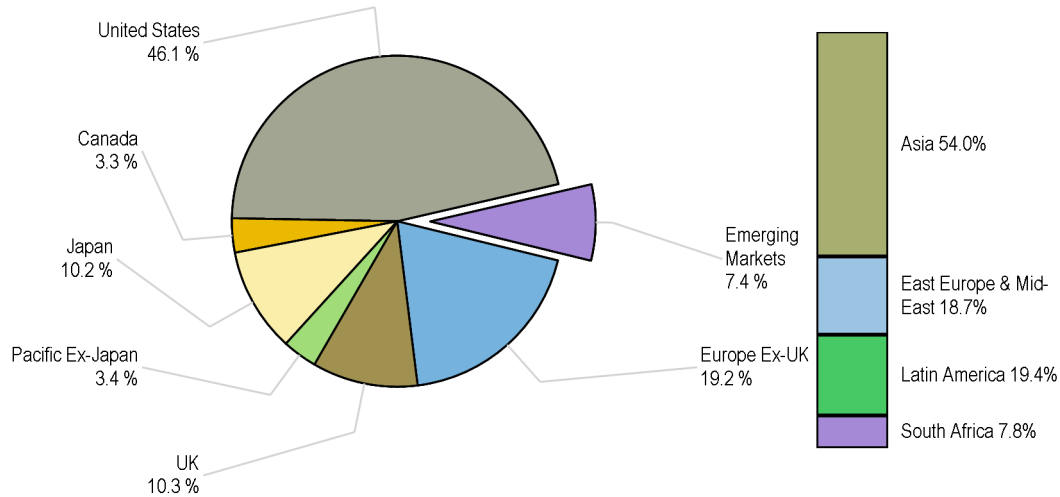
The MSCI All Country World ex-U.S. Index is a capitalization-weighted index of stocks representing 22 developed stock markets and 26 emerging stock markets around the world. The exhibits above show the performance of the regions that comprise the MSCI All Country World ex-U.S. Index at quarter-end.

**MSCI ALL COUNTRY WORLD EX-U.S. STOCK INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/06**



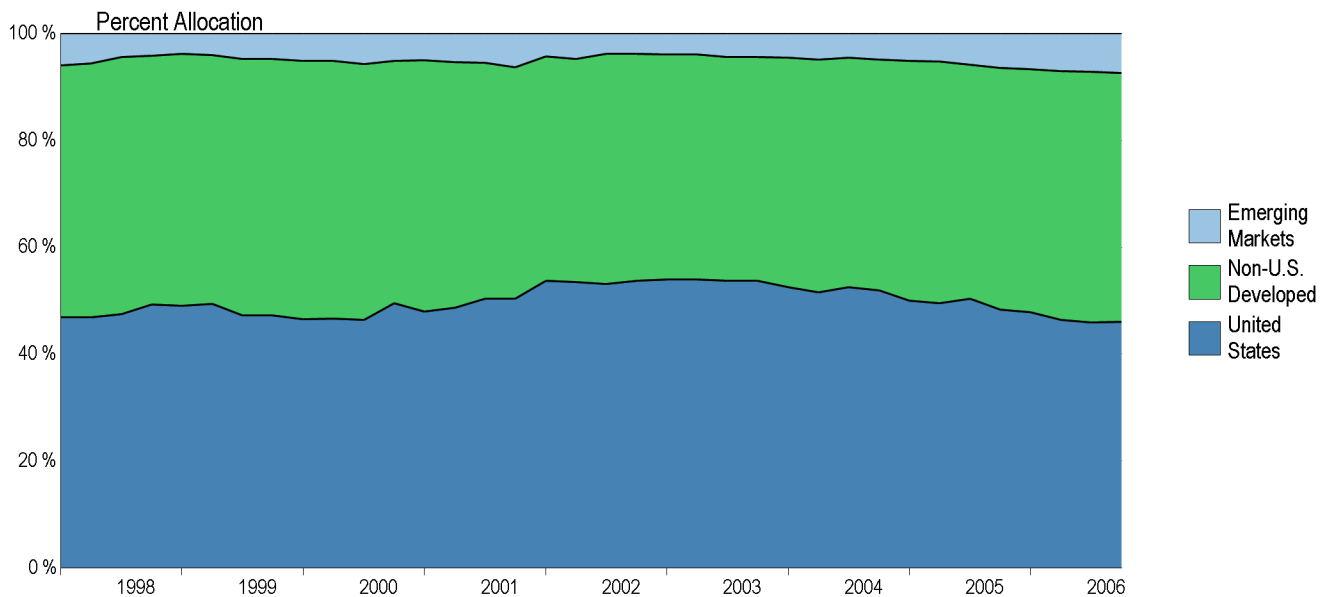
The exhibit above illustrates the percent each region represents of the non-U.S. stock market as measured by the MSCI All Country World ex-U.S. Index.

**MSCI ALL COUNTRY WORLD STOCK INDEX
 GEOGRAPHIC ALLOCATION AS OF 09/30/06**



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.

ALLOCATION AND GROWTH



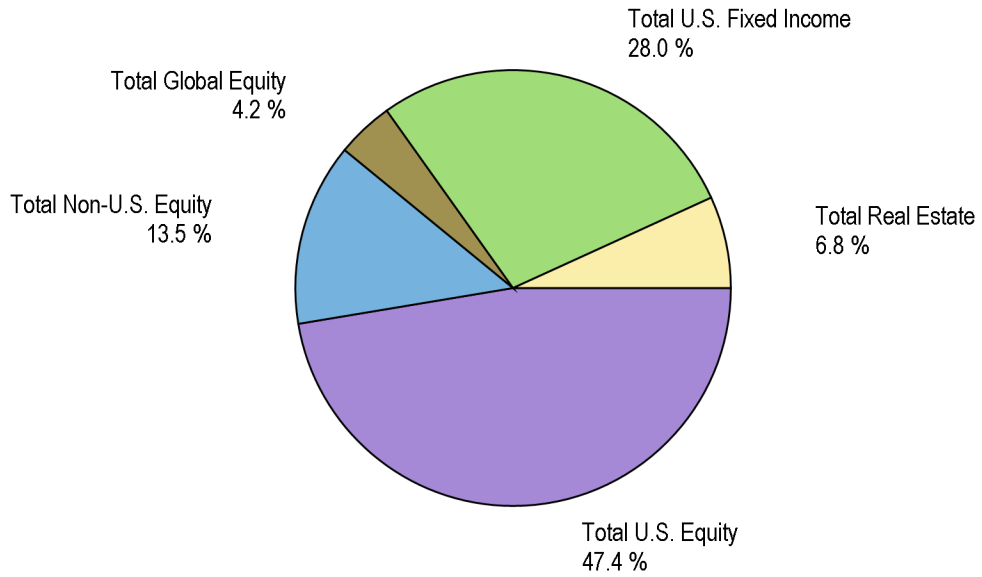
The graph above shows the changes in the breakdown between the United States, non-U.S. developed markets, and emerging markets in the MSCI All Country World Index over time.

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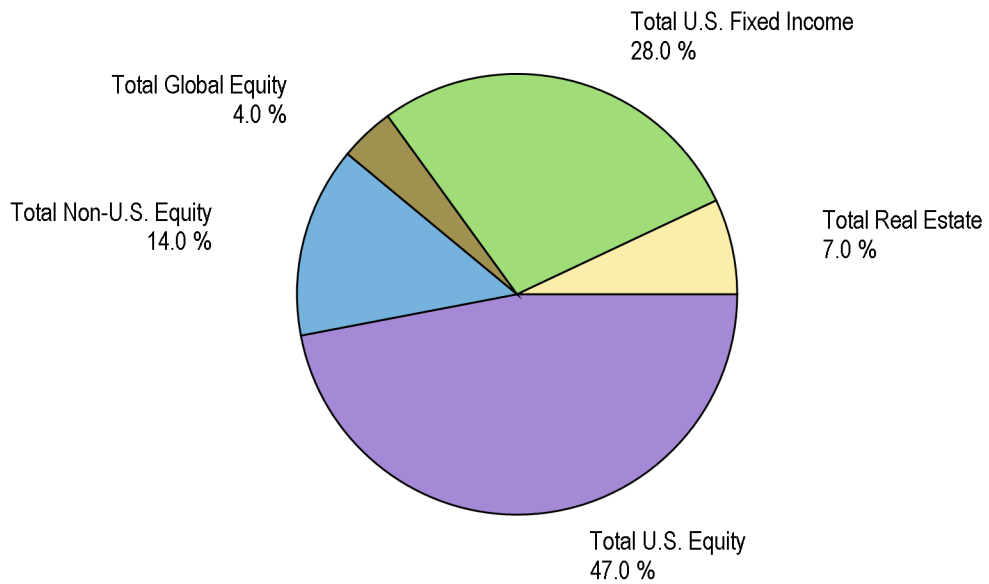
ASSET ALLOCATION

ASSET ALLOCATION

**ASSET ALLOCATION
ACTUAL AS OF 9/30/2006**



**ASSET ALLOCATION
POLICY AS OF 9/30/2006**



ASSET ALLOCATION

Third Quarter 2006

ASSET ALLOCATION AS OF 9/30/06

(\$ in thousands)

	U.S. Equity	Non-U.S. Equity	U.S. Bond	Non-U.S. Bond	Real Estate	Cash	Total	Percent of Total	Policy
Delta	\$234,186	--	--	--	--	\$10,778	\$244,964	8.7 %	
BGI Equity Index Fund	847,616	--	--	--	--	--	847,616	30.1	
LSV	85,406	--	--	--	--	689	86,094	3.1	
Wasatch	66,581	\$8,392	--	--	--	4,196	79,168	2.8	
BGI Extended Equity	77,941	--	--	--	--	--	77,941	2.8	
Total U.S. Equity	1,311,728	8,392	--	--	--	15,663	1,335,783	47.4	47.0 %
Capital Guardian	--	\$234,868	--	--	--	\$6,766	\$241,634	8.6 %	
Sprucegrove	--	135,758	--	--	--	4,633	140,391	5.0	
Total Non-U.S. Equity	--	370,626	--	--	--	11,399	382,025	13.5	14.0 %
GMO Global Fund	\$20,520	\$39,833	--	--	--	--	\$60,353	2.1 %	
Wellington Global Equity	29,532	29,132	--	--	--	\$177	58,841	2.1	
Total Global Equity	50,052	68,965	--	--	--	177	119,194	4.2	4.0 %
Western	--	--	\$256,627	\$16,744	--	\$11,390	\$284,761	10.1 %	
BGI U.S. Debt Fund	--	--	176,395	--	--	--	176,395	6.3	
Reams	--	--	238,981	--	--	13,642	252,622	9.0	
Loomis Sayles	--	--	65,201	11,511	--	385	77,097	2.7	
Total U.S. Fixed Income	--	--	737,204	28,255	--	25,418	790,876	28.0	28.0 %
Prudential Real Estate	--	--	--	--	\$76,947	--	\$76,947	2.7 %	
UBS Real Estate	--	--	--	--	88,833	--	88,833	3.2	
Guggenheim	--	--	--	--	26,205	--	26,205	0.9	
Total Real Estate	--	--	--	--	191,985	--	191,985	6.8	7.0 %
Total Fund	\$1,361,781	\$447,983	\$737,204	\$28,255	\$191,985	\$52,656	\$2,819,863	100.0 %	100.0 %
Percent of Total	48.3%	15.9%	26.1%	1.0%	6.8%	1.9%	100.0%		

The table above highlights VCERA's current investment allocations relative to its policy. As of September 30, 2006, VCERA was slightly overweight to U.S. equity and global equity investments. A corresponding underweight was experienced within the Fund's non-U.S. equity and real estate portfolios. As of quarter-end, the portfolio was in compliance with the Investment Policy Statement's rebalancing policy.

In July VCERA's annual contribution of approximately \$95 million was made. \$60 million was invested into the BGI Equity Index Fund and the additional \$35 million was dispersed among the Fund's fixed income managers. During the remainder of the quarter two withdrawals totaling approximately \$20.2 million were made to pay employees' benefits.

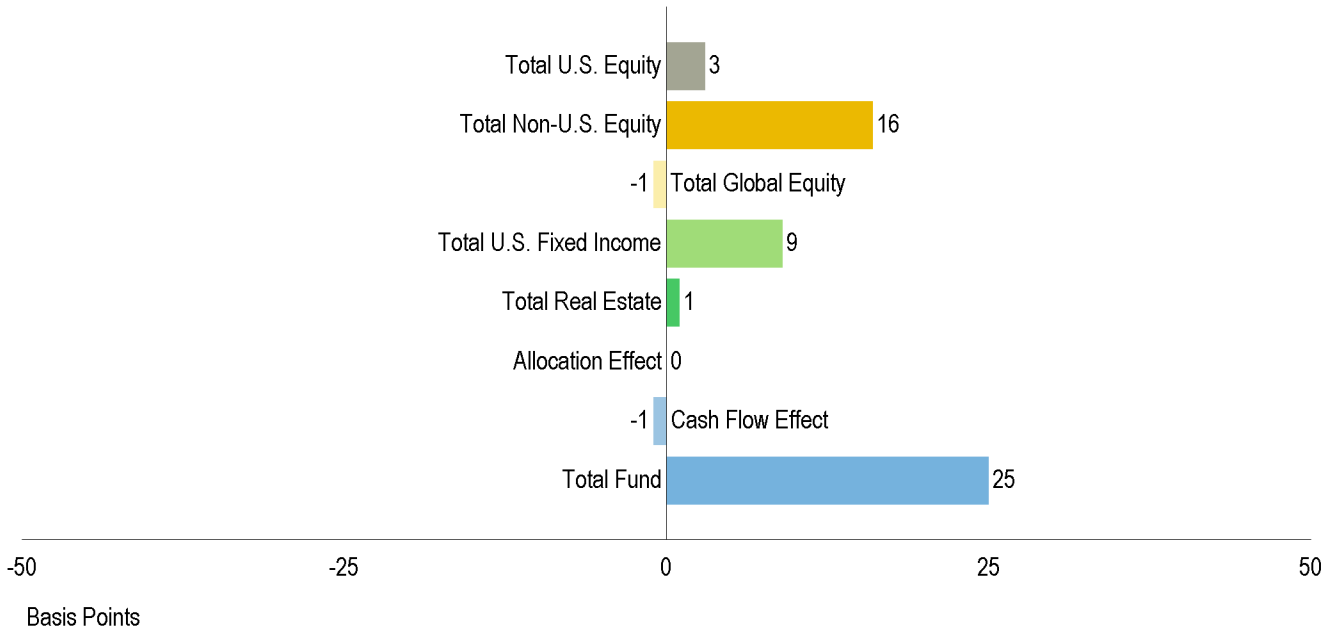
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PERFORMANCE EVALUATION

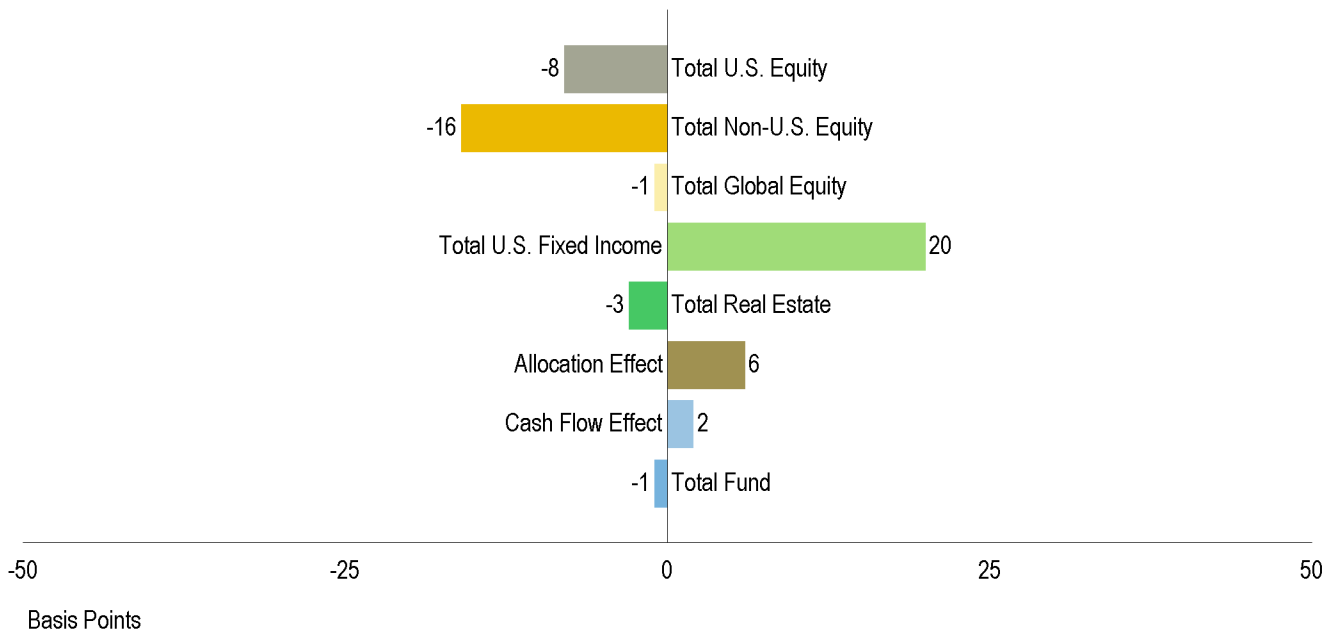
TOTAL FUND

Third Quarter 2006

TOTAL FUND ATTRIBUTION ANALYSIS 3 MONTHS ENDING 09/30/06



TOTAL FUND ATTRIBUTION ANALYSIS 9 MONTHS ENDING 09/30/06



Third Quarter 2006

RETURN SUMMARY
ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		5 Years Ending 9/30/06		10 Years Ending 9/30/06	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Total Fund	4.5 %	14	7.7 %	45	10.6 %	42	12.0 %	68	8.8 %	73	8.9 %	31
Policy Portfolio	4.2	17	7.7	45	10.1	49	12.0	68	8.8	73	8.6	48

Commentary on Investment Performance

During the third quarter, the Total Fund increased 4.5% and exceeded the return of the benchmark by 0.3 percentage points. The relative performance of the non-U.S. equity and fixed income asset classes were the main reason for the Total Fund's outperformance.

The total U.S. equity portfolio increased 4.7% and approximated the Russell 3000 index during the quarter. Wasatch experienced the most relative gains, outperforming its benchmark by 2.6 percentage points. The underperformance of LSV, however, erased much of Wasatch's value added. Within the non-U.S. equity portfolio, both Capital Guardian and Sprucegrove outperformed their respective benchmarks. The global equity portfolio detracted from performance during the third quarter due to weak relative performance by both managers. The fixed income portfolio exceeded its benchmark during the third quarter as all of the asset class' managers outpaced or matched their benchmarks during the period. The relative performance of the Loomis Sayles and Western portfolios accounted for a majority of the gains. The total real estate portfolio exceeded its policy benchmark by 10 basis points as RESA and Guggenheim outperformed their benchmarks.

The attribution analysis on the top of the previous page highlights the separate components' contribution within VCERA's total portfolio for the third quarter. As shown, the greatest contributors included the non-U.S. equity and fixed income portfolios. The lone detractor from performance was the global equity asset class.

The attribution graph shown on the bottom of the previous page highlights VCERA's performance over the year-to-date period. The Total Fund trailed the performance of its benchmark by 1 basis point. Over the period, the non-U.S. equity and U.S. equity portfolios contributed the most to the underperformance, while the fixed income asset class added value.

TOTAL FUND

HISTORICAL RETURNS (BY YEAR)

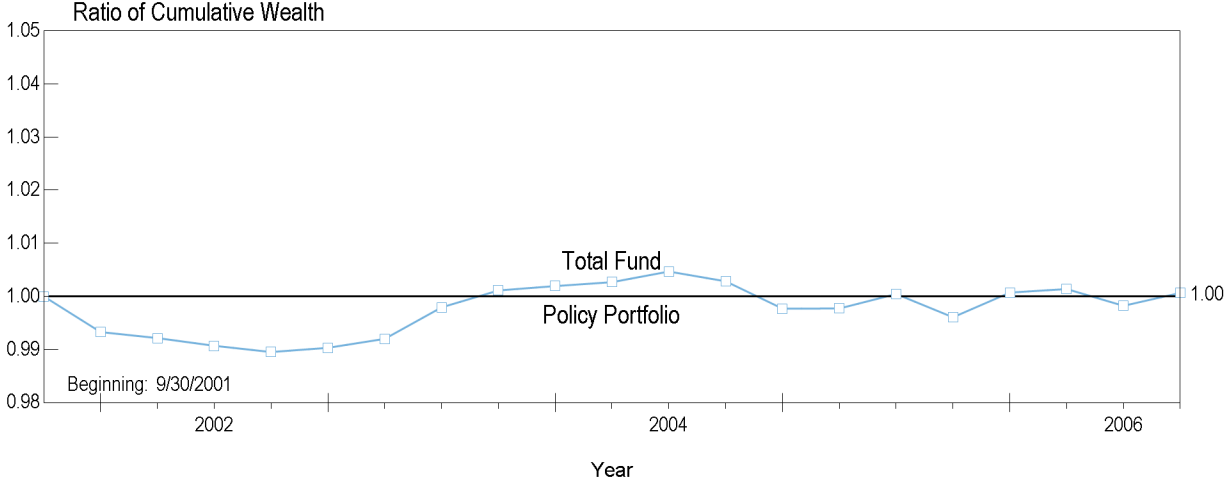
	Total Fund	Policy Portfolio	Return Difference
	Return	Return	
1980	7.7%	9.1%	-1.4
1981	2.2	4.5	-2.3
1982	32.4	26.4	6.0
1983	13.3	11.6	1.7
1984	8.4	11.4	-3.0
1985	22.4	22.8	-0.4
1986	15.4	15.4	0.0
1987	6.6	3.4	3.2
1988	10.1	11.7	-1.6
1989	19.6	21.9	-2.3
1990	6.1	2.9	3.2
1991	19.8	22.1	-2.3
1992	8.6	7.7	0.9
1993	10.0	8.6	1.4
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 (9 months)	7.7	7.7	0.0
Trailing 1-Year	10.6%	10.1%	0.5
Trailing 3-Year	12.0	12.0	0.0
Trailing 5-Year	8.8	8.8	0.0
Trailing 10-Year	8.9	8.6	0.3

Commentary

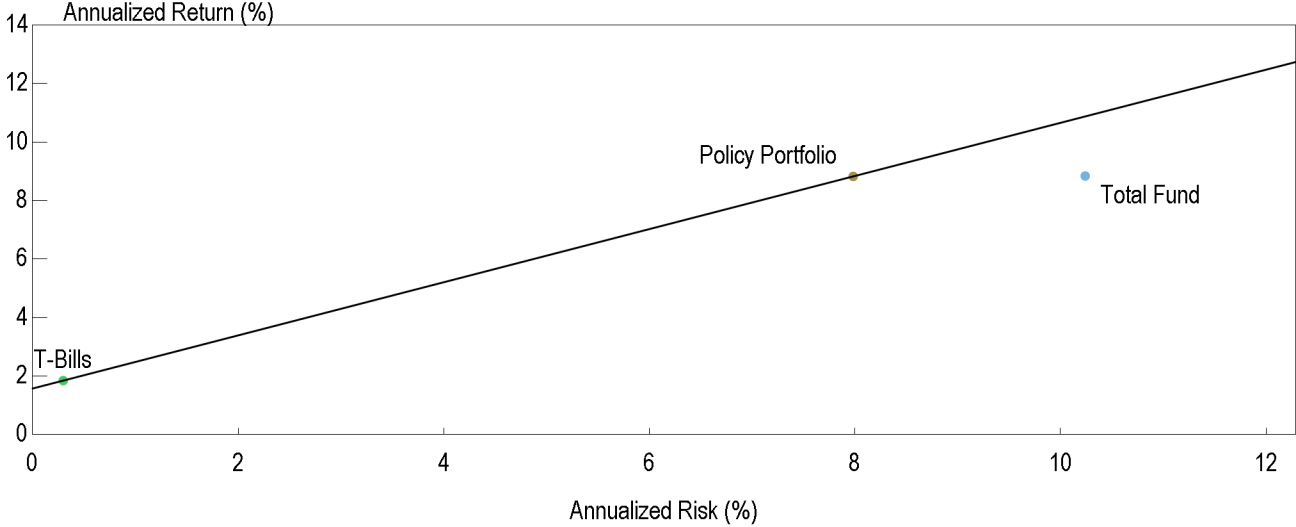
The table above compares the historical returns of VCERA's Total Fund with those of the policy benchmark. The Total Fund's trailing one-, and ten-year returns have exceeded that of the benchmark by 0.5, and 0.3 percentage points, respectively.

Third Quarter 2006

**RATIO OF CUMULATIVE WEALTH
5 YEARS ENDING 09/30/06**



**ANNUALIZED RISK RETURN
5 YEARS ENDING 09/30/06**



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 equaled 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 similar rate of return and volatility as the benchmark.

TOTAL FUND

Third Quarter 2006

IMRS SCORES

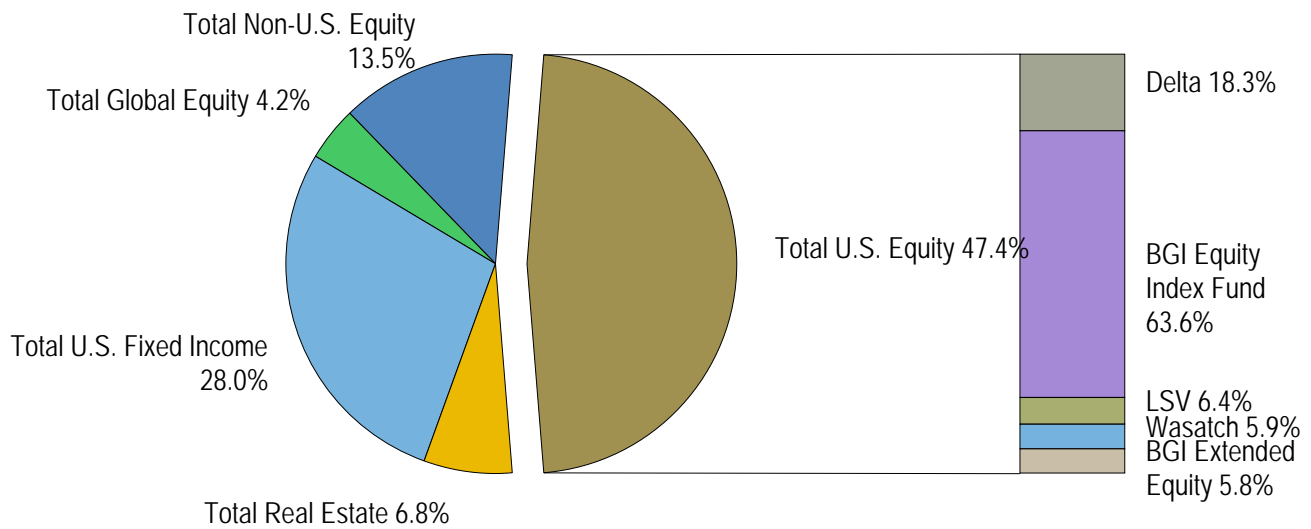
	IMRS SCORE	IMRS Rating	Any Change During the Quarter
U.S. Equity			
Delta	13	Good	No
LSV	16	Excellent	No
Wasatch	17	Excellent	No
Non-U.S. Equity			
Capital Guardian	19	Excellent	No
Sprucegrove	17	Excellent	No
Global Equity			
GMO	15	Good	No
Wellington	15	Good	No
Fixed Income			
Western	16	Excellent	No
Reams	16	Excellent	No
Loomis Sayles	16	Excellent	No
Real Estate			
Prudential	17.5	Excellent	No
UBS	18	Excellent	No
Guggenheim	14	Good	No

There were no material changes to the managers' ratings during the quarter.

TOTAL U.S. EQUITY
\$1,335.8 Million and 47.4% of Fund

Third Quarter 2006

ASSET ALLOCATION AS OF 9/30/06

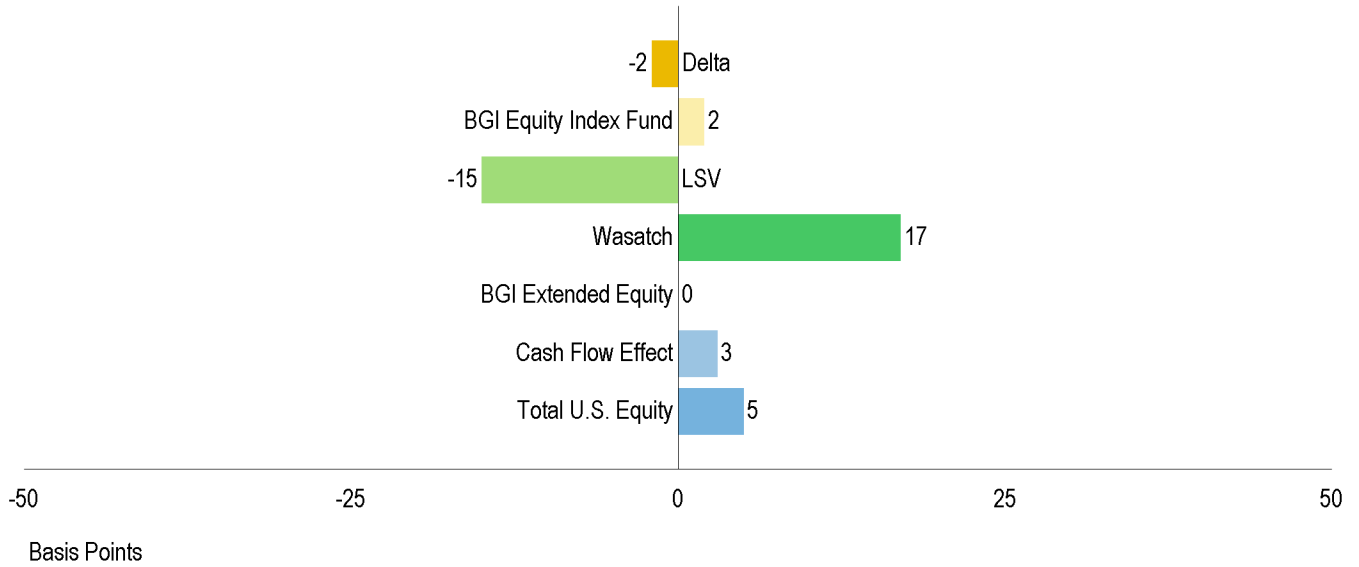


TOTAL U.S. EQUITY

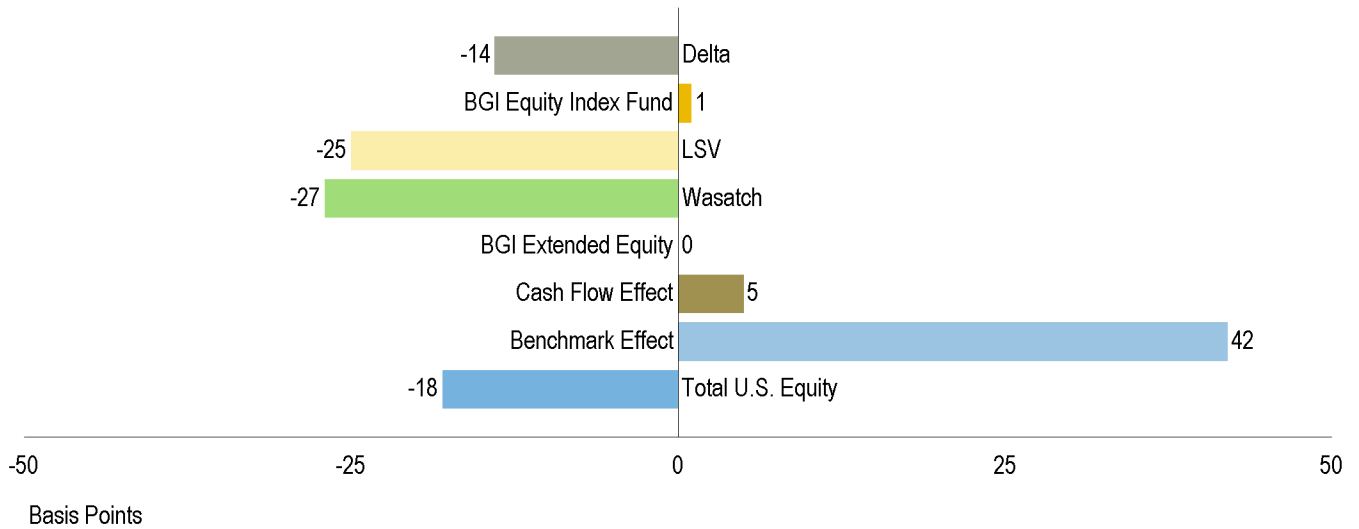
\$1,335.8 Million and 47.4% of Fund

Third Quarter 2006

MANAGER ATTRIBUTION ANALYSIS 3 MONTHS ENDING 09/30/06



MANAGER ATTRIBUTION ANALYSIS 9 MONTHS ENDING 09/30/06



TOTAL U.S. EQUITY

\$1,335.8 Million and 47.4% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		5 Years Ending 9/30/06		10 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Total U.S. Equity	4.7 %	16	7.8 %	27	9.8 %	41	12.6 %	76	7.7 %	82	8.5 %	66	10.2 %	64	12/31/93
Russell 3000 Index	4.6	17	8.0	24	10.2	30	13.0	61	8.1	71	8.7	61	10.5	59	
Delta	5.6	27	7.8	45	9.5	53	11.3	65	6.9	61	9.1	54	11.0	55	9/30/91
S&P 500 Index	5.7	26	8.5	38	10.8	35	12.3	55	7.0	60	8.6	62	10.8	58	
BGI Equity Index Fund	5.7	26	8.6	37	10.8	35	12.3	54	7.0	59	--	--	5.4	--	7/31/97
S&P 500 Index	5.7	26	8.5	38	10.8	35	12.3	55	7.0	60	--	--	5.4	--	
LSV	0.3	48	9.5	31	9.5	42	19.0	33	20.0	14	--	--	15.1	47	9/30/98
Russell 2000 Value Index	2.6	16	13.3	6	14.0	9	19.0	33	17.0	46	--	--	13.8	67	
Wasatch	0.9	11	0.7	75	1.4	83	10.1	65	7.9	79	--	--	13.9	--	11/30/99
Performance Benchmark	-1.8	37	4.2	37	5.9	43	11.8	50	9.2	65	--	--	5.3	--	
BGI Extended Equity	0.2	33	5.8	50	8.6	33	16.2	47	--	--	--	--	19.7	--	10/31/02
DJ Wilshire 4500 Index	0.2	33	5.7	50	8.6	33	16.0	49	--	--	--	--	19.7	--	

TOTAL U.S. EQUITY

\$1,335.8 Million and 47.4% of Fund

Third Quarter 2006

The Russell 3000 Index advanced 4.6% during the third quarter and gained 10.2% over the one-year period. The technology and utility sectors led the way gaining 9.1% and 8.1%, respectively. After posting strong gains during the first half of the year, the energy sector declined 3.2% during the third quarter. Despite the poor quarter, energy stocks remain one of the best performing sectors year-to-date, returning 9.5%. Transportation stocks also suffered during the quarter, declining 5.7%. Large-cap stocks outperformed their small-cap counterparts and value stocks outperformed growth.

The total U.S. equity portfolio's return approximated that of its benchmark during the third quarter. Active manager, Wasatch, outperformed their benchmark by 2.6 percentage points. The portfolio's two other active managers, LSV and Delta, combined to erase the contribution of Wasatch underperforming by 2.3 and 0.1 percentage points, respectively.

Performance over the year-to-date, one-, three-, five-, and ten-year and since-inception time periods is below that of the Russell 3000 Index.

The attribution analysis on page 24 highlights each manager's contribution within VCERA's U.S. equity portfolio. The benchmark effect in the year-to-date, 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 year-to-date, the positive benchmark effect is a result of the manager's benchmarks (S&P 500 and Russell 2000 Value Index) outperforming the broad market Index during the period.

Third Quarter 2006

RETURN SUMMARY
ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		10 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Delta	5.6 %	27	7.8 %	45	9.5 %	53	11.3 %	65	9.1 %	54	11.0 %	55	9/30/91
S&P 500 Index	5.7	26	8.5	38	10.8	35	12.3	55	8.6	62	10.8	58	

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 5.6% and underperformed the S&P 500 Index by 10 basis points primarily due to an underweight allocation in the consumer discretionary sector where stocks recouped losses from earlier in year. Additionally, the manager also reported holding a less-than-market weight in aerospace equities which also detracted from results.

The portfolio continues to hold a large overweight (22% vs. 15%) to the information technology sector signifying the manager's belief that the names they hold have potential for future growth.

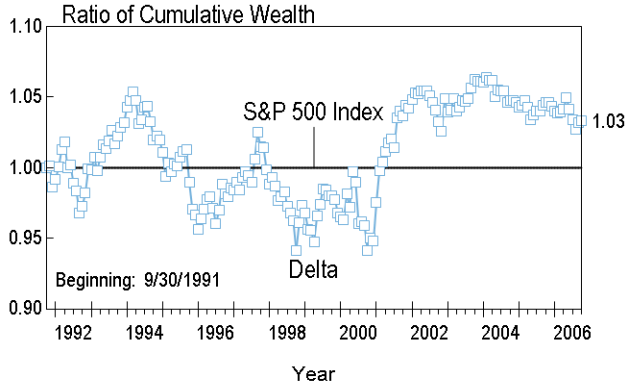
Delta's longer-period returns compare favorably with those of the S&P 500 Index, with the exception of the year-to-date, one-, and three-year periods.

DELTA

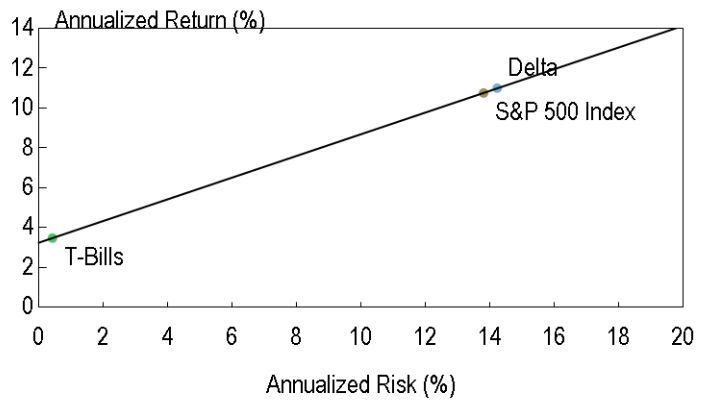
\$245.0 Million and 8.7% of Fund

Third Quarter 2006

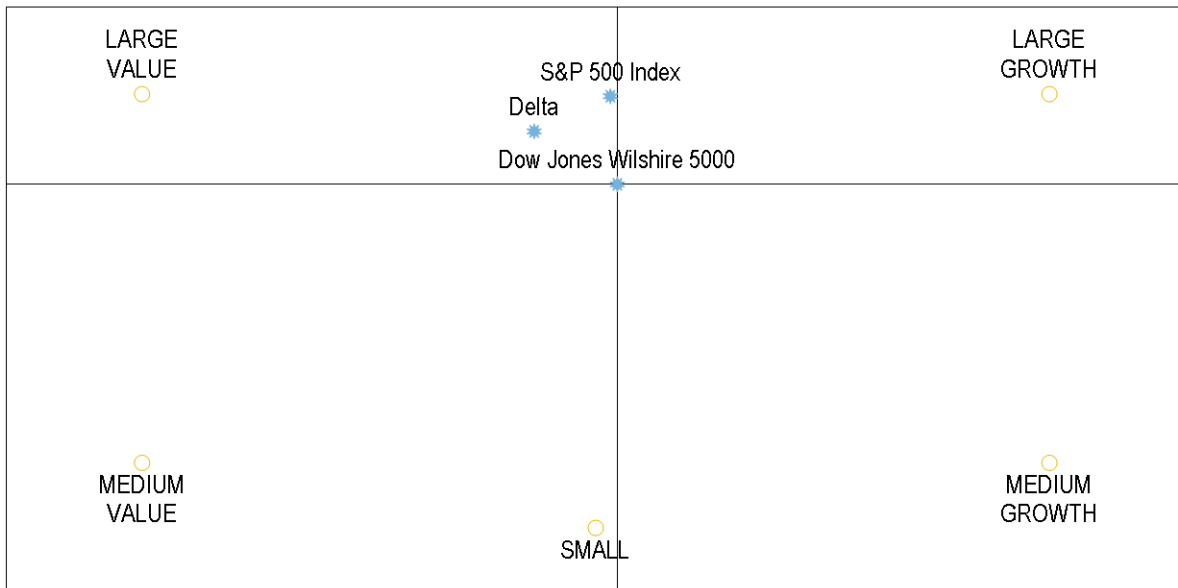
RATIO OF CUMULATIVE WEALTH
15 YEARS ENDING 09/30/06



ANNUALIZED RISK RETURN
15 YEARS ENDING 09/30/06



EFFECTIVE STYLE MAP
15 YEARS ENDING 09/30/06



- 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.

Third Quarter 2006

HISTORICAL RETURNS

(BY YEAR)

	Delta		S&P 500 Index		Return Difference
	Return	Rank	Return	Rank	
1991 (3 months)	7.5 %	67	8.4 %	58	-0.9
1992	8.3	59	7.7	64	0.6
1993	15.0	35	10.1	75	4.9
1994	-1.8	74	1.3	36	-3.1
1995	30.2	86	37.6	34	-7.4
1996	26.5	19	23.0	47	3.5
1997	34.0	27	33.4	33	0.6
1998	25.9	47	28.6	39	-2.7
1999	20.7	46	21.0	45	-0.3
2000	-8.1	67	-9.1	71	1.0
2001	-5.4	30	-11.9	57	6.5
2002	-22.8	57	-22.1	53	-0.7
2003	31.4	28	28.7	51	2.7
2004	9.0	68	10.9	51	-1.9
2005	4.7	70	4.9	68	-0.2
2006 (9 months)	7.8	45	8.5	38	-0.7
Trailing 1-Year	9.5 %	53	10.8 %	35	-1.3
Trailing 3-Year	11.3	65	12.3	55	-1.0
Trailing 5-Year	6.9	61	7.0	60	-0.1
Trailing 10-Year	9.1	54	8.6	62	0.5
Since Inception (9/30/91)	11.0	55	10.8	58	0.2

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 ten-year and since-inception returns have added value relative to the

	Delta	S&P 500
Capitalization Focus	Large	Large
Number of Holdings	102	500
Top 5 Holdings	General Electric Bank of America Citigroup ExxonMobil Microsoft	ExxonMobil General Electric Microsoft Citigroup Bank of America
Sector Emphasis	Information Technology	Financial Services
Cash Allocation	4.4%	0.0%
Total Strategy Assets	\$3.9 Billion	--
Inception Date	9/30/91	--
Portfolio Manager(s)	Carl Goldsmith, Marla Ryan	--

BGI EQUITY INDEX FUND

\$847.6 Million and 30.1% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
BGI Equity Index Fund	5.7 %	26	8.6 %	37	10.8 %	35	12.3 %	54	5.4 %	--	7/31/97
S&P 500 Index	5.7	26	8.5	38	10.8	35	12.3	55	5.4	--	

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 third quarter. Additionally, the Fund closely tracked the benchmark over all longer time periods analyzed.

BGI EQUITY INDEX FUND
\$847.6 Million and 30.1% of Fund

Third 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	39	28.6	39	0.0
1999	21.0	45	21.0	45	0.0
2000	-9.1	71	-9.1	71	0.0
2001	-11.9	57	-11.9	57	0.0
2002	-22.1	53	-22.1	53	0.0
2003	28.7	50	28.7	51	0.0
2004	10.9	51	10.9	51	0.0
2005	5.0	67	4.9	68	0.1
2006 (9 months)	8.6	37	8.5	38	0.1
Trailing 1-Year	10.8 %	35	10.8 %	35	0.0
Trailing 3-Year	12.3	54	12.3	55	0.0
Trailing 5-Year	7.0	59	7.0	60	0.0
Since Inception (7/31/97)	5.4	--	5.4	--	0.0

BGI EXTENDED EQUITY INDEX FUND

\$77.9 Million and 2.8% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
BGI Extended Equity	0.2 %	33	5.8 %	50	8.6 %	33	16.2 %	47	19.7 %	--	10/31/02
DJ Wilshire 4500 Index	0.2	33	5.7	50	8.6	33	16.0	49	19.7	--	

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 successfully tracked the DJ Wilshire 4500 Index during the third quarter. While positive tracking is evident over the year-to-date and three-year time periods, the one-year and since-inception returns approximated that of the DJ Wilshire 4500 Index.

BGI EXTENDED EQUITY FUND**\$77.9 Million and 2.8% of Fund****Third 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	46	43.8	44	-0.6
2004	18.1	70	18.1	70	0.0
2005	10.5	27	10.0	34	0.5
2006 (9 months)	5.8	50	5.7	50	0.1
Trailing 1-Year	8.6 %	33	8.6 %	33	0.0
Trailing 3-Year	16.2	47	16.0	49	0.2
Since Inception (10/31/02)	19.7	--	19.7	--	0.0

LSV

\$86.1 Million and 3.1% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
LSV	0.3%	48	9.5%	31	9.5%	42	19.0%	33	15.1%	47	9/30/98
Russell 2000 Value Index	2.6	16	13.3	6	14.0	9	19.0	33	13.8	67	

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 third-quarter return was 0.3% which underperformed the return of its benchmark, the Russell 2000 Value Index by 2.3 percentage points. Stock selection in the industrial, consumer discretionary and technology sectors hindered results as did an overweight allocation to industrials. The performance of the portfolio was again hindered by its underweight to REITS, which again performed well during the quarter. Conversely, stock selection was additive in the health care and materials sectors.

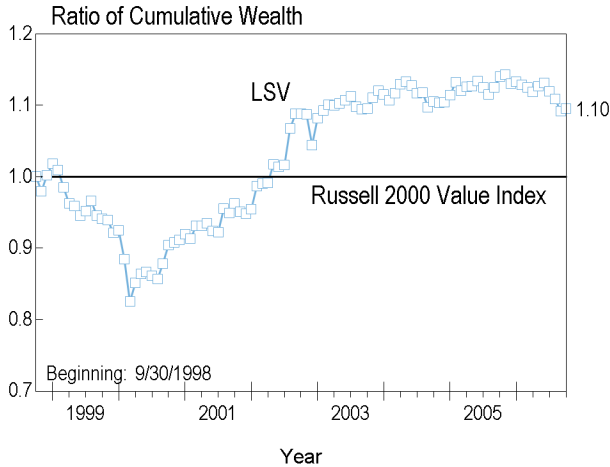
The performance of all longer time periods analyzed above was mixed. The three-year and since inception returns matched or added value over the benchmark, while the year-to-date and one-year returns underperformed.

At quarter-end the portfolio's cash allocation was 0.6%, which was within the limits of their policy guidelines.

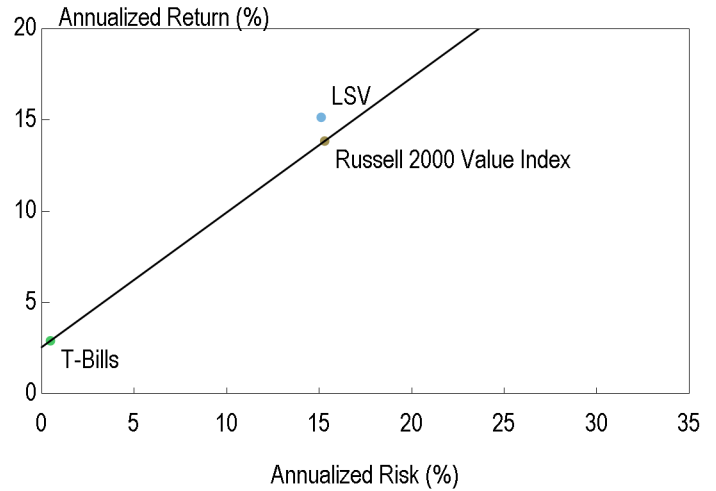
The manager did, however, violate its guideline of a maximum of 140 holdings as of quarter-end, by holding 157 securities. Ennis Knupp remains comfortable with the number of holdings at this time.

Third Quarter 2006

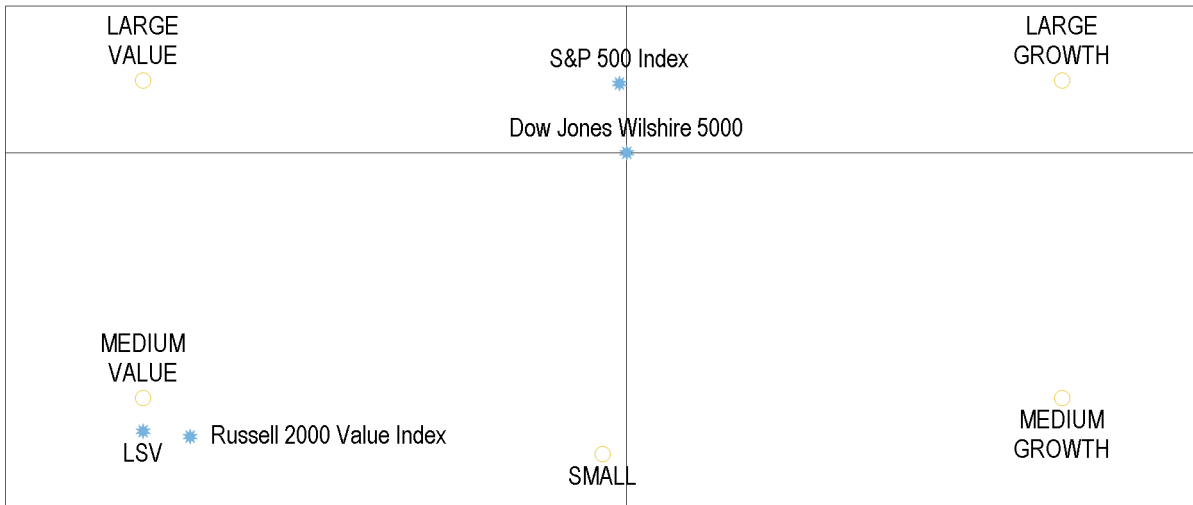
**RATIO OF CUMULATIVE WEALTH
8 YEARS ENDING 09/30/06**



**ANNUALIZED RISK RETURN
8 YEARS ENDING 09/30/06**



**EFFECTIVE STYLE MAP
8 YEARS ENDING 09/30/06**



- 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

\$86.1 Million and 3.1% of Fund

Third Quarter 2006

HISTORICAL RETURNS

(BY YEAR)

	LSV		Russell 2000 Value Index		Return Difference
	Return	Rank	Return	Rank	
1998 (3 months)	11.1%	57	9.1%	71	2.0
1999	-10.5	99	-1.5	74	-9.0
2000	22.1	47	22.8	44	-0.7
2001	18.4	43	14.0	68	4.4
2002	0.4	4	-11.4	50	11.8
2003	50.5	21	46.0	36	4.5
2004	22.1	44	22.3	43	-0.2
2005	6.4	67	4.7	76	1.7
2006 (9 months)	9.5	31	13.3	6	-3.8
Trailing 1-Year	9.5%	42	14.0%	9	-4.5
Trailing 3-Year	19.0	33	19.0	33	0.0
Trailing 5-Year	20.0	14	17.0	46	3.0
Since Inception (9/30/98)	15.1	47	13.8	67	1.3

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	157	1,293
Top 5 Holdings	Amerus Group Co. FMC Corp. National Penn Bancshares Belden CDT Inc. Ryder Systems, Inc.	Big Lots Inc. Realty Income Corp. Nationwide Health Properties Sybase Inc. Westar Energy Inc.
Sector Emphasis	Financial Services	Financial Services
Cash Allocation	0.6%	0.0%
Total Strategy Assets	\$2.6 Billion	--
Inception Date	9/30/98	--
Portfolio Manager(s)	Team Managed	--

Third Quarter 2006

**RETURN SUMMARY
ENDING 09/30/06**

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Wasatch	0.9%	11	0.7%	75	1.4%	83	10.1%	65	13.9%	--	11/30/99
Performance Benchmark	-1.8	37	4.2	37	5.9	43	11.8	50	5.3	--	

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 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 third-quarter return was 0.9%, which exceeded the return of its performance benchmark by 2.6 percentage points. Most of the portfolio's value added occurred in the month of September when the manager's consumer discretionary holdings contributed as the retail sector delivered positive results. Results within the retail sector were strengthened by the decline in energy prices. Additionally, unlike in the previous two quarters of 2006, the portfolio was aided by holding a pronounced underweight to energy which lagged the returns of the Index.

The portfolio's significant underweight to commodity-driven sectors (ie. energy) has negatively impacted performance over the 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.

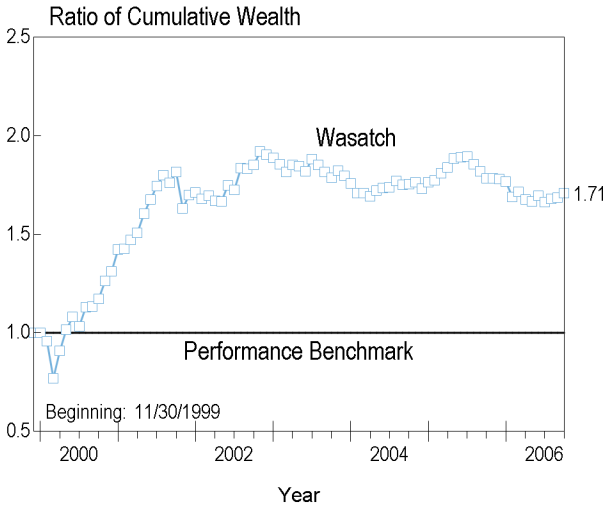
The portfolio's guidelines were adjusted during the fourth quarter of 2005 and the maximum number of names allowed in the portfolio was increased to 120 names. At the end of the quarter, Wasatch's portfolio held 91 names and was within the parameters of their new guidelines.

WASATCH

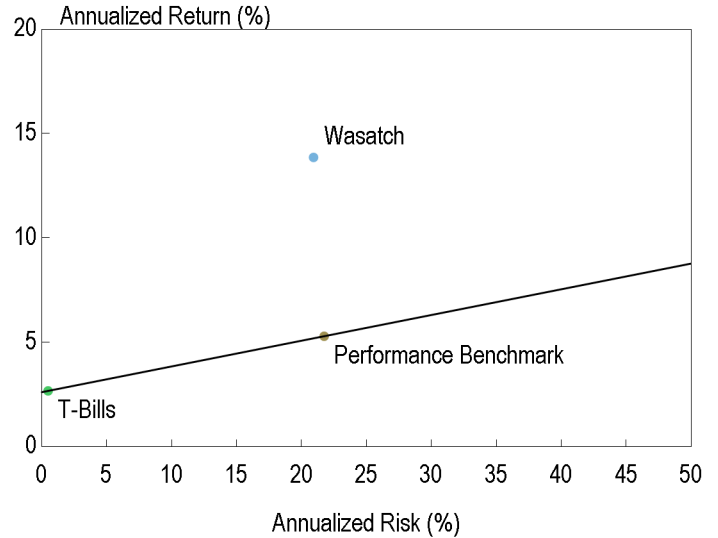
\$79.2 Million and 2.8% of Fund

Third Quarter 2006

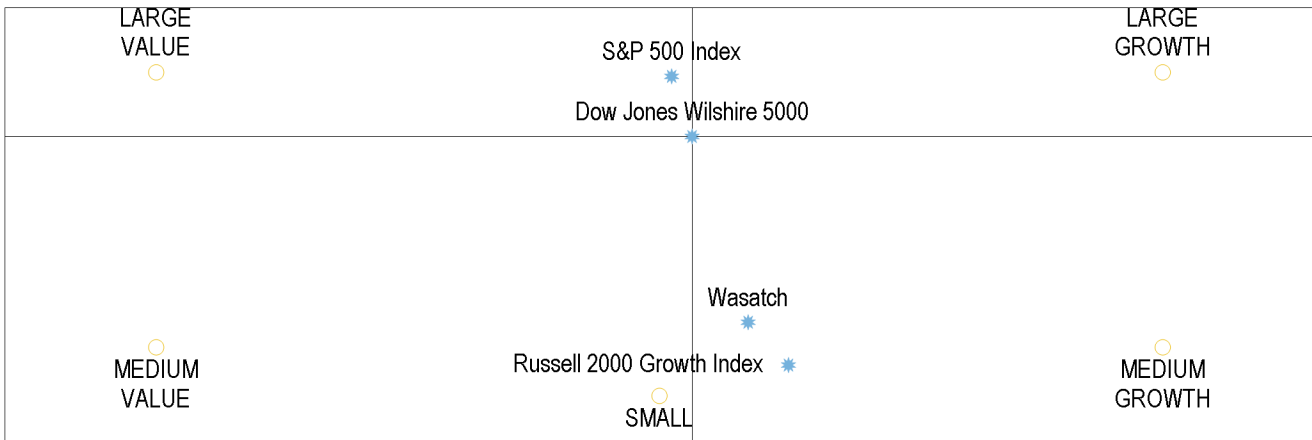
**RATIO OF CUMULATIVE WEALTH
6 YEARS 10 MONTHS ENDING 09/30/06**



**ANNUALIZED RISK RETURN
6 YEARS 10 MONTHS ENDING 09/30/06**



**EFFECTIVE STYLE MAP
6 YEARS 10 MONTHS ENDING 09/30/06**



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.

Third 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	33	40.6
2001	23.5	5	2.5	16	21.0
2002	-23.0	25	-30.3	58	7.3
2003	38.3	87	48.5	47	-10.2
2004	14.7	30	14.3	32	0.4
2005	4.3	76	4.1	77	0.2
2006 (9 months)	0.7	75	4.2	37	-3.5
Trailing 1-Year	1.4 %	83	5.9 %	43	-4.5
Trailing 3-Year	10.1	65	11.8	50	-1.7
Trailing 5-Year	7.9	79	9.2	65	-1.3
Since Inception (11/30/99)	13.9	--	5.3	--	8.6

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 8.5 percentage points.

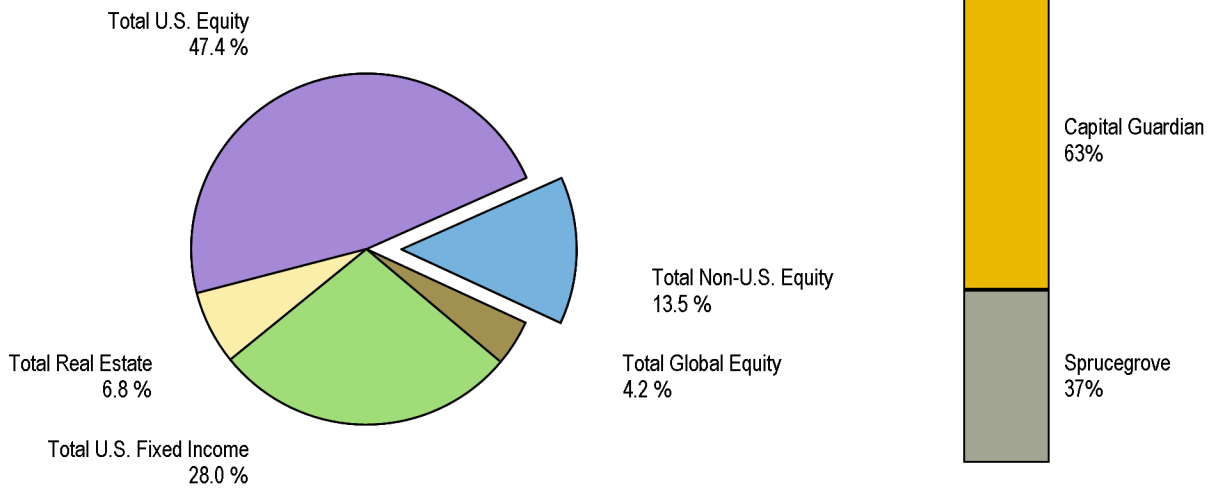
	Wasatch	Russell 2000 Growth
Capitalization Focus	Small	Small
Number of Holdings	91	1,275
Top 5 Holdings	O'Reilly Automotive, Inc. Copart Inc. Knight Transportation Inc. FactSet Research Systems, Inc. Guitar Center Inc.	Hologic Inc. Herman Miller Inc. OSI Pharmaceuticals, Inc. Sotheby's Acuity Brands Inc.
Sector Emphasis	Health Care	Consumer Discretionary
Cash Allocation	5.3%	0.0%
Total Strategy Assets	\$0.9 billion	--
Inception Date	11/30/99	--
Portfolio Manager(s)	Jeff Cardon	--

TOTAL NON-U.S. EQUITY

\$382.0 Million and 13.5% of Fund

Third Quarter 2006

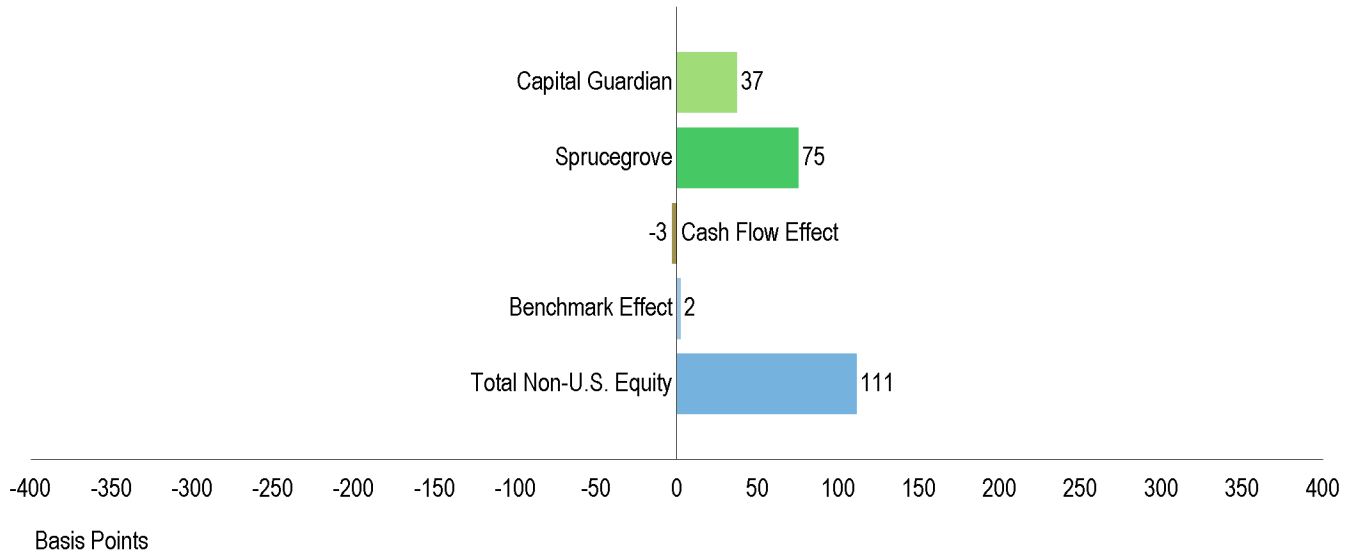
ASSET ALLOCATION ACTUAL AS OF 09/30/06



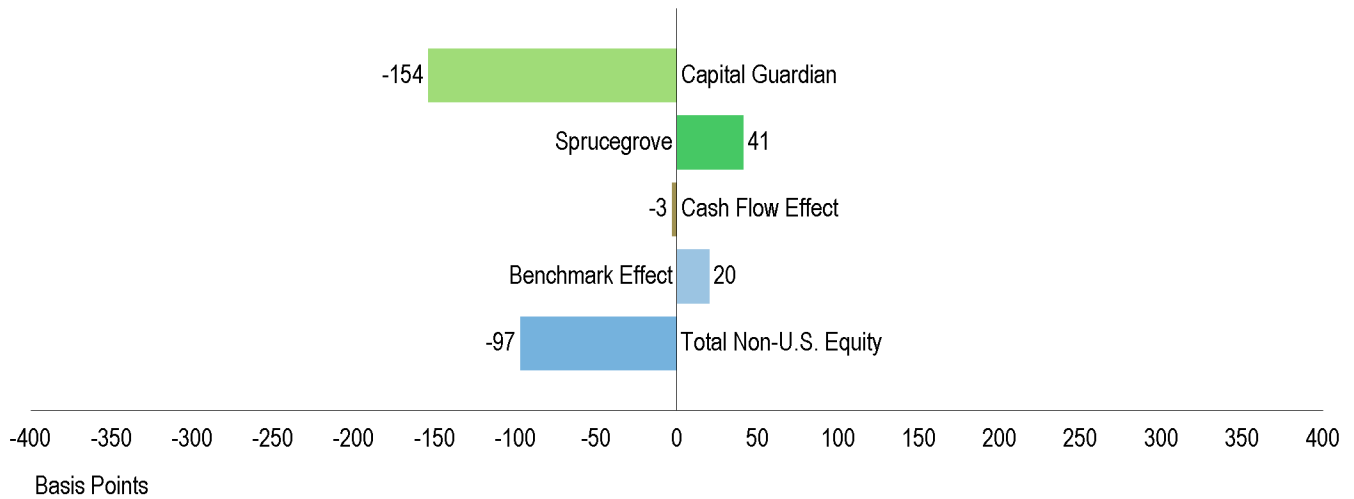
TOTAL NON-U.S. EQUITY
\$382.0 Million and 13.5% of Fund

Third Quarter 2006

MANAGER ATTRIBUTION ANALYSIS
3 MONTHS ENDING 09/30/06



MANAGER ATTRIBUTION ANALYSIS
9 MONTHS ENDING 09/30/06



TOTAL NON-U.S. EQUITY

\$382.0 Million and 13.5% of Fund

Third Quarter 2006

Non-U.S. stocks, as measured by the MSCI All Country World ex-U.S. Index, returned 3.9% during the quarter. Asian markets were the best performers as economic growth accelerated in the region. Emerging markets rebounded from last quarter's disappointing performance and posted a strong gain of 4.9% during the third quarter, bringing the year-to-date return to 12.4%.

The non-U.S. equity composite exceeded the performance of its benchmark during the period by 1.1 percentage points. Both managers outperformed their respective benchmarks during the quarter.

Capital Guardian detracted value during the year-to-date period and the total non-U.S equity portfolio underperformed the performance benchmark by 0.9 percentage points. Sprucegrove typically invests in developed market securities, Capital Guardian invests in the entire non-U.S. equity opportunity set. During the year-to-date period, emerging market securities underperformed developed market securities decreasing 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
\$382.0 Million and 13.5% of Fund

Third Quarter 2006

RETURN SUMMARY
ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		5 Years Ending 9/30/06		10 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Total Non-U.S. Equity	5.0 %	17	13.0 %	58	20.6 %	11	22.5 %	40	16.1 %	43	9.5 %	32	9.7 %	32	3/31/94
Performance Benchmark	3.9	60	13.9	37	18.9	47	23.4	21	15.3	56	7.3	79	7.4	78	
Capital Guardian	4.5	28	11.5	79	21.0	23	21.9	45	15.5	39	--	--	4.6	--	7/31/00
Performance Benchmark	3.9	50	13.9	52	18.9	53	23.4	30	15.3	40	--	--	5.6	--	
Sprucegrove	6.0	9	15.6	26	20.1	32	23.4	30	--	--	--	--	16.9	19	3/31/02
MSCI EAFE Index	3.9	48	14.5	43	19.2	45	22.3	42	--	--	--	--	14.1	49	

CAPITAL GUARDIAN

\$241.6 Million and 8.6% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Capital Guardian	4.5%	28	11.5%	79	21.0%	23	21.9%	45	4.6%	--	7/31/00
Performance Benchmark	3.9	50	13.9	52	18.9	53	23.4	30	5.6	--	

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 return of 4.5% during the quarter and outperformed its performance benchmark by 0.6 percentage points. Stock selection decisions within the consumer discretionary sector, which accounted for 10% of the portfolio, were the largest positive contributors to performance. Individual stocks of note, Volkswagen and Suzuki Motors, were strong performers during the quarter. Mexican holding America Movil had the largest positive contribution to portfolio performance during the quarter. An overweight to and stock selection within Japan was the largest negative contributor to performance. European holdings generally performed well, somewhat offsetting the negative impact of an underweight to the U.K. market, which benefited from a strong currency. Stock holdings in countries closely related to commodities, like Canada and South Africa, also had a negative impact on relative returns during the quarter.

During the quarter, the manager's slight overweight to emerging market countries added value but over the year-to-date period it has detracted from results. However, the manager's selections and significant overweight to Japan continues to hinder results.

With the exception of the one-year period, 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 1.0 percentage point annually.

Third Quarter 2006

COUNTRY ALLOCATION RETURNS

3 MONTHS ENDING 09/30/06

	Manager Allocation	Index Allocation	Index Return
Europe			
Austria	0.2 %	0.4 %	3.4 %
Belgium	0.5	1.0	11.3
Czech Republic*	--	0.1	4.7
Denmark	0.4	0.6	8.7
Finland	1.2	1.1	1.2
France	9.6	8.0	4.9
Germany	4.4	5.7	4.8
Greece	--	0.5	5.1
Hungary*	0.0	0.1	2.5
Ireland	0.5	0.7	8.7
Italy	0.3	3.1	4.5
Netherlands	4.2	2.8	10.8
Norway	0.2	0.7	-6.2
Poland*	0.0	0.2	6.0
Portugal	--	0.3	7.2
Russia*	0.8	1.5	0.4
Spain	3.4	3.2	12.2
Sweden	0.6	1.9	6.9
Switzerland	7.2	5.7	7.4
United Kingdom	14.2	19.1	4.2
Asia/Pacific			
Australia	2.3 %	4.2 %	2.6 %
China*	1.1	1.3	8.8
Hong Kong	2.0	1.4	6.3
India*	0.8	0.9	18.1
Indonesia*	0.7	0.2	18.5
Japan	23.4	18.9	-0.7
Korea*	3.3	2.4	5.5
Malaysia*	0.5	0.4	5.9
New Zealand	--	0.1	8.3
Pakistan*	--	0.0	6.7
Philippines*	0.1	0.1	27.6
Singapore	0.5	0.7	6.9
Sri Lanka*	--	0.0	7.5
Taiwan, China*	2.1	1.8	3.4
Thailand*	0.4	0.2	6.7
Americas			
Argentina*	0.0 %	0.1 %	-6.7 %
Brazil*	1.3	1.4	-1.3
Canada	4.9	6.2	1.1
Chile*	0.0	0.2	8.2
Colombia*	0.1	0.0	19.9
Mexico*	2.1	0.8	16.0
Peru*	0.0	0.1	11.1
United States	0.3	--	--
Venezuela*	--	0.0	4.2
Other			
Egypt*	0.3 %	--	--
Israel*	0.4	0.4 %	6.9 %
Jordan*	--	0.0	-0.8
South Africa*	2.1	1.1	-6.5
Turkey*	0.5	0.2	9.5
Other Countries*	0.2	0.2	0.0
Cash			
Cash	2.8 %	--	--
Total	100.0 %	100.0 %	3.9 %
Developed	80.5	86.1	
Emerging*	16.7	13.9	
Cash	2.8	--	

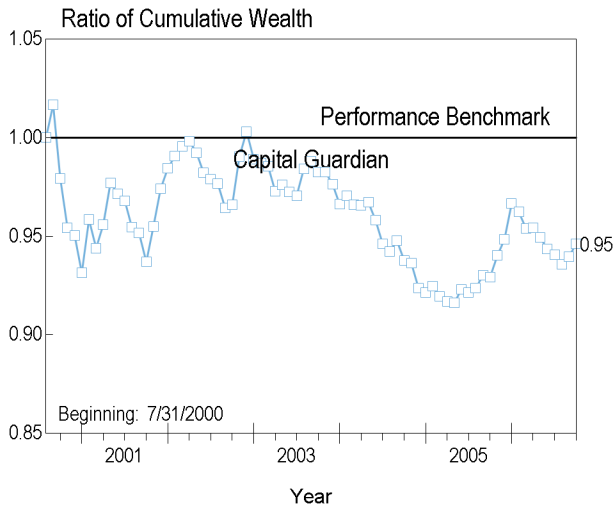
*Emerging market countries

CAPITAL GUARDIAN

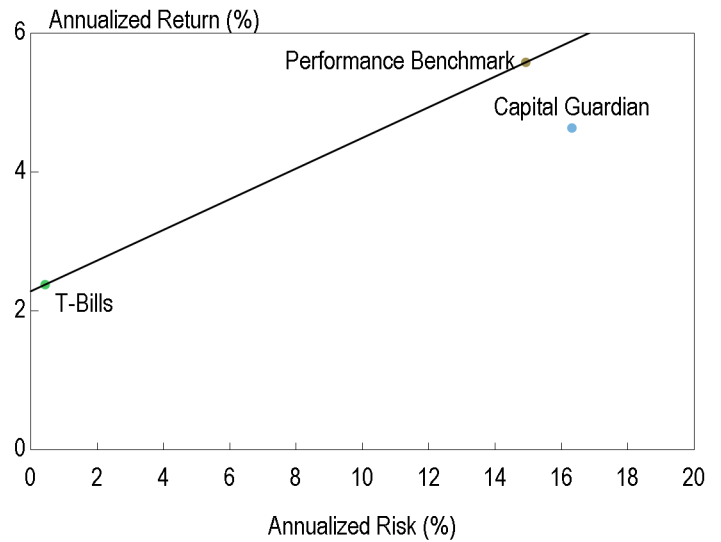
\$241.6 Million and 8.6% of Fund

Third Quarter 2006

**RATIO OF CUMULATIVE WEALTH
6 YEARS 2 MONTHS ENDING 09/30/06**



**ANNUALIZED RISK RETURN
6 YEARS 2 MONTHS ENDING 09/30/06**



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.

CAPITAL GUARDIAN**\$241.6 Million and 8.6% of Fund****Third 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	29	-21.4	55	4.4
2002	-15.4	54	-15.8	57	0.4
2003	37.5	45	40.8	22	-3.3
2004	15.3	70	20.9	28	-5.6
2005	22.3	11	16.6	39	5.7
2006 (9 months)	11.5	79	13.9	52	-2.4
Trailing 1-Year	21.0 %	23	18.9 %	53	2.1
Trailing 3-Year	21.9	45	23.4	30	-1.5
Trailing 5-Year	15.5	39	15.3	40	0.2
Since Inception (7/31/00)	4.6	--	5.6	--	-1.0

SPRUCEGROVE

\$140.4 Million and 5.0% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Sprucegrove	6.0%	9	15.6%	26	20.1%	32	23.4%	30	16.9%	19	3/31/02
MSCI EAFE Index	3.9	48	14.5	43	19.2	45	22.3	42	14.1	49	

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 third-quarter return exceeded that of the benchmark by 2.1 percentage points. The portfolio's results were helped by their out-of-benchmark allocation to emerging markets and their significant underweight exposure (10.8% vs. 23.6% for the Index) to Japan. Additionally, the manager's holdings within the UK outperformed and aided results through the quarter.

Notable performing securities within the Sprucegrove portfolio during the third quarter included DSG International (+31.6%), Allied Irish Banks (+28.7%), and Nestle (+26.3%).

The manager's longer term returns shown above have exceeded the returns of the MSCI EAFE Index.

Third Quarter 2006

COUNTRY ALLOCATION/RETURNS
3 MONTHS ENDING 09/30/06

	Manager Allocation	Index Allocation	Index Return
Europe			
Austria	--	0.6 %	3.4 %
Belgium	--	1.2	11.3
Czech Republic*	--	0.0	4.7
Denmark	0.5 %	0.8	8.7
Finland	0.3	1.4	1.2
France	3.5	10.0	4.9
Germany	3.6	7.1	4.8
Greece	1.1	0.6	5.1
Hungary*	0.8	0.0	2.5
Ireland	6.8	0.8	8.7
Italy	2.9	3.8	4.5
Netherlands	3.5	3.5	10.8
Norway	0.2	0.8	-6.2
Poland*	--	0.0	6.0
Portugal	--	0.3	7.2
Russia*	--	0.0	0.4
Spain	2.2	4.0	12.2
Sweden	--	2.4	6.9
Switzerland	10.8	7.1	7.4
United Kingdom	25.0	23.9	4.2
Asia/Pacific			
Australia	2.3 %	5.2 %	2.6 %
China*	0.7	0.0	8.8
Hong Kong	5.0	1.7	6.3
India*	--	0.0	18.1
Indonesia*	--	0.0	18.5
Japan	10.8	23.6	-0.7
Korea*	2.3	0.0	5.5
Malaysia*	0.5	0.0	5.9
New Zealand	--	0.2	8.3
Pakistan*	--	0.0	6.7
Philippines*	--	0.0	27.6
Singapore	3.5	0.8	6.9
Sri Lanka*	--	0.0	7.5
Taiwan, China*	--	0.0	3.4
Thailand*	--	0.0	6.7
Americas			
Argentina*	--	0.0 %	-6.7 %
Brazil*	2.0 %	0.0	-1.3
Canada	3.6	0.0	1.1
Chile*	--	0.0	8.2
Colombia*	--	0.0	19.9
Mexico*	3.8	0.0	16.0
Peru*	--	0.0	11.1
Venezuela*	--	0.0	4.2
Other			
Israel*	--	0.0 %	6.9 %
Jordan*	--	0.0	-0.8
South Africa*	0.8 %	0.0	-6.5
Turkey*	--	0.0	9.5
Cash			
Cash	3.3 %	--	--
Total	100.0 %	100.0 %	3.9 %
Developed	85.8	100.0	
Emerging*	10.9	0.0	
Cash	3.3	--	

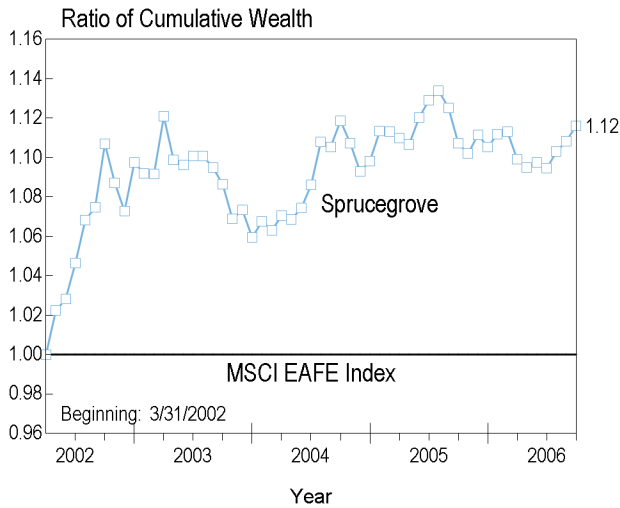
*Emerging market countries

SPRUCEGROVE

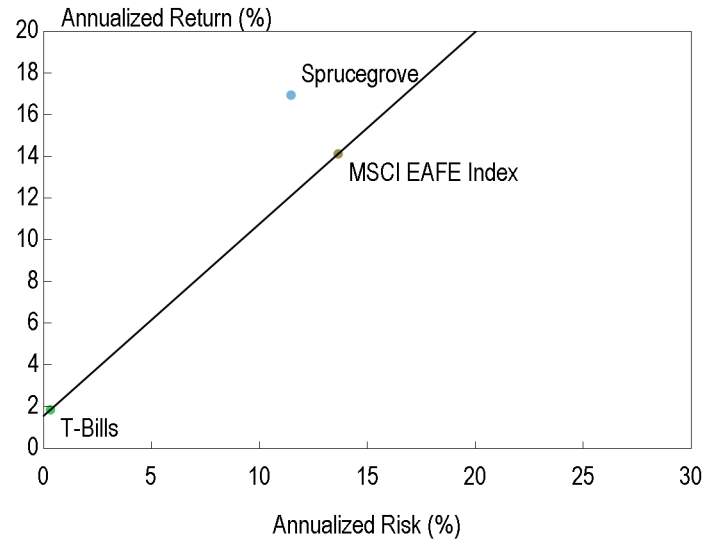
\$140.4 Million and 5.0% of Fund

Third Quarter 2006

**RATIO OF CUMULATIVE WEALTH
4 YEARS 6 MONTHS ENDING 09/30/06**



**ANNUALIZED RISK RETURN
4 YEARS 6 MONTHS ENDING 09/30/06**



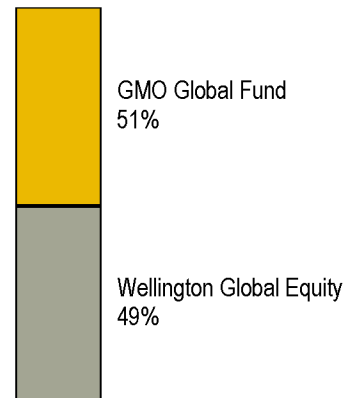
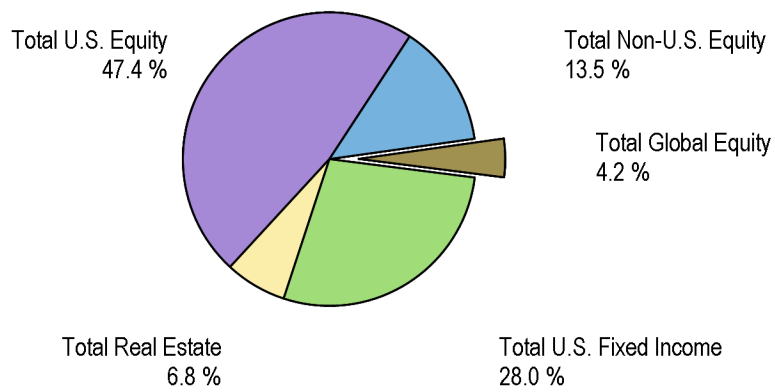
The graph above illustrates that Sprucegrove's performance has exceeded that of the Index since inception.

The chart shown above depicts the historical risk (volatility of returns) and return of Sprucegrove and the benchmark. As shown, the manager has produced a greater return than the benchmark at a modestly lower amount of risk.

TOTAL GLOBAL EQUITY
\$119.2 Million and 4.2% of Fund

Third Quarter 2006

ASSET ALLOCATION
ACTUAL AS OF 09/30/06

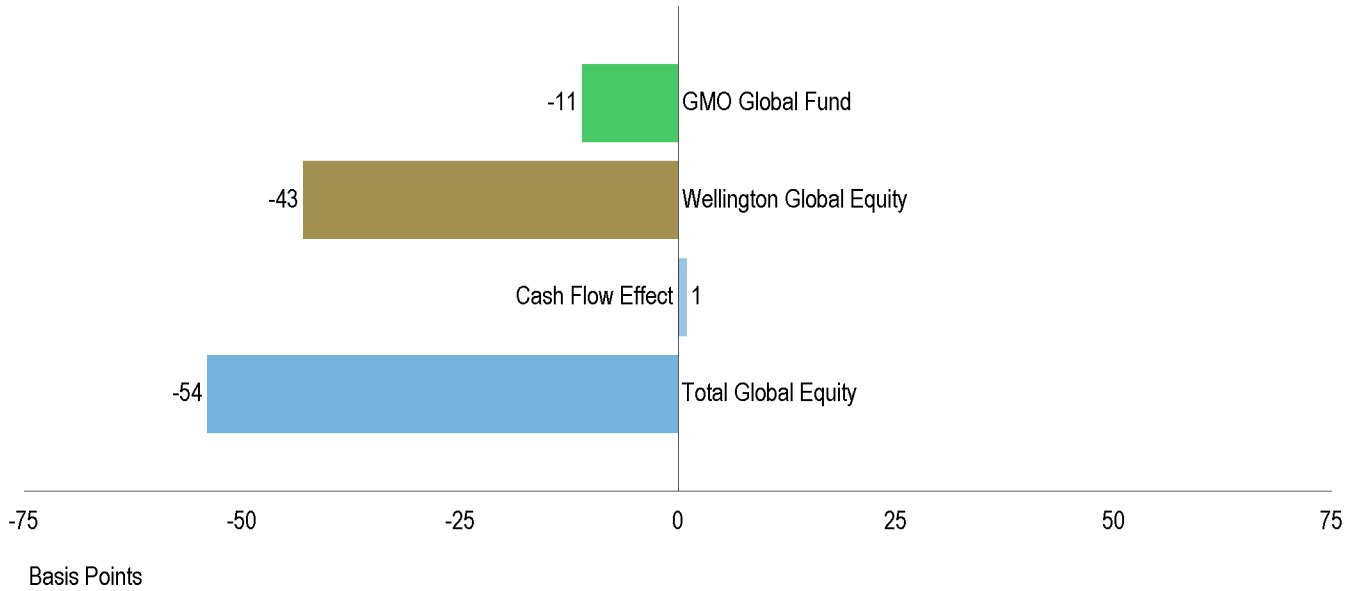


TOTAL GLOBAL EQUITY

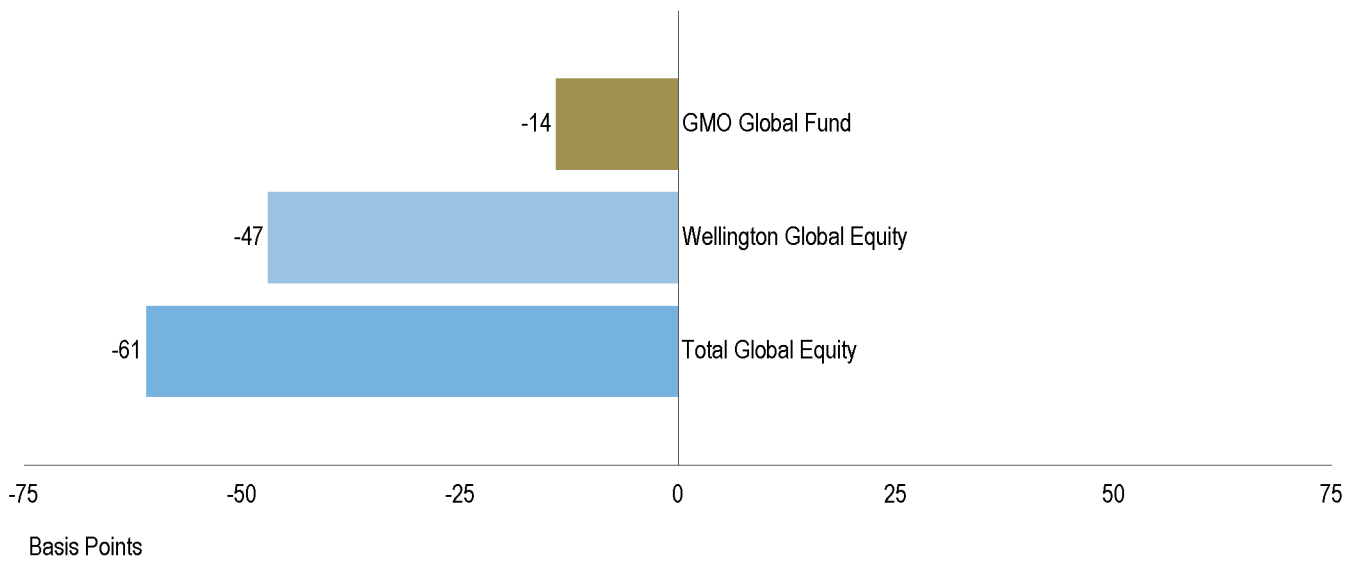
\$119.2 Million and 4.2% of Fund

Third Quarter 2006

MANAGER ATTRIBUTION ANALYSIS 3 MONTHS ENDING 09/30/06



MANAGER ATTRIBUTION ANALYSIS 9 MONTHS ENDING 09/30/06



Third Quarter 2006

During the quarter, the global equity market, as represented by the MSCI All-Country World Index, returned 4.5%. Performance was driven by the U.S. equity market, representing roughly half of the benchmark. The collective return of emerging market countries also helped performance.

The total global equity portfolio return of 4.0% during the third quarter trailing the return of the MSCI All-Country World Index. Both managers detracted from results.

VCERA allocated a policy weight of 4.0% to the global equity segment of the market during the second quarter of 2005.

TOTAL GLOBAL EQUITY

\$119.2 Million and 4.2% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Total Global Equity	4.0 %	56	10.3 %	48	12.8 %	69	16.6 %	--	4/30/05
MSCI All-Country World Index	4.5	38	10.9	44	14.6	45	18.3	--	
GMO Global Fund	4.3	47	10.6	46	13.4	63	17.6	--	4/30/05
MSCI All-Country World Index	4.5	38	10.9	44	14.6	45	18.3	--	
Wellington Global Equity	3.6	60	9.9	50	12.2	74	15.7	--	5/31/05
MSCI All-Country World Index	4.5	38	10.9	44	14.6	45	17.9	--	

Third Quarter 2006

RETURN SUMMARY
ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
GMO Global Fund	4.3 %	47	10.6 %	46	13.4 %	63	17.6 %	--	4/30/05
MSCI All-Country World Index	4.5	38	10.9	44	14.6	45	18.3	--	

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 4.3% during the third quarter and underperformed the benchmark by 0.2 percentage points. An underweight allocation to the U.S. (33.9% versus the Index's 46.1%) detracted from relative performance as the U.S. outperformed other major developed markets. The manager's overweight exposure to Japan was also a drag on performance as the country returned -0.7% for the quarter. However, the manager noted that its exposure to emerging markets and currency-hedged international equities helped mitigate these losses.

The portfolio continued to be underweight U.S. securities in favor of international equities which as mentioned above hindered results during the third quarter. However, this position has helped results over the longer periods shown above as international equities have outperformed.

Performance over the since-inception period trailed the return of the Index.

WELLINGTON

\$58.8 Million and 2.1% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Wellington Global Equity	3.6 %	60	9.9 %	50	12.2 %	74	15.7 %	--	5/31/05
MSCI All-Country World Index	4.5	38	10.9	44	14.6	45	17.9	--	

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 third quarter return lagged that of the MSCI All-Country World Index by 0.9 percentage points. Stock selection in six of ten sectors was negative leading to the quarter's poor results. Energy, materials, and telecommunication stocks were the periods largest detractors. Key holdings within these sectors that hindered results included energy holdings Petro-Canada (Canada), Statoil (Norway), materials company Cia Vale do Rio Doce (Brazil), and telecommunication stock Sprint Nextel (U.S). On the other hand, strong stock selection in financials and industrial sectors aided results. The manager's overweight position to the U.S. and underweight allocation to Japan were also additive in the third quarter.

Since inception, the manager's return lagged that of the benchmark by 2.2 percentage points.

Third Quarter 2006

COUNTRY ALLOCATION RETURNS

3 MONTHS ENDING 09/30/06

	Manager Allocation	Index Allocation	Index Return
Europe			
Austria	--	0.2 %	3.4 %
Belgium	--	0.5	11.3
Czech Republic*	--	0.1	4.7
Denmark	--	0.3	8.7
Finland	--	0.6	1.2
France	8.7 %	4.3	4.9
Germany	4.4	3.1	4.8
Greece	--	0.3	5.1
Hungary*	--	0.1	2.5
Ireland	1.5	0.4	8.7
Italy	2.1	1.7	4.5
Netherlands	2.5	1.5	10.8
Norway	1.0	0.4	-6.2
Poland*	--	0.1	6.0
Portugal	--	0.1	7.2
Russia*	1.5	0.8	0.4
Spain	2.5	1.7	12.2
Sweden	1.3	1.0	6.9
Switzerland	3.8	3.1	7.4
United Kingdom	5.4	10.3	4.2
Asia/Pacific			
Australia	1.1 %	2.3 %	2.6 %
China*	0.3	0.7	8.8
Hong Kong	0.5	0.7	6.3
India*	--	0.5	18.1
Indonesia*	--	0.1	18.5
Japan	6.2	10.2	-0.7
Korea*	1.0	1.3	5.5
Malaysia*	--	0.2	5.9
New Zealand	--	0.1	8.3
Pakistan*	--	0.0	6.7
Philippines*	0.4	0.0	27.6
Singapore	--	0.4	6.9
Sri Lanka*	--	0.0	7.5
Taiwan, China*	0.7	1.0	3.4
Thailand*	--	0.1	6.7
Americas			
Argentina*	--	0.1 %	-6.7 %
Brazil*	1.2 %	0.7	-1.3
Canada	2.5	3.3	1.1
Chile*	--	0.1	8.2
Colombia*	--	0.0	19.9
Mexico*	--	0.5	16.0
Peru*	--	0.0	11.1
United States	50.2	46.1	5.2
Venezuela*	--	0.0	4.2
Other			
Israel*	--	0.2 %	6.9 %
Jordan*	--	0.0	-0.8
South Africa*	0.2 %	0.6	-6.5
Turkey*	0.7	0.1	9.5
Other Countries*	--	0.1	0.0
Cash			
Cash	0.3 %	--	--
Total	100.0 %	100.0 %	4.5 %
Developed	93.8	92.5	
Emerging*	5.9	7.5	
Cash	0.3	--	

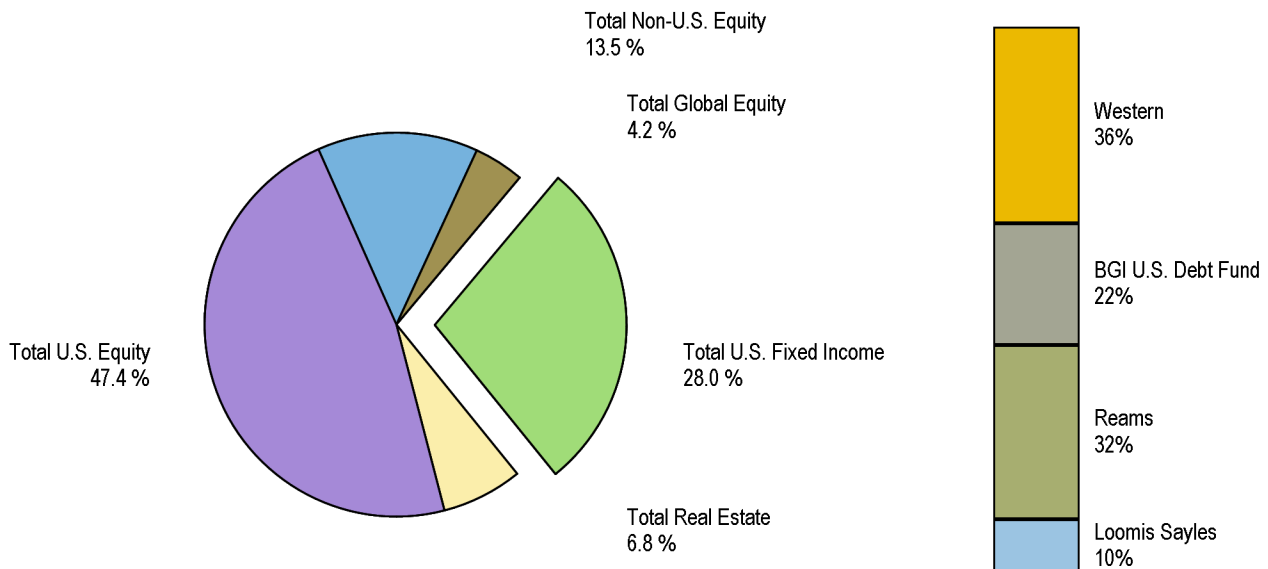
*Emerging market countries

TOTAL U.S. FIXED INCOME

\$790.9 Million and 28.0% of Fund

Third Quarter 2006

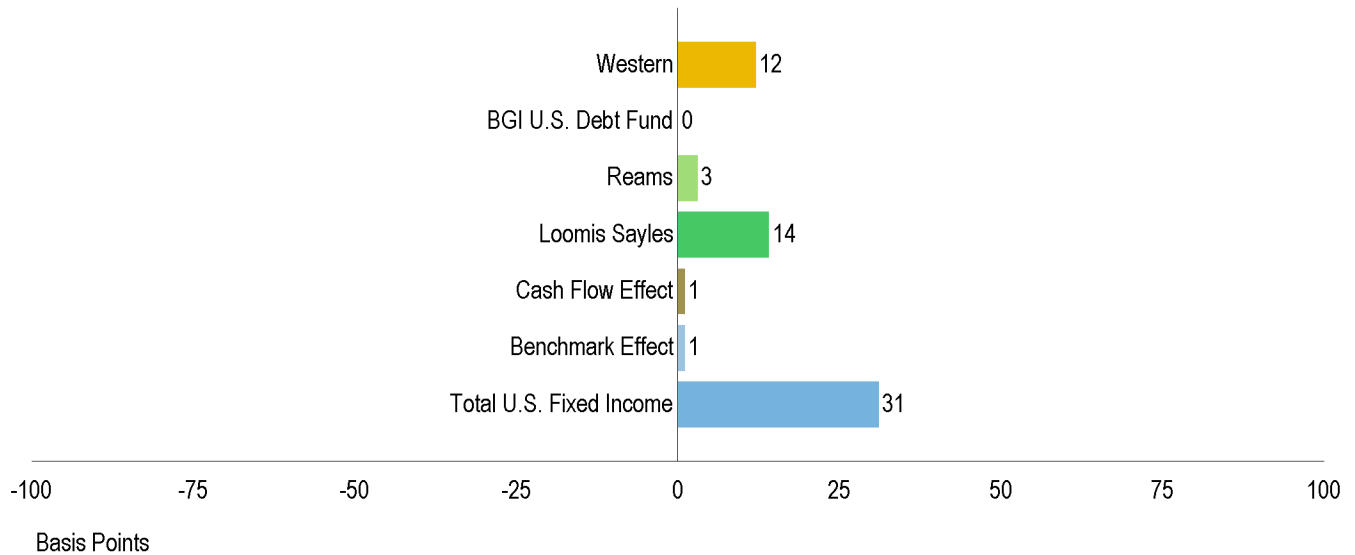
ASSET ALLOCATION ACTUAL AS OF 09/30/06



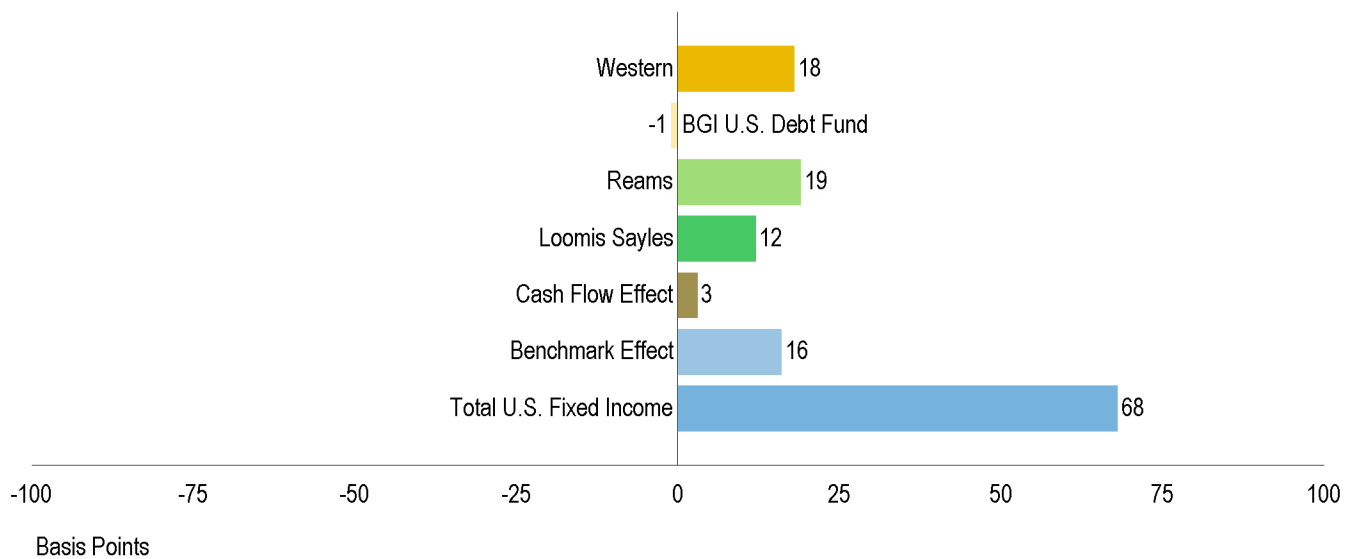
TOTAL U.S. FIXED INCOME
\$790.9 Million and 28.0% of Fund

Third Quarter 2006

MANAGER ATTRIBUTION ANALYSIS
3 MONTHS ENDING 09/30/06



MANAGER ATTRIBUTION ANALYSIS
9 MONTHS ENDING 09/30/06



TOTAL U.S. FIXED INCOME

\$790.9 Million and 28.0% of Fund

Third Quarter 2006

The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, increased 3.8% during the quarter. All major sectors within the Index posted material gains. The Fed met on September 20th and did not raise the federal funds rate for the second consecutive meeting. The last two 'non-increases' came on the heels of 17 consecutive quarter-point rate hikes over the last two-plus years.

The fixed income portfolio's performance exceeded that of the Lehman Brothers Aggregate Bond Index during the quarter. All fixed income managers aided results during the quarter, with Loomis Sayles and Western adding the most relative performance.

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 which approximated the benchmark.

TOTAL U.S. FIXED INCOME

\$790.9 Million and 28.0% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		5 Years Ending 9/30/06		10 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Total U.S. Fixed Income	4.1 %	23	3.7 %	21	4.6 %	23	4.3 %	35	5.4 %	38	6.7 %	35	6.3 %	--	2/28/94
LB Aggregate Bond Index	3.8	53	3.1	64	3.7	58	3.4	75	4.8	68	6.4	65	6.3	--	
Western	4.1	7	3.6	13	4.0	20	5.0	7	6.3	6	--	--	7.1	4	12/31/96
LB Aggregate Bond Index	3.8	37	3.1	44	3.7	51	3.4	68	4.8	56	--	--	6.3	42	
BGI U.S. Debt Fund	3.8	37	3.0	52	3.6	56	3.4	69	4.8	56	6.4	46	6.1	--	11/30/95
LB Aggregate Bond Index	3.8	37	3.1	44	3.7	51	3.4	68	4.8	56	6.4	44	6.1	--	
Reams	3.9	17	3.7	8	5.3	2	4.5	8	4.9	50	--	--	4.9	50	9/30/01
LB Aggregate Bond Index	3.8	37	3.1	44	3.7	51	3.4	68	4.8	56	--	--	4.8	56	
Loomis Sayles	5.3	--	6.1	--	6.0	--	--	--	--	--	--	--	5.9	--	7/31/05
Performance Benchmark	3.9	--	4.8	--	5.4	--	--	--	--	--	--	--	4.5	--	

WESTERN

\$284.8 Million and 10.1% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		5 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Western	4.1 %	7	3.6 %	13	4.0 %	20	5.0 %	7	6.3 %	6	7.1 %	4	12/31/96
LB Aggregate Bond Index	3.8	37	3.1	44	3.7	51	3.4	68	4.8	56	6.3	42	

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.

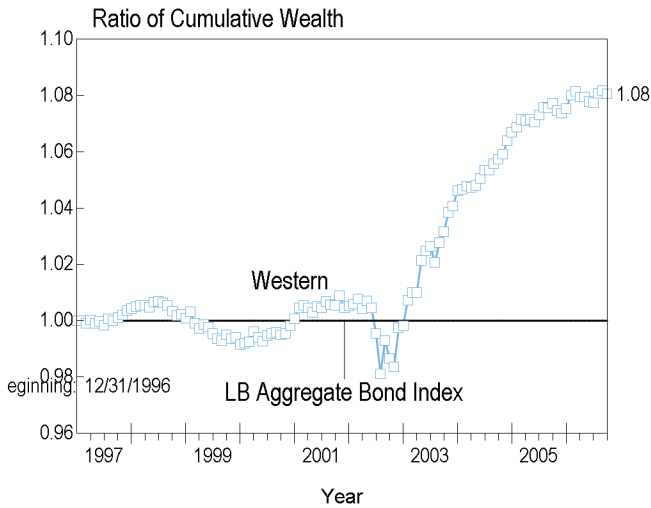
Commentary on Investment Performance

Western's third-quarter return of 4.1% exceeded that of the LB Aggregate Bond Index by approximately 30 basis points. Tactical duration trading was a significant contributor during the third quarter. Western held a long duration position for much of the quarter as interest rates fell. They moved to a short duration position in September when they felt that the market overreacted to fears of an economic slowdown. As of quarter-end, the fund was approximately 0.3 years short versus the Index. On a sector basis, an overweight allocation to mortgage-backed securities contributed to performance as this sector outpaced Treasuries. The fund's high yield exposure, particularly to the auto industry, aided performance as well. An underweight allocation to the credit sector detracted from relative results. However, this loss was mitigated by Western's lower-quality focus in this sector.

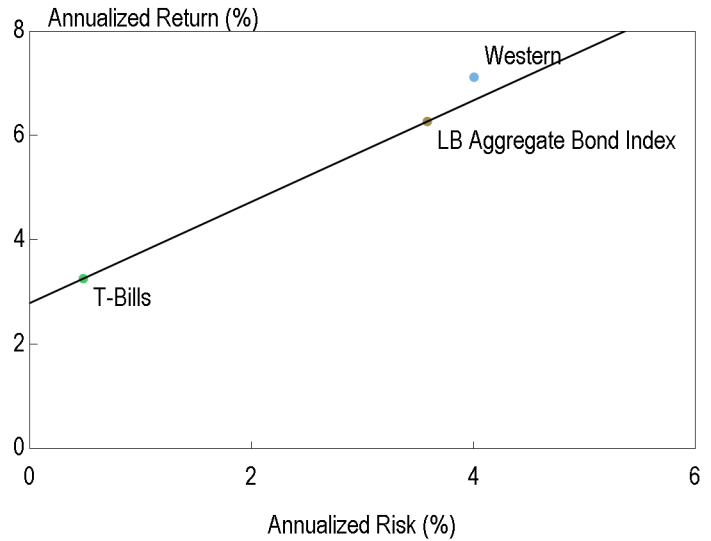
The manager has added a significant level of value during all longer time periods analyzed and ranks well within a universe of its fixed income peers.

Third Quarter 2006

**RATIO OF CUMULATIVE WEALTH
9 YEARS 9 MONTHS ENDING 09/30/06**



**ANNUALIZED RISK RETURN
9 YEARS 9 MONTHS ENDING 09/30/06**



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.

WESTERN

\$284.8 Million and 10.1% of Fund

Third Quarter 2006

HISTORICAL RETURNS

(BY YEAR)

	Western		LB Aggregate Bond Index		Return Difference
	Return	Rank	Return	Rank	
1997	10.1 %	31	9.7 %	58	0.4
1998	8.3	57	8.7	42	-0.4
1999	-1.7	80	-0.8	53	-0.9
2000	12.6	10	11.6	43	1.0
2001	8.9	15	8.4	38	0.5
2002	9.5	44	10.3	24	-0.8
2003	9.1	6	4.1	69	5.0
2004	6.4	6	4.3	58	2.1
2005	3.2	8	2.4	58	0.8
2006 (9 months)	3.6	13	3.1	44	0.5
Trailing 1-Year	4.0 %	20	3.7 %	51	0.3
Trailing 3-Year	5.0	7	3.4	68	1.6
Trailing 5-Year	6.3	6	4.8	56	1.5
Since Inception (12/31/96)	7.1	4	6.3	42	0.8

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 6/30/06	% at 9/30/06	% at 9/30/06	Third Quarter Return
Sector Weightings:				
Treasury/Agency	16%	18%	37%	3.7%
Corporate	21	24	23	4.5
Mortgage-Related	48	47	39	3.6
Asset-Backed	1	1	1	2.9
Foreign Bonds	6	6	--	--
Other	--	--	--	--
Cash & Equiv.	8	4	--	--
Total	100 %	100 %	100 %	3.8%
Average Duration	5.4 years	4.3 years	4.6 years	--

BGI U.S. DEBT FUND**\$176.4 Million and 6.3% of Fund****Third Quarter 2006****RETURN SUMMARY
ENDING 09/30/06**

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		10 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
BGI U.S. Debt Fund	3.8 %	37	3.0 %	52	3.6 %	56	3.4 %	69	6.4 %	46	6.1 %	--	11/30/95
LB Aggregate Bond Index	3.8	37	3.1	44	3.7	51	3.4	68	6.4	44	6.1	--	

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

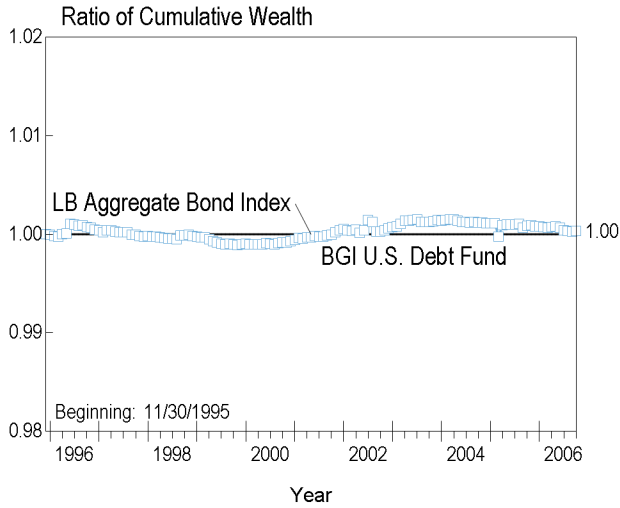
The BGI U.S. Debt Fund successfully tracked the performance of the Aggregate Bond Index during the third quarter. The longer-term returns shown above also successfully tracked those of the Aggregate Bond Index.

BGI U.S. DEBT FUND

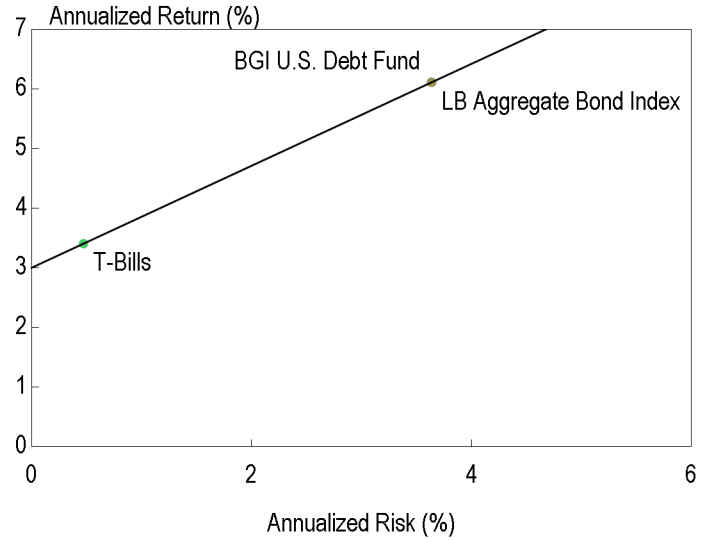
\$176.4 Million and 6.3% of Fund

Third Quarter 2006

RATIO OF CUMULATIVE WEALTH
10 YEARS 10 MONTHS ENDING 09/30/06



ANNUALIZED RISK RETURN
10 YEARS 10 MONTHS ENDING 09/30/06



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**\$176.4 Million and 6.3% of Fund****Third 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	48	3.6	50	0.1
1997	9.6	62	9.7	58	-0.1
1998	8.7	43	8.7	42	0.0
1999	-0.9	55	-0.8	53	-0.1
2000	11.7	41	11.6	43	0.1
2001	8.6	34	8.4	38	0.2
2002	10.3	24	10.3	24	0.0
2003	4.2	68	4.1	69	0.1
2004	4.3	59	4.3	58	0.0
2005	2.4	60	2.4	58	0.0
2006 (9 months)	3.0	52	3.1	44	-0.1
Trailing 1-Year	3.6 %	56	3.7 %	51	-0.1
Trailing 3-Year	3.4	69	3.4	68	0.0
Trailing 5-Year	4.8	56	4.8	56	0.0
Since Inception (11/30/95)	6.1	--	6.1	--	0.0

REAMS

\$252.6 Million and 9.0% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter		Year-To-Date		1 Year Ending 9/30/06		3 Years Ending 9/30/06		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Reams	3.9 %	17	3.7 %	8	5.3 %	2	4.5 %	8	4.9 %	50	9/30/01
LB Aggregate Bond Index	3.8	37	3.1	44	3.7	51	3.4	68	4.8	56	

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

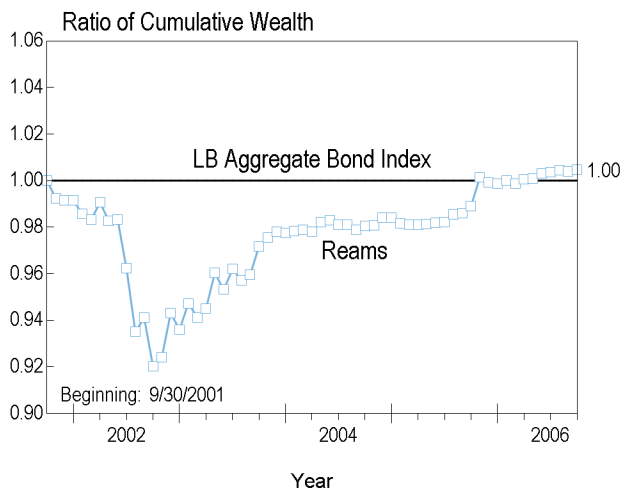
Reams outperformed the Lehman Aggregate Bond Index by approximately 10 basis points during the third quarter. On a sector basis, the manager's strategic overweight allocation to mortgage securities helped relative performance while its strategic underweight to corporates detracted as both sectors outpaced Treasury securities. The portfolio also benefited from positive security selection in the high yield sector, more specifically in the auto industry. The manager was slightly longer in duration as of quarter-end (4.7 years versus the Index's 4.6 years).

The portfolio's one-year performance exceeded that of the Index by 1.6 percentage points. The result was aided heavily by the proceeds from the WorldCom settlement which occurred during the fourth quarter of 2005.

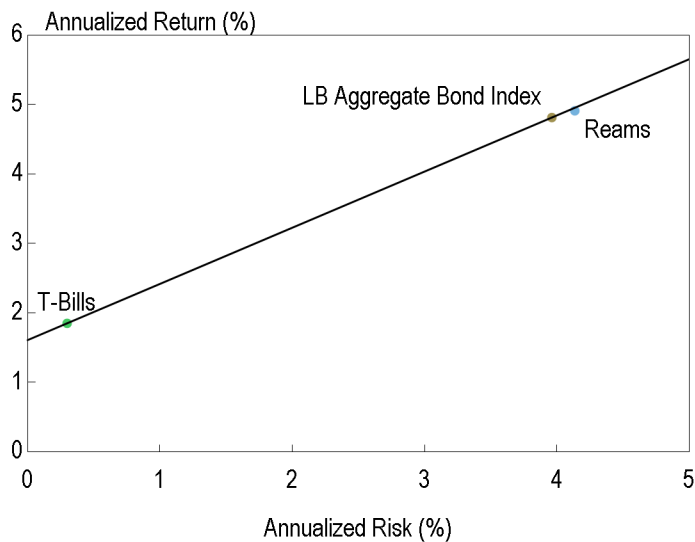
The manager's long-term results shown above all compare favorably versus those of the Index.

Third Quarter 2006

**RATIO OF CUMULATIVE WEALTH
5 YEARS ENDING 09/30/06**



**ANNUALIZED RISK RETURN
5 YEARS ENDING 09/30/06**



The graph on the left illustrates that Reams' performance has slightly exceeded that of the Index since inception.

The second graph depicts the historical risk (volatility of returns) and return of Reams and the benchmark. As shown, since the inception of the strategy, the manager's performance slightly exceeded that of the benchmark with a moderately lower level of volatility.

REAMS

\$252.6 Million and 9.0% of Fund

Third Quarter 2006

HISTORICAL RETURNS

(BY YEAR)

	Reams		LB Aggregate Bond Index		Return Difference
	Return	Rank	Return	Rank	
2001 (3 months)	-0.8 %	91	0.0 %	53	-0.8
2002	4.1	98	10.3	24	-6.2
2003	8.7	7	4.1	69	4.6
2004	5.0	22	4.3	58	0.7
2005	3.9	5	2.4	58	1.5
2006 (9 months)	3.7	8	3.1	44	0.6
Trailing 1-Year	5.3 %	2	3.7 %	51	1.6
Trailing 3-Year	4.5	8	3.4	68	1.1
Since Inception (9/30/01)	4.9	50	4.8	56	0.1

The table above shows Reams' historical performance relative to that of the Index. Since inception, the manager has matched the benchmark.

	Reams Fixed Income Portfolio		LB Aggregate Bond Index	
	% at 6/30/06	% at 9/30/06	% at 9/30/06	Third Quarter Return
Sector Weightings:				
Treasury/Agency	17%	13%	37%	3.7%
Corporate	17	18	23	4.5
Mortgage-Related	57	64	39	3.6
Asset-Backed	--	--	1	2.9
Foreign Bonds	--	--	--	--
Other	--	--	--	--
Cash & Equiv.	9	5	--	--
Total	100 %	100 %	100 %	3.8%
Average Duration	5.1 years	4.7 years	4.6 years	--

Third Quarter 2006

**RETURN SUMMARY
ENDING 09/30/06**

	Third Quarter	Year-To-Date	1 Year Ending 9/30/06	Since Inception	Inception Date
Loomis Sayles	5.3 %	6.1 %	6.0 %	5.9 %	7/31/05
Performance Benchmark	3.9	4.8	5.4	4.5	
LB Aggregate Bond Index	3.8	3.1	3.7	3.4	

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 third quarter by 1.4 percentage points. The manager's long-duration position contributed to relative performance as bonds rallied and interest rates fell. Loomis Sayles extended duration from 4.9 years in late June to 6.5 years as of the end of the third quarter. Duration was extended primarily through purchases of long-term corporate bonds. Positive security selection in the high yield sector, particularly in the auto industry, aided third-quarter results as well. Within the non-U.S. sector, local-currency denominated debt in New Zealand helped relative performance.

Loomis Sayles longer term results shown above have all exceeded their performance benchmark.

TOTAL REAL ESTATE

\$192.0 Million and 6.8% of Fund

Third Quarter 2006

RETURN SUMMARY

ENDING 09/30/06

	Third Quarter	Year-To-Date	1 Year Ending 9/30/06	3 Years Ending 9/30/06	5 Years Ending 9/30/06	Since Inception	Inception Date
Total Real Estate	3.6 %	10.6 %	20.8 %	15.5 %	12.6 %	11.5 %	3/31/94
Policy Benchmark	3.5	11.3	17.3	16.3	12.4	11.6	
NCREIF Open End Fund Index	3.5	11.3	16.2	15.5	11.9	11.7	
Prudential Real Estate	3.4	11.2	27.9	--	--	12.1	6/30/04
Policy Benchmark	3.5	11.3	17.3	--	--	17.8	
UBS Real Estate	3.7	10.0	14.9	15.3	--	14.4	3/31/03
NCREIF Open End Fund Index	3.5	11.3	16.2	15.5	--	14.6	
Guggenheim	4.7	--	--	--	--	4.7	6/30/06
Performance Benchmark	5.2	--	--	--	--	5.2	

The total real estate portfolio exceeded its policy benchmark by 10 basis points as two of the three managers outperformed their benchmarks during the third quarter. Guggenheim which was funded with \$25 million at the end of the second quarter experienced strong absolute results during its first quarter managing money for VCERA but underperformed its benchmark by 0.5 percentage points.

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 Fiduciaries (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.

Third Quarter 2006

RETURN SUMMARY
ENDING 09/30/06

	Third Quarter	Year-To-Date	1 Year Ending 9/30/06	Since Inception	Inception Date
Prudential Real Estate	3.4 %	11.2 %	27.9 %	12.1 %	6/30/04
Policy Benchmark	3.5	11.3	17.3	17.8	
PRISA Fund I	3.3	11.0	17.6	19.6	3/31/05
NCREIF Open End Fund Index	3.5	11.3	16.2	17.7	

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 30%, retail 17%, industrial 20%, apartments 19%, self-storage 9%, and hotels 5%.

Commentary on Investment Performance

Prudential's PRISA product returned 3.3% during the third quarter, trailing the NCREIF Property Index by 0.2 percentage points. The manager points to declining income in their suburban office properties as a main reason for the underperformance. The decreasing income levels are a result of several large lease expirations totaling approximately 260,000 square feet of office space. All three properties have new leases set to begin in the fourth quarter of this year, which should help bring income levels back to their previous levels. The fund currently stands at \$9.8 billion in net assets and is 17.6% levered. The fund's allocations among property types and geographic regions remained largely unchanged from recent quarters.

The manager sold four investments during the quarter, consisting of an apartment community, an office complex, and an industrial building. These sales are consistent with the manager's plan to dispose of older properties with limited growth potential. The fund acquired a multiple properties across all property types, totaling \$1.0 billion in new investments. The bulk of these acquisitions was the purchase of two industrial portfolios in California totaling \$640 million.

There is still a small interest in the Soule Park Golf Course (approximately \$81,000) which was inherited by INVESCO from the legacy portfolio.

UBS REALTY

\$88.8 Million and 3.2% of Fund

Third Quarter 2006

RETURN SUMMARY ENDING 09/30/06

	Third Quarter	Year-To-Date	1 Year Ending 9/30/06	3 Years Ending 9/30/06	Since Inception	Inception Date
UBS Real Estate	3.7 %	10.0 %	14.9 %	15.3 %	14.4 %	3/31/03
NCREIF Open End Fund Index	3.5	11.3	16.2	15.5	14.6	
NCREIF NPI	3.5	11.6	17.6	16.4	15.2	

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 31%, retail 25%, industrial 9%, apartments 28%, and hotels 7%.

Commentary on Investment Performance

RESA experienced gains of 3.7% during the quarter, exceeding the NCREIF Property Index by 0.2 percentage points. The main contributor to performance was the Fund's overweight allocation to the hotel sector, which significantly outperformed the broad Index. As of September 30, the fund reported total assets of approximately \$10.1 billion while employing leverage equal to 10.0% of the fund's total value. RESA's portfolio currently holds 145 properties. UBS reports that current property type and geographic allocations are in line with long term targets. They will, however, increase their allocation to properties located in the Midwest region as opportunities arise.

During the third quarter, RESA acquired five new investments totaling \$219.5 million while assuming an additional \$25.6 million in debt. The acquired properties consist of an office property, an apartment community, and three industrial properties. Most of the newly acquired properties are located in the Eastern region of the U.S. The Fund disposed of two properties during the quarter for total net sales of \$29.8 million.

Third Quarter 2006

RETURN SUMMARY
ENDING 09/30/06

	Third Quarter	Since Inception	Inception Date
Guggenheim	4.7 %	4.7 %	6/30/06
Performance Benchmark	5.2	5.2	

Portfolio Characteristics

The Guggenheim Real Estate PLUS Strategy invests 70% of its assets in private real estate equity and 30% of its assets in public real estate securities. The firm employs considerable leverage in implementing the strategy, both through its REIT holdings and its limited partnership investments. The manager attempts to add value through exploiting pricing differentials between public and private real estate markets and emphasizes diversification both in structure of investment vehicles as well as by property type and location.

The benchmark for this strategy comprises 70% of the NCREIF Index and 30% of the NAREIT Index, reflective of the blend between public and private real estate that characterizes the strategy.

Commentary on Investment Performance

Guggenheim experienced gains of 4.7% during the quarter, trailing the returns of its performance benchmark during the period by 50 basis points during the period. The manager stated that results were hindered by the relative performance of their small cap REIT strategy. In the third quarter, Guggenheim held an overweight to small cap REITs, which underperformed their large cap counterparts by a wide margin. As of September 30, the fund reported total assets of approximately \$2.3 billion while employing leverage equal to 42.4% of the fund's total value.

During the third quarter, Guggenheim acquired eleven new investments consisting of seven office properties, two retail properties, and two industrial properties. Additionally, an initial investment was made in TIAA-CREF Asset Management Core Property Fund and a mezzanine loan investment was made. The newly acquired properties were located broadly across the United States.

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RETURNS OF THE MAJOR CAPITAL MARKETS

RETURNS OF THE MAJOR CAPITAL MARKETS

	Third Quarter	Annualized Periods Ending 9/30/06			
		1-Year	3-Year	5-Year	10-Year
Stock Indices:					
DJ Wilshire 5000 Index	4.5 %	10.4 %	13.3 %	8.6 %	8.6 %
S&P 500 Index	5.7	10.8	12.3	7.0	8.6
Russell 3000 Index	4.6	10.2	13.0	8.1	8.7
Russell 1000 Value Index	6.2	14.6	17.2	10.7	11.2
Russell 1000 Growth Index	3.9	6.0	8.4	4.4	5.5
Russell MidCap Value Index	3.5	12.3	21.2	16.6	13.7
Russell MidCap Growth Index	0.9	7.0	14.5	12.0	8.2
Russell 2000 Value Index	2.6	14.0	19.0	17.0	13.4
Russell 2000 Growth Index	-1.8	5.9	11.8	10.1	4.0
Bond Indices:					
Lehman Brothers Aggregate	3.8 %	3.7 %	3.4 %	4.8 %	6.4 %
Lehman Brothers Gov't/Credit	3.9	3.3	3.1	5.0	6.5
Lehman Brothers Long-Term Gov't/Credit	6.8	2.6	5.0	7.1	8.1
Lehman Brothers Intermed. Gov't/Credit	3.2	3.5	2.6	4.3	5.9
Lehman Brothers Mortgage Backed	3.6	4.2	3.9	4.5	6.3
Lehman Brothers 1-3 Yr Gov't	2.0	3.8	2.0	2.9	4.9
Lehman Brothers Universal	3.9	4.1	4.0	5.4	6.6
Real Estate Indices:					
NCREIF Open End Fund Index	3.5 %	16.2 %	15.5 %	11.9 %	12.4 %
Wilshire Real Estate Securities Index	9.2	28.2	27.9	23.2	16.0
Foreign Indices:					
MSCI All Country World ex-U.S. Index	3.9 %	18.9 %	23.4 %	15.9 %	7.3 %
MSCI EAFE Free	3.9	19.2	22.3	14.3	6.8
MSCI Emerging Markets	4.9	20.4	30.6	28.5	7.3
MSCI Hedged EAFE Foreign Stock Index	5.7	19.0	20.7	8.9	7.5
SSB Non U.S. World Gov't Bond	0.9	2.0	4.4	8.2	4.7
Citigroup World Gov't Bond Hedged	3.3	3.3	4.4	4.5	6.7
Cash Equivalents:					
Treasury Bills (30-Day)	1.0 %	3.6 %	2.2 %	1.8 %	3.3 %
EnnisKnupp STIF Index	1.3	4.8	2.8	2.5	4.0
Inflation Index:					
Consumer Price Index	0.0 %	2.1 %	3.1 %	2.6 %	2.5 %

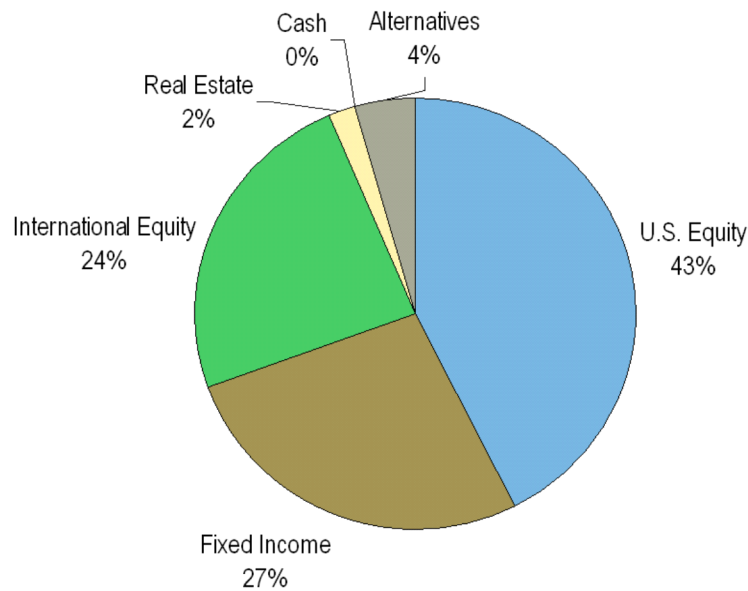
APPENDIX II

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 Mellon Analytical Solutions, and includes 58

Russell/Mellon Aggregate Public Fund as of 9/30/2006



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.

APPENDIX II

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 Mellon Analytical Solutions, 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 Mellon Analytical Solutions, 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 Mellon Analytical Solutions, 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 Mellon Analytical Solutions, 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.

APPENDIX II

Manager	Restrictions	In Compliance as of 9/30/06
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*	No - 157 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 YES
Loomis Sayles	-At least 50% of the portfolio must 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 YES YES YES YES YES YES YES 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	2	Daily	Commingled Fund
BGI Extended Market Fund	4	Daily	Commingled Fund
LSV	64	Daily	Separate Acct.
Wasatch	80	Daily	Separate Acct.
Capital Guardian	49	Monthly	Commingled Fund
Sprucegrove	42	Monthly	Commingled Fund
GMO	66	Daily	Commingled Fund
Wellington	74	Monthly	Commingled Fund
BGI U.S. Debt Fund	7	Daily	Commingled Fund
Reams	18	Daily	Seperate Acct.
Western	23	Daily	Seperate Acct.
Loomis Sayles	34	Daily	Seperate Acct.
Prudential	100	Quarterly	Commingled Fund
UBS Realty	90	Monthly	Commingled Fund
Guggenheim	225	Quarterly	Commingled Fund
Total Fund	26	--	--

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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