

# ENNISKNUPP

## PERFORMANCE REPORT

Independent  
advice for  
the institutional  
investor

Ventura County  
Employees'  
Retirement  
Association

Third Quarter 2007

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

## HIGHLIGHTS

## HIGHLIGHTS

### Third Quarter 2007

#### Market Comments

Markets had an eventful and volatile third quarter that ended on a high note. Mounting sub-prime mortgage defaults led to a crisis in debt markets. The paralysis in debt markets forced many investors to sell stocks and other assets to raise cash or shed risk. In a strong move to prevent the spillover of financial turmoil, the U.S. Federal Reserve cut its key interest rate by half a percent. The rate cut instantly revived equities, allowing the Dow Jones Wilshire 5000 Index to climb back in positive territory and finish the quarter up a modest 1.5%. On a size and style basis, large-cap stocks led the market and growth fared better than value.

Non-U.S. stocks ended the quarter modestly ahead as the MSCI All Country World ex-U.S. Index advanced 4.6%. Currency gains and Pacific Basin strength offset setbacks in Europe and Japan. Overall, materials, telecommunications, and technology stocks fared best, while credit concerns and the U.S. slowdown pressured financials and consumer discretionary stocks. Following a 17% tumble through mid-quarter as risk aversion spiked around the world, the MSCI Emerging Markets Index rallied to end the quarter up 14.4%. All sectors in the MSCI Emerging Markets Index advanced, led by materials and industrials. Energy and telecommunications stocks also outperformed, while consumer discretionary and health care stocks lagged.

The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, gained 2.8% during the quarter. Though yields swung widely in the period, investors' greater desire for safety pushed Treasuries higher and steepened the yield curve. All sectors underperformed Treasuries for the quarter. Investment grade corporate issues returned 1.8%, with financials and utilities the worst performing sub-sectors. Securitized bonds (mortgage-backed, asset-backed, and collateralized mortgage-backed securities) rose 2.6%. Outside of the Index, the extended sectors of high yield and emerging market bonds fell in July but improved markedly following the Fed's rate cut to end the quarter with returns of 0.3% and 2.0%, respectively.

#### MAJOR MARKET RETURNS

	Third Quarter	Year-To-Date	1 Year Ending 9/30/07	3 Years Ending 9/30/07
<b>Dow Jones Wilshire 5000 Index</b>	<b>1.5%</b>	<b>9.1%</b>	<b>17.0%</b>	<b>14.0%</b>
<b>MSCI All-Country World Ex-US Free</b>	<b>4.6</b>	<b>17.4</b>	<b>30.5</b>	<b>26.0</b>
MSCI EAFE Free	2.2	13.2	24.9	23.2
MSCI Emerging Markets	14.4	34.5	58.2	40.8
<b>MSCI All Country World Index</b>	<b>3.5</b>	<b>13.7</b>	<b>24.0</b>	<b>19.6</b>
<b>Lehman Brothers Aggregate Bond Index</b>	<b>2.8</b>	<b>3.8</b>	<b>5.1</b>	<b>3.9</b>

## Third Quarter 2007

**Asset Growth**

As shown below, the asset value of VCERA's Total Fund increased by approximately \$158.8 million during the quarter. The growth in assets was attributable to investment gains of \$66.3 million and net contributions of \$92.5 million.

Market Value (millions) as of 6/30/07	\$3,077.5
Income/Appreciation	66.3
Net Contributions/Withdrawals	92.5
Market Value (millions) at 9/30/07	\$3,236.3

**Asset Allocation**

The table below highlights VCERA's investment allocations relative to its policy. As of September 30, 2007, the Fund was overweight relative to its policy within the non-U.S equity, global equity, and fixed income components. A corresponding underweight was experienced within the U.S equity component. As of quarter-end, the portfolio was within the appropriate policy target ranges set forth in the Investment Policy Statement's rebalancing policy.

In July, VCERA's annual contribution of approximately \$125 million was made. \$10 million was invested into the BGI Equity Index Fund, \$9 million was invested into the BGI ACWI ex-U.S. Index Fund, and the additional \$96 million was dispersed among the Fund's fixed income managers. During the remainder of the quarter, VCERA made two withdrawals totaling \$22.5 million from the BGI Equity Index Fund to pay employees' benefits.

**ACTUAL VS. CURRENT POLICY**

	Actual Allocation	Policy Allocation	Difference
U.S. Equity	46.2%	47.0%	-0.8
Non-U.S. Equity	14.2	14.0	+0.2
Global Equity	4.5	4.0	+0.5
U.S. Fixed Income	28.2	28.0	+0.2
Real Estate	7.0	7.0	0.0

# HIGHLIGHTS

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		10 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Total Fund</b>	<b>2.0%</b>	<b>65</b>	<b>8.2%</b>	<b>83</b>	<b>14.4%</b>	<b>73</b>	<b>12.6%</b>	<b>69</b>	<b>14.2%</b>	<b>64</b>	<b>8.1%</b>	<b>44</b>	<b>10.0%</b>	<b>--</b>	<b>3/31/80</b>
Policy Portfolio	2.6	28	9.2	52	15.6	53	13.1	55	14.1	65	7.8	57	--	--	
<b>Total U.S. Equity</b>	<b>1.0</b>	<b>56</b>	<b>8.3</b>	<b>67</b>	<b>15.8</b>	<b>65</b>	<b>13.1</b>	<b>76</b>	<b>15.9</b>	<b>68</b>	<b>7.0</b>	<b>59</b>	<b>10.6</b>	<b>72</b>	<b>12/31/93</b>
Performance Benchmark*	1.5	42	9.0	51	16.7	46	13.8	52	16.2	56	6.8	64	10.9	65	
<b>Total Non-U.S. Equity</b>	<b>2.7</b>	<b>57</b>	<b>13.1</b>	<b>76</b>	<b>25.3</b>	<b>70</b>	<b>24.2</b>	<b>48</b>	<b>24.1</b>	<b>49</b>	<b>9.5</b>	<b>50</b>	<b>10.8</b>	<b>34</b>	<b>3/31/94</b>
Performance Benchmark**	4.6	16	17.4	24	30.5	25	26.0	21	25.8	24	8.9	57	9.0	72	
<b>Total Global Equity</b>	<b>3.6</b>	<b>31</b>	<b>12.1</b>	<b>43</b>	<b>21.4</b>	<b>50</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>18.6</b>	<b>--</b>	<b>4/30/05</b>
MSCI All Country World Index	3.5	32	13.7	35	24.0	35	--	--	--	--	--	--	20.6	--	
<b>Total U.S. Fixed Income</b>	<b>2.9</b>	<b>29</b>	<b>3.8</b>	<b>52</b>	<b>5.3</b>	<b>45</b>	<b>4.6</b>	<b>30</b>	<b>5.4</b>	<b>31</b>	<b>6.3</b>	<b>24</b>	<b>6.2</b>	<b>--</b>	<b>2/28/94</b>
LB Aggregate Bond Index	2.8	40	3.8	37	5.1	53	3.9	64	4.1	82	6.0	56	6.2	--	
<b>Total Real Estate</b>	<b>3.0</b>	<b>--</b>	<b>11.9</b>	<b>--</b>	<b>17.1</b>	<b>--</b>	<b>16.8</b>	<b>--</b>	<b>15.1</b>	<b>--</b>	<b>12.7</b>	<b>--</b>	<b>11.9</b>	<b>--</b>	<b>3/31/94</b>
Policy Benchmark	4.0	--	12.6	--	16.7	--	17.7	--	14.6	--	13.0	--	12.0	--	

### Commentary on Investment Performance

The table above highlights VCERA's Total Fund return for the quarter, as well as the returns for each of the individual asset class components. The ranks in the table shown above are from 1 to 99 with 1 representing the best performer and 99 the worst. The individual managers are ranked within style specific universes provided by Mellon Analytical Solutions (MAS). A description of each universe is provided in Appendix II of this report.

During the quarter, the Total Fund gained 2.0%, which lagged the result of the Policy Portfolio and the average Public Fund measured by Mellon Analytical Solutions. The underperformance was primarily a result of the less-than-benchmark performance of the U.S. equity, non-U.S. equity, and real estate components. Somewhat offsetting the period's underperformance was the strong relative return of the global equity and fixed income components.

Despite posting a double-digit gain, the Total Fund's trailing one-year return of 14.4% continued to lag the return of the Policy Portfolio and the average Public Fund. Impeding the period's relative return was underperformance within the U.S. equity, non-U.S. equity, and global equity components. The strong relative return of the fixed income and real estate components partially offset the period's poor relative results. The attribution analysis exhibits on page 18 provide additional information regarding each sub-components' contribution to performance during the quarter and trailing one-year period.

Longer-term relative performance of the Total Fund remained mixed. While the Fund's trailing three-year return lagged those of the benchmark, the trailing five- and ten-year returns modestly exceeded the Policy Portfolio.

\*The DJ Wilshire 5000 Index. Prior to May 2007, the Russell 3000 Index

\*\*The MSCI All Country World ex-U.S. Index. Prior to May 2002, the MSCI EAFE Index.

**MARKET ENVIRONMENT**  
**Third Quarter 2007**

# MARKET ENVIRONMENT

## OVERVIEW

### MAJOR MARKET RETURNS

	Third Quarter	Year-To-Date	1 Year Ending 9/30/07	3 Years Ending 9/30/07	5 Years Ending 9/30/07	10 Years Ending 9/30/07
Dow Jones Wilshire 5000 Index	1.5 %	9.1 %	17.0 %	14.0 %	16.5 %	6.8 %
MSCI All-Country World Ex-US Free	4.6	17.4	30.5	26.0	25.8	8.8
MSCI EAFE Free	2.2	13.2	24.9	23.2	23.6	8.0
MSCI Emerging Markets	14.4	34.5	58.2	40.8	38.7	11.6
MSCI All Country World Index	3.5	13.7	24.0	19.6	20.5	7.3
Lehman Brothers Aggregate Bond Index	2.8	3.8	5.1	3.9	4.1	6.0

The broad U.S. equity market overcame a volatile end of the summer to post a gain for the third quarter of 2007. The market was shaken during the collapse of the sub-prime market and the lack of liquidity in the credit markets during July and the beginning of August, but showed its resilience during September as it came back strong, gaining 3.6% during the month. The market also rallied off a 50 basis point reduction in the Federal Funds rate on September 18th, which was the first rate reduction in four years. Fueled by a higher than generally expected cut to the Federal Funds rate, the market ended the quarter on a positive note, though questions remain regarding what lingering effects the sub-prime market collapse, and continuing decline in the housing market, will have in the near future.

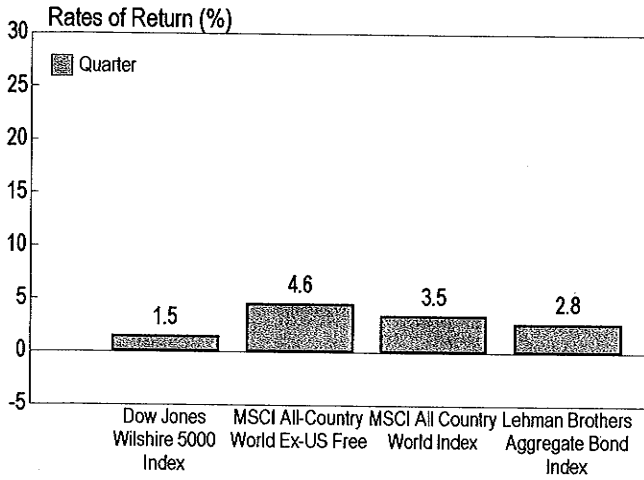
The Dow Jones Wilshire 5000 Index gained 1.5% during the third quarter and posted a 9.1% gain year-to-date. Energy was once again the best-performing sector advancing 8.2% during the quarter, and has now gained 28.3% over the year-to-date period. Consumer durables was the worst performing sector during the quarter, declining 8.6%, while financial stocks, hurt by the sub-prime crisis, declined 3.7%. The financial sector declined 4.6% over the year-to-date period, making it the worst performing sector over the last nine months. Over the past quarter and year-to-date period, large cap stocks outperformed their small cap stocks, and growth outperformed value.

Non-U.S. stocks produced solid gains for the quarter as the MSCI All Country World ex-U.S. Index advanced 4.6%, and has now gained 17.4% year-to-date. Emerging markets led the way as the Asian region advanced 19.0% during the quarter, while Japan once again lagged the index declining 0.9%. Emerging markets held up well during the sub-prime crisis that began in developed markets. After a rough end of July and early August, the MSCI Emerging Markets Index rallied to end the quarter at an all-time high. The MSCI Emerging Markets Index produced stellar returns, advancing 14.4% during the quarter and has now gained 34.5% over the year-to-date period.

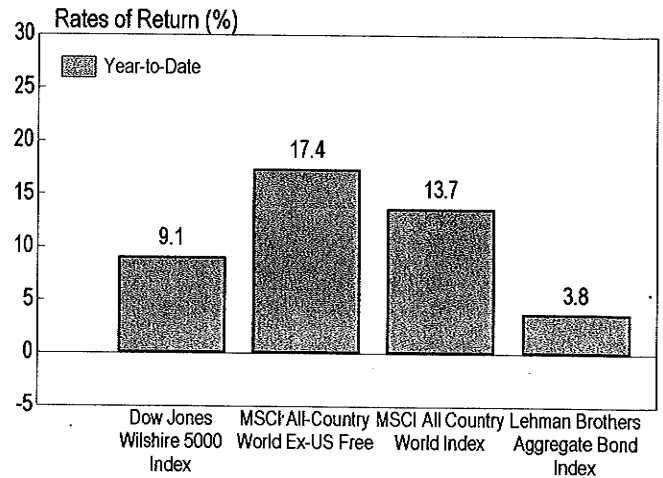
The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, gained 2.8% during the quarter and 3.8% year-to-date. Volatility returned to the fixed income market in the form of the sub-prime panic that started in mid-July. Investment grade and high yield corporate bond spreads widened significantly and those sectors lagged the broad market as investors re-priced risk across global asset classes. Government bonds outperformed the broad market, as investors sought a flight to quality under such market conditions. The yield curve declined and steepened during the quarter. The Fed met in September and decided to lower the Federal Funds rate by 50 basis points to 4.75%. Their decision quelled fears of a pending liquidity crisis resulting from the sub-prime panic.



**MAJOR MARKET RETURNS  
THIRD QUARTER**

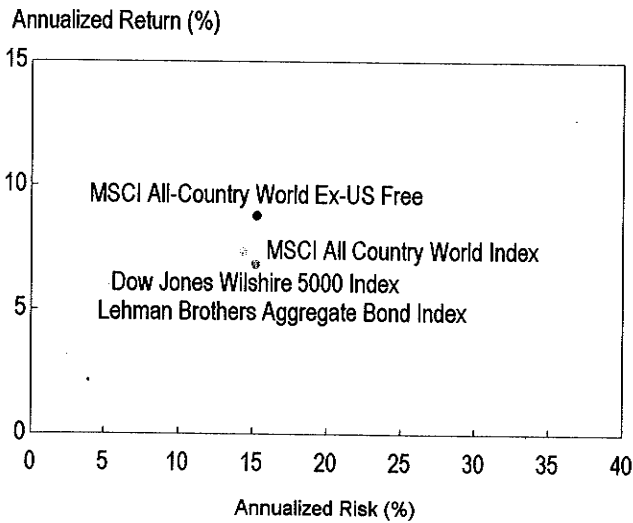


**MAJOR MARKET RETURNS  
YEAR-TO-DATE ENDING 9/30/07**

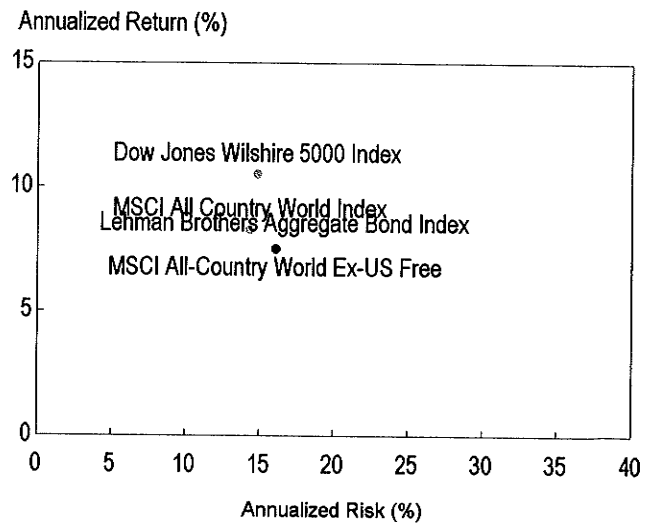


The exhibits above show the performance of the major capital markets during the third quarter and year-to-date period.

**MARKET RISK/RETURN  
10 YEARS ENDING 9/30/07**



**MARKET RISK/RETURN  
20 YEARS ENDING 9/30/07**

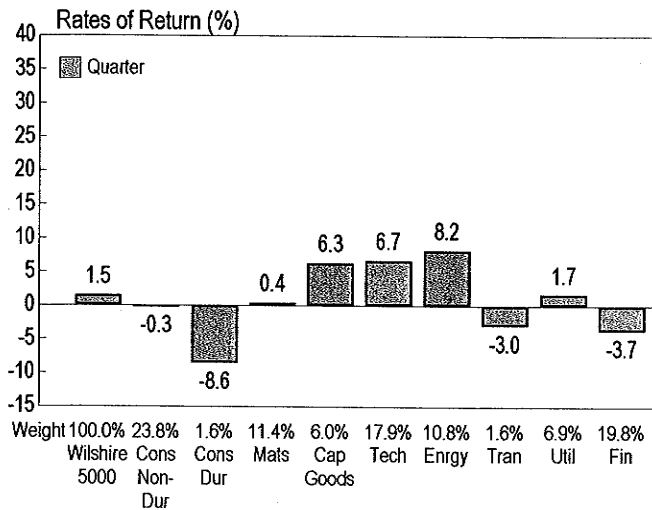


The exhibits above show the historical performance of the major capital markets and the amount of risk (volatility of returns) incurred. Points near the top of the chart represent a greater return and points near the right of the chart indicate greater volatility.

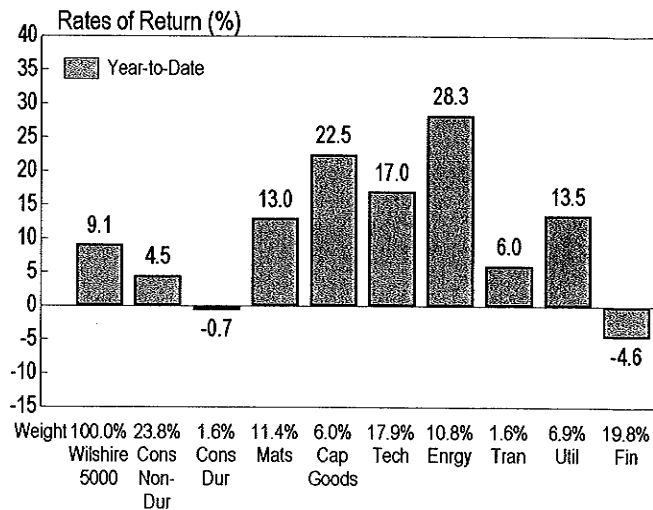
# MARKET ENVIRONMENT

## U.S. STOCK MARKET

### SECTOR RETURNS THIRD QUARTER



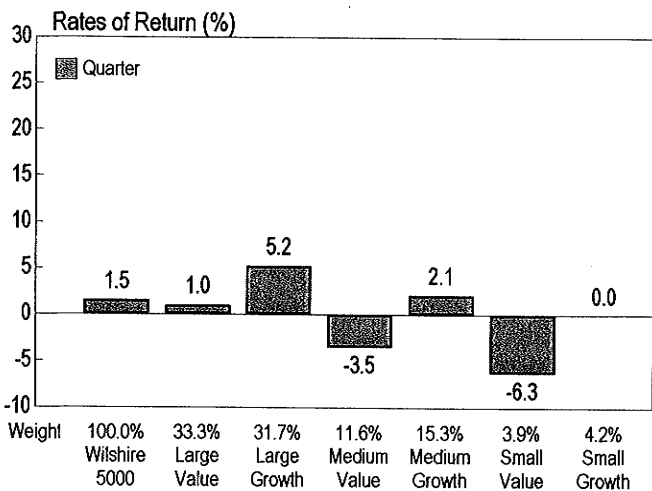
### SECTOR RETURNS YEAR-TO-DATE ENDING 9/30/07



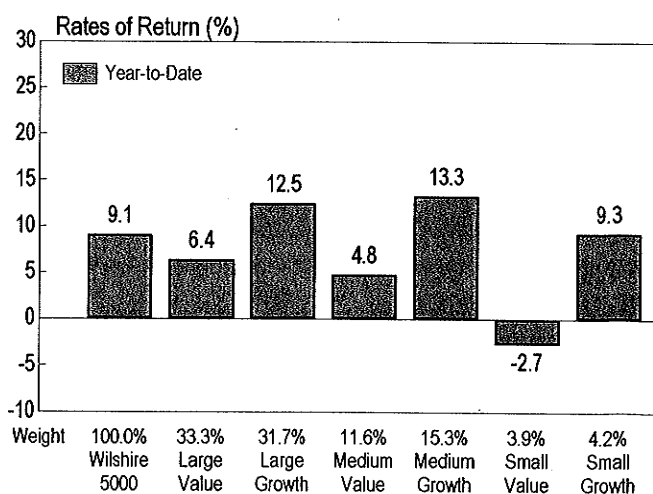
The Dow Jones Wilshire 5000 Index is the broadest available measure of the aggregate domestic stock market. It includes all domestic common stocks with readily available price information.

The exhibits above show the performance of the 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

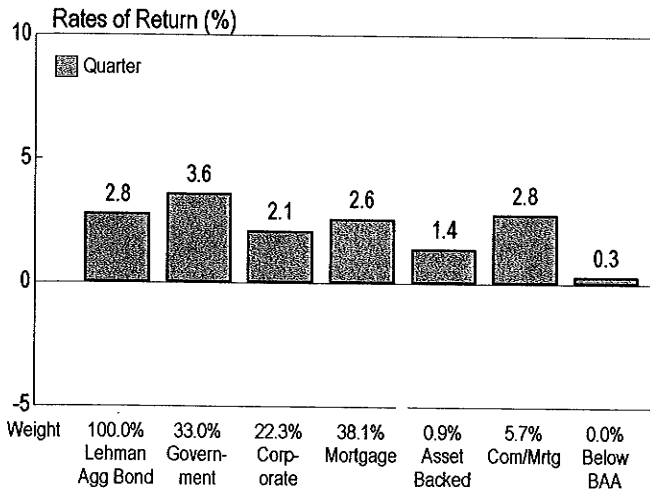


### STYLE RETURNS YEAR-TO-DATE ENDING 9/30/07

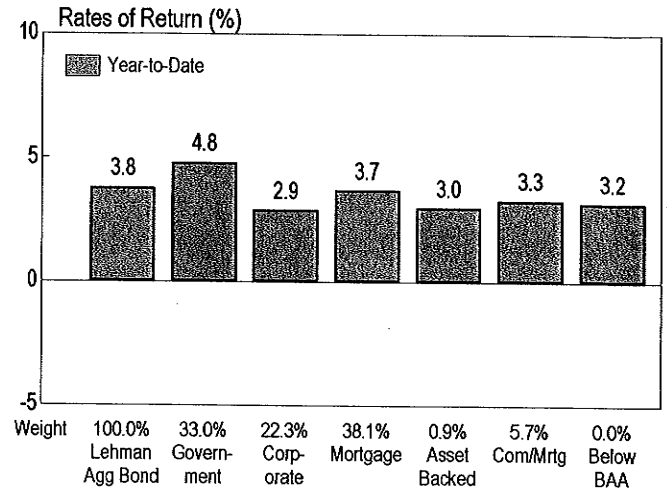


The exhibits above illustrate the performance of stock investment styles according to capitalization (large and small) and style characteristics (value and growth). The percentage below each bar indicates the segment's weight within the Dow Jones Wilshire 5000 Index at quarter-end.

**SECTOR RETURNS  
THIRD QUARTER**



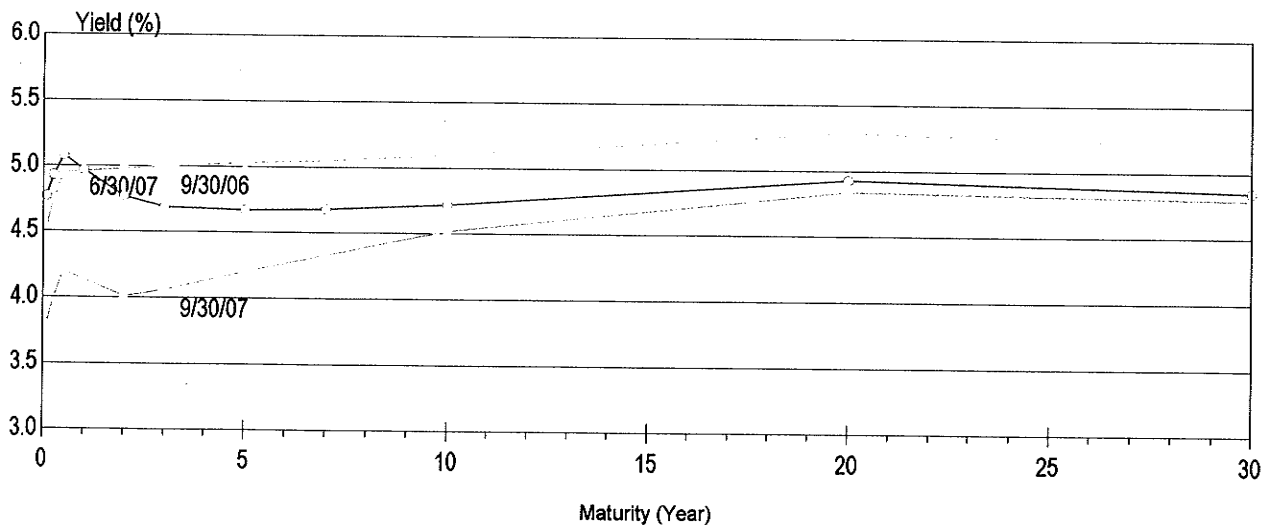
**SECTOR RETURNS  
YEAR-TO-DATE ENDING 9/30/07**



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**

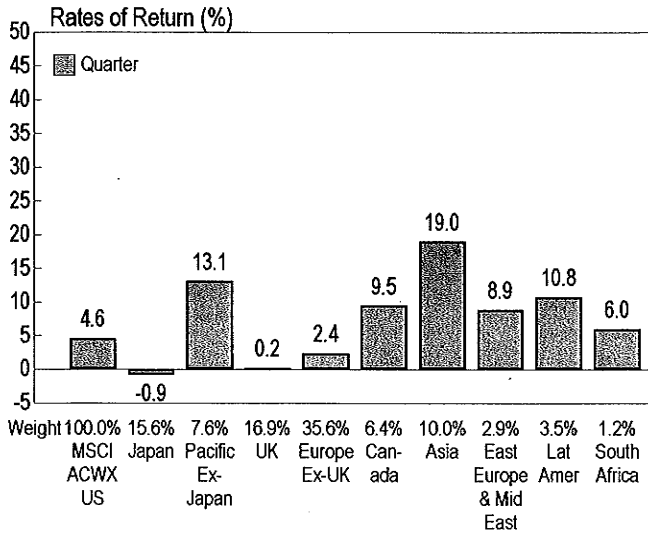


The exhibit above illustrates yields of Treasury securities of various maturities as of September 30, 2006, June 30, 2007, and September 30, 2007.

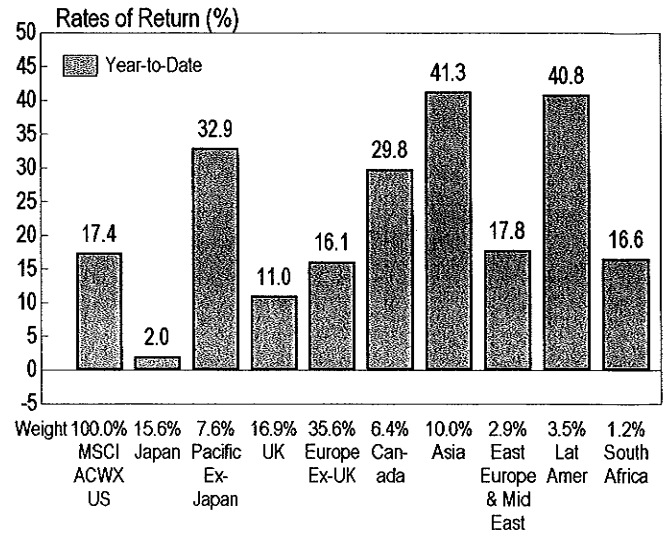
# MARKET ENVIRONMENT

## NON-U.S. STOCK MARKETS

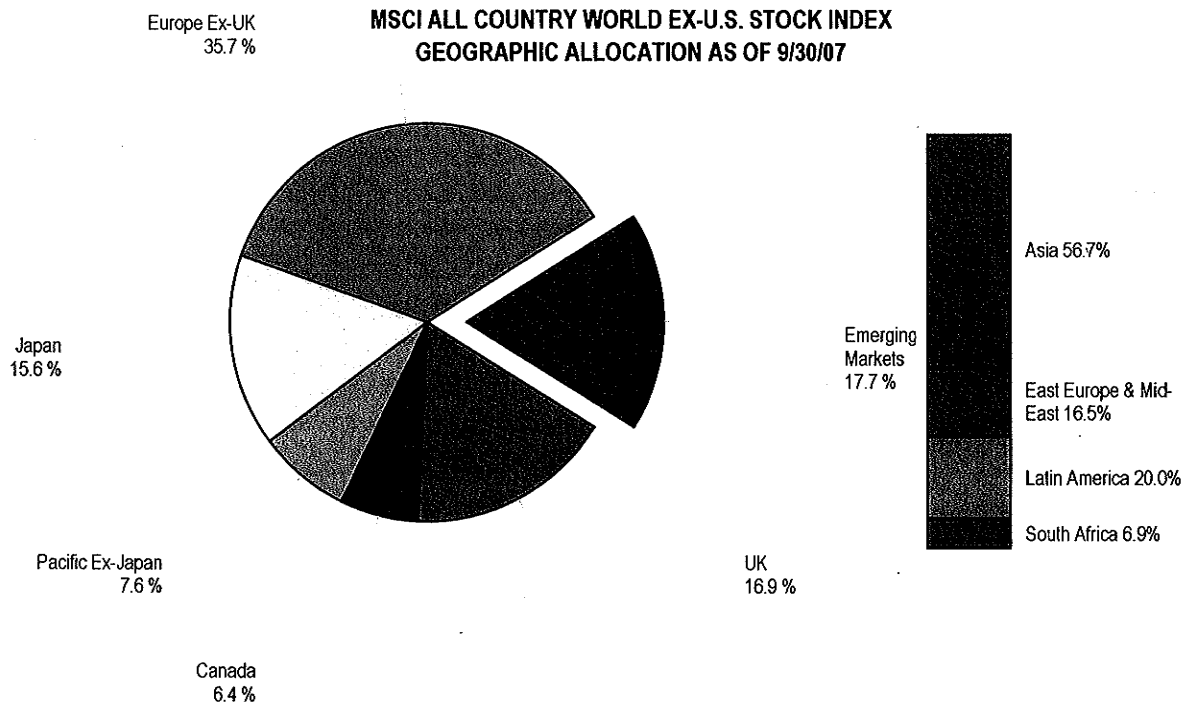
**NON-U.S. STOCK MARKET RETURNS  
THIRD QUARTER**



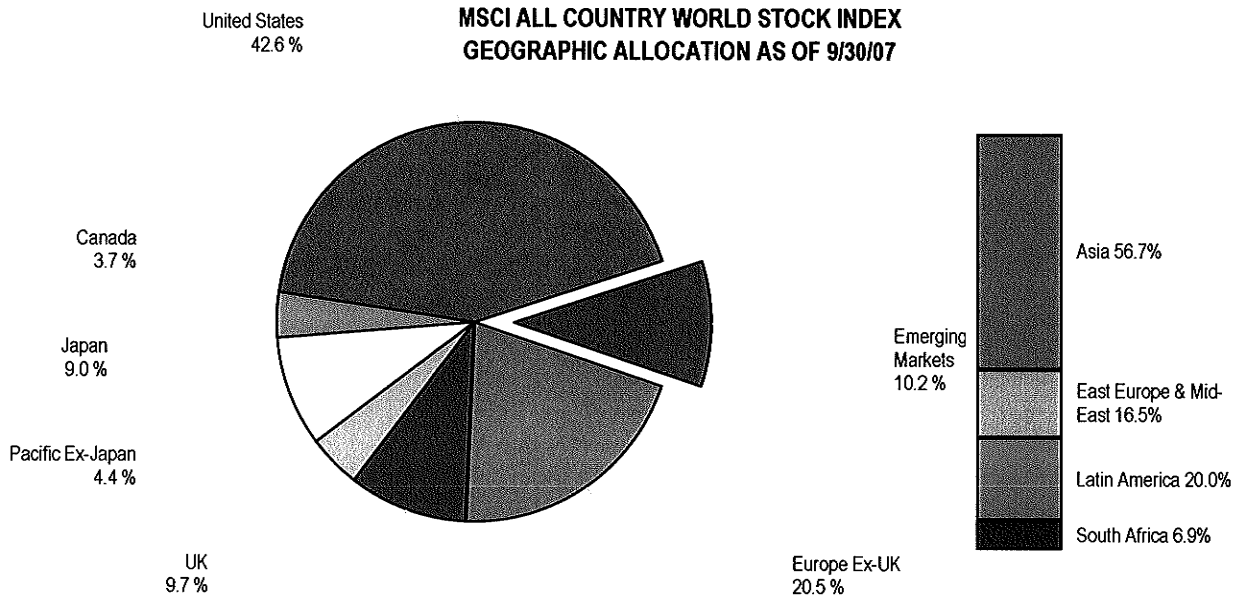
**NON-U.S. STOCK MARKET RETURNS  
YEAR-TO-DATE ENDING 9/30/07**



The MSCI All Country World ex-U.S. Index is a capitalization-weighted index of stocks representing 22 developed stock markets and 25 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.

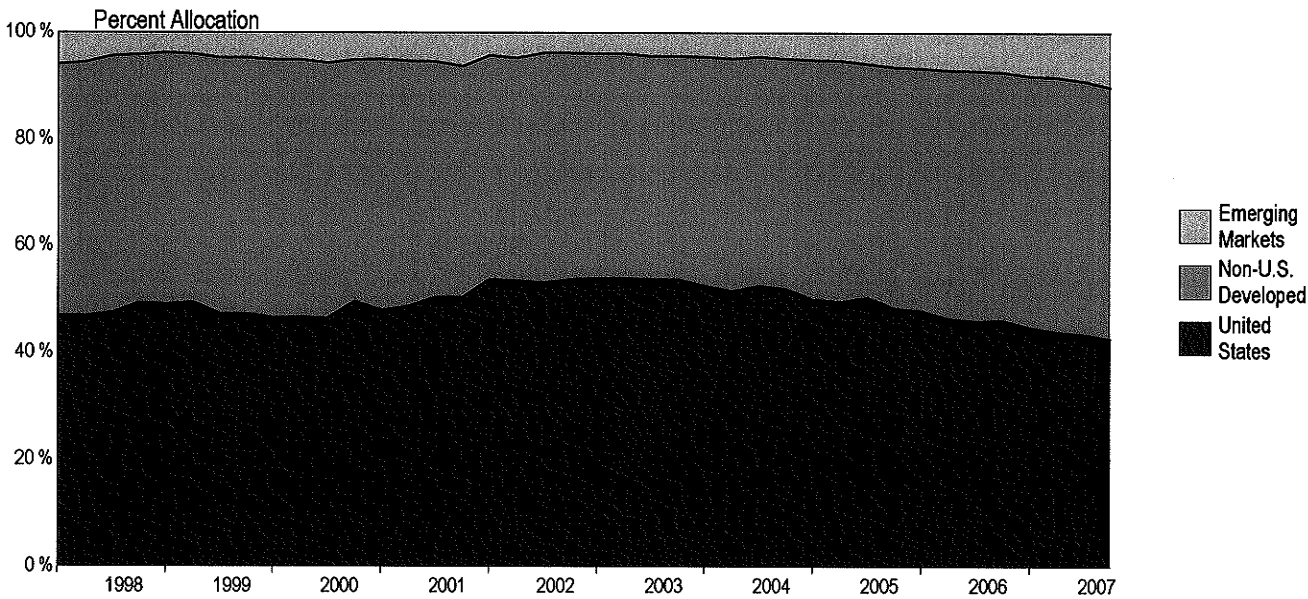


The exhibit above illustrates the percent each region represents of the non-U.S. stock market as measured by the MSCI All Country World ex-U.S. Index.



The MSCI All Country World Index is a capitalization-weighted index of stocks representing 23 developed stock markets and 25 emerging stock markets around the world. The graph above shows the allocation to each region at quarter-end.

**ALLOCATION**



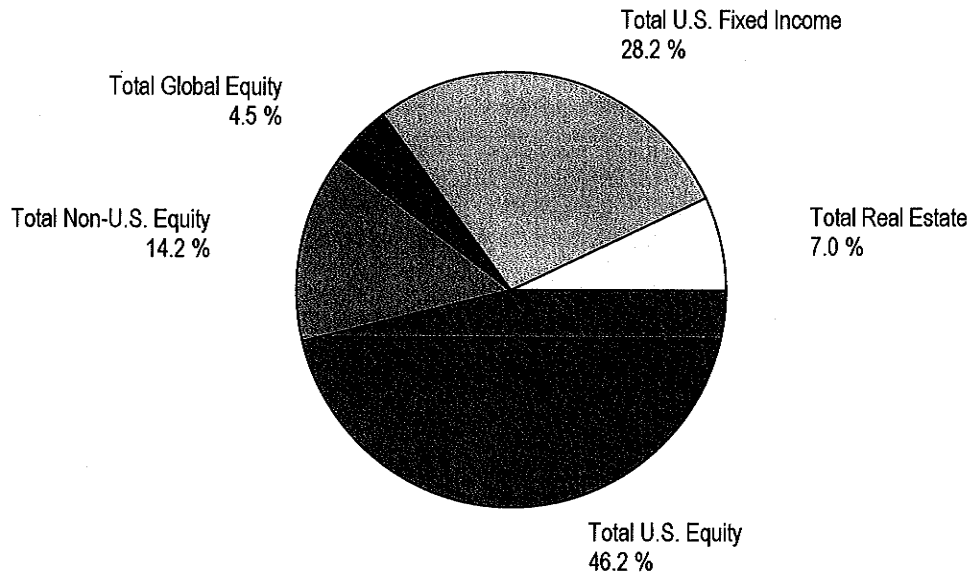
The graph above shows the changes in the breakdown between the United States, non-U.S. developed markets, and emerging markets in the MSCI All Country World Index over time.

**ASSET ALLOCATION**

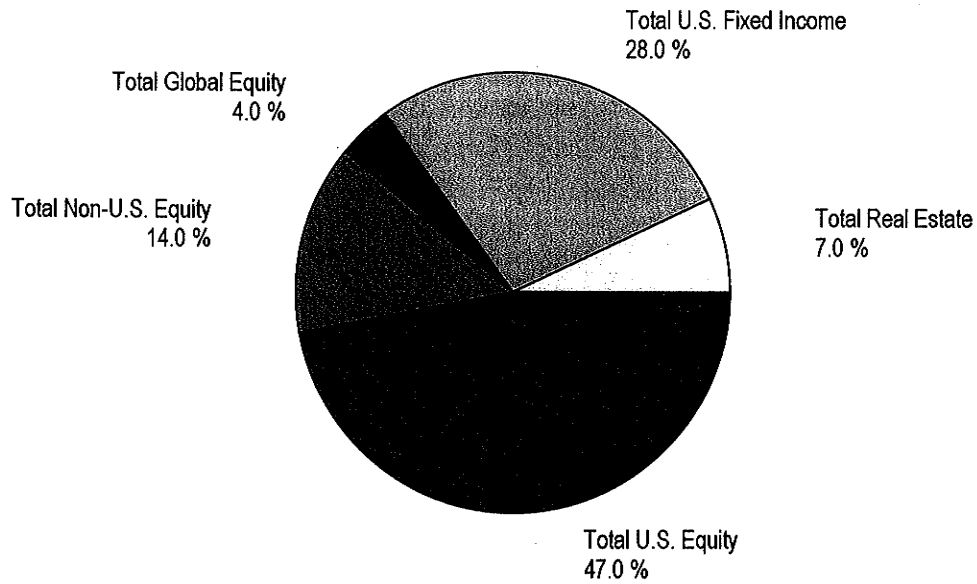
# ASSET ALLOCATION

Third Quarter 2007

ASSET ALLOCATION  
ACTUAL AS OF 9/30/07



ASSET ALLOCATION  
POLICY AS OF 9/30/07



# ASSET ALLOCATION

Third Quarter 2007

## ASSET ALLOCATION AS OF 9/30/07

(\$ 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	\$179,196	--	--	--	--	\$9,431	\$188,628	5.8 %	
BGI Equity Index Fund	933,840	--	--	--	--	--	933,840	28.9	
LSV	88,723	--	--	--	--	446	89,168	2.8	
Wasatch	79,625	\$9,733	--	--	--	3,337	92,695	2.9	
BGI Extended Equity	92,588	--	--	--	--	--	92,588	2.9	
Western U.S. Index Plus	--	--	\$97,291	\$3,837	--	-3,250	97,878	3.0	
<b>Total U.S. Equity</b>	<b>1,373,972</b>	<b>9,733</b>	<b>97,291</b>	<b>3,837</b>	<b>--</b>	<b>9,965</b>	<b>1,494,797</b>	<b>46.2</b>	<b>47.0 %</b>
BGI ACWI ex-U.S. Index	--	\$135,136	--	--	--	--	\$135,136	4.2 %	
Capital Guardian	--	163,599	--	--	--	\$2,155	165,753	5.1	
Sprucegrove	--	154,674	--	--	--	2,835	157,509	4.9	
<b>Total Non-U.S. Equity</b>	<b>--</b>	<b>453,408</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>4,990</b>	<b>458,398</b>	<b>14.2</b>	<b>14.0 %</b>
GMO Global Fund	\$25,597	\$44,535	\$1,854	--	--	\$1,022	\$73,008	2.3 %	
Wellington Global Equity	30,207	40,936	--	--	--	1,105	72,249	2.2	
<b>Total Global Equity</b>	<b>55,804</b>	<b>85,471</b>	<b>1,854</b>	<b>--</b>	<b>--</b>	<b>2,128</b>	<b>145,257</b>	<b>4.5</b>	<b>4.0 %</b>
Western	--	--	\$304,889	\$9,902	--	\$13,082	\$327,873	10.1 %	
BGI U.S. Debt Fund	--	--	195,956	--	--	--	195,956	6.1	
Reams	--	--	298,510	--	--	--	298,510	9.2	
Loomis Sayles	--	--	75,117	12,714	--	1,701	89,532	2.8	
<b>Total U.S. Fixed Income</b>	<b>--</b>	<b>--</b>	<b>874,472</b>	<b>22,615</b>	<b>--</b>	<b>14,783</b>	<b>911,871</b>	<b>28.2</b>	<b>28.0 %</b>
Total Prudential Real Estate	--	--	--	--	\$91,995	--	\$91,995	2.8 %	
UBS Real Estate	--	--	--	--	103,514	--	103,514	3.2	
Guggenheim	--	--	--	--	30,502	--	30,502	0.9	
<b>Total Real Estate</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>226,011</b>	<b>--</b>	<b>226,011</b>	<b>7.0</b>	<b>7.0 %</b>
<b>Total Fund</b>	<b>\$1,429,776</b>	<b>\$548,613</b>	<b>\$973,617</b>	<b>\$26,452</b>	<b>\$226,011</b>	<b>\$31,865</b>	<b>\$3,236,335</b>	<b>100.0 %</b>	<b>100.0 %</b>
Percent of Total	44.2%	17.0%	30.1%	0.8%	7.0%	1.0%	100.0%		

### Asset Allocation

In the table above, we detail the Total Fund's allocations among managers. On the right side of the table, we show the actual percent of total. The bottom row of the table shows the Fund's percentage investments in each asset class. These allocations reflect both the Committee's decisions on manager allocations as well as the managers' active allocation decisions.

The asset value of the Total Fund increased by approximately \$158.8 million during the quarter. The growth in assets was attributable to investment gains of \$66.3 million and net contributions of \$92.5 million.

In July, VCERA's annual contribution of approximately \$125 million was made. \$10 million was invested into the BGI Equity Index Fund, \$9 million was invested into the BGI ACWI ex-U.S. Index Fund, and the additional \$96 million was dispersed among the Fund's fixed income managers. During the remainder of the quarter, VCERA made two withdrawals totaling \$22.5 million from the BGI Equity Index Fund to pay employees' benefits.

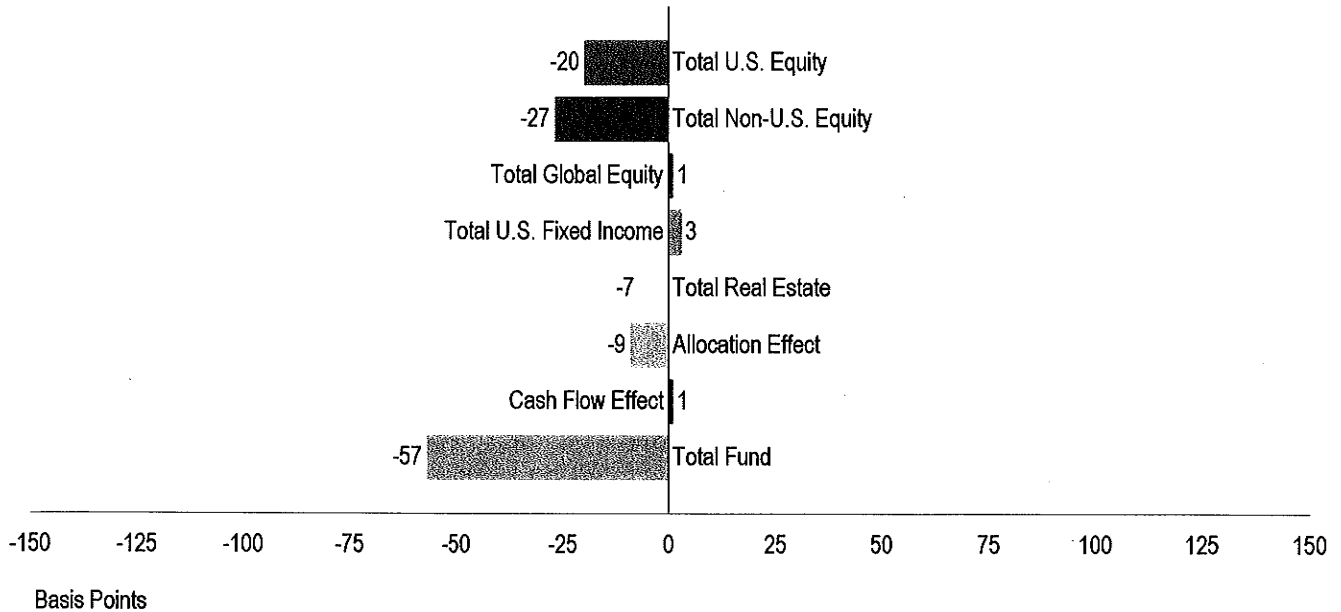


**PERFORMANCE EVALUATION**

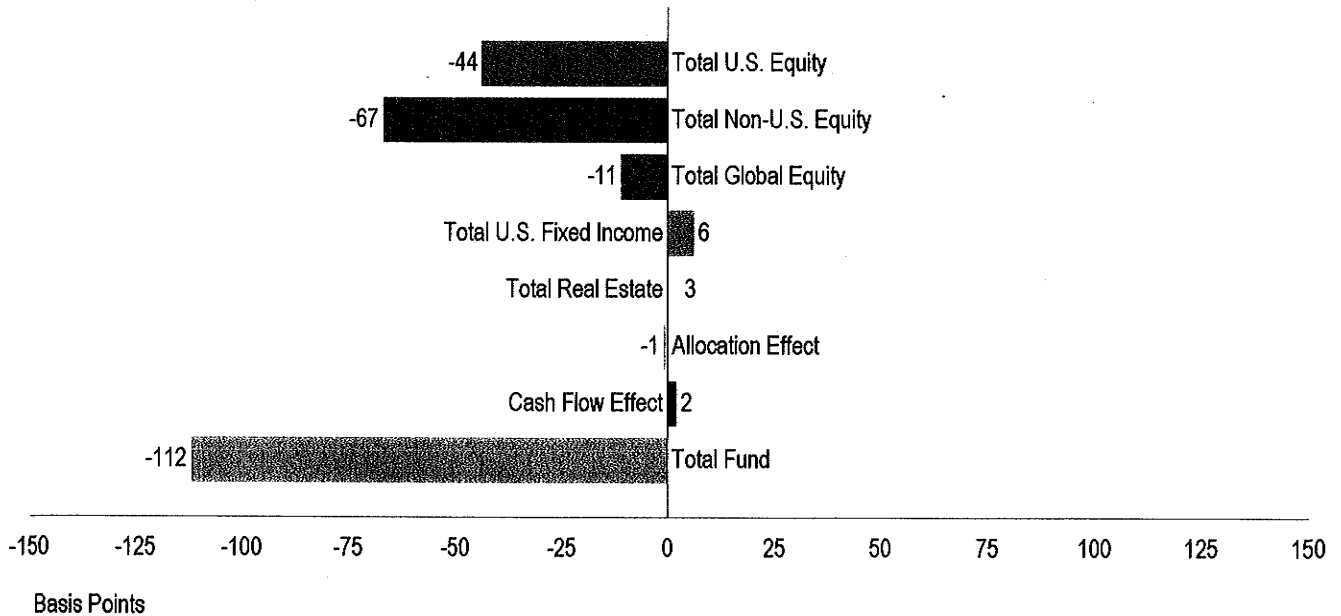
# TOTAL FUND

Third Quarter 2007

## TOTAL FUND ATTRIBUTION ANALYSIS 3 MONTHS ENDING 9/30/07



## TOTAL FUND ATTRIBUTION ANALYSIS 1 YEAR ENDING 9/30/07



## Third Quarter 2007

RETURN SUMMARY  
ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		10 Years Ending 9/30/07	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Total Fund	2.0 %	65	8.2 %	83	14.4 %	73	12.6 %	69	14.2 %	64	8.1 %	44
Policy Portfolio	2.6	28	9.2	52	15.6	53	13.1	55	14.1	65	7.8	57

**Commentary on Investment Performance**

During the quarter, the Total Fund gained 2.0%, which lagged the result of the Policy Portfolio and the average Public Fund measured by Mellon Analytical Solutions. The underperformance was primarily a result of the less-than-benchmark performance of the U.S. equity, non-U.S. equity, and real estate components. Somewhat offsetting the period's underperformance was the strong relative return of the global equity and fixed income components.

Similar to the quarter, the Total Fund lagged the result of the Policy Portfolio and the average Public Fund during the year-to-date period. The underperformance was a result of several of the Fund's asset classes. In fact, only component of the Total Fund to achieve a favorable relative return was the fixed income component.

Despite posting a double-digit gain, the Total Fund's trailing one-year return of 14.4% continued to lag the return of the Policy Portfolio and the average Public Fund. Impeding the period's relative return was underperformance within the U.S. equity, non-U.S. equity, and global equity components. The strong relative return of the fixed income and real estate components partially offset the period's poor relative results.

Longer-term relative performance of the Total Fund remained mixed. While the Fund's trailing three-year return lagged those of the benchmark, the trailing five- and ten-year returns modestly exceeded the Policy Portfolio.

The attribution graphs on the opposite page illustrate each asset class's contribution to the relative performance of the Total Fund over the past three-month and trailing one-year periods. A positive value for a component indicates a positive contribution to the aggregate relative performance. A negative value indicates a detrimental impact. The top five bars indicate the value added or subtracted by each asset class over the specified time period based on the average weight of each asset class multiplied by the amount of its outperformance (or underperformance). The bar labeled Allocation Effect details the impact on performance due to deviations from the policy allocation targets. If the Fund's asset allocation was always identical to that of its policy, the Allocation Effect would be zero. The bar labeled "Cash Flow Effect" illustrates the effect on the Total Fund's performance by the timing of cash contributions, withdrawals, and asset movements between accounts. All of the effects combine to equal the "Total Fund" bar in these graphs. This is the difference between the Total Fund's return and that of the Policy Portfolio.

# TOTAL FUND

Third Quarter 2007

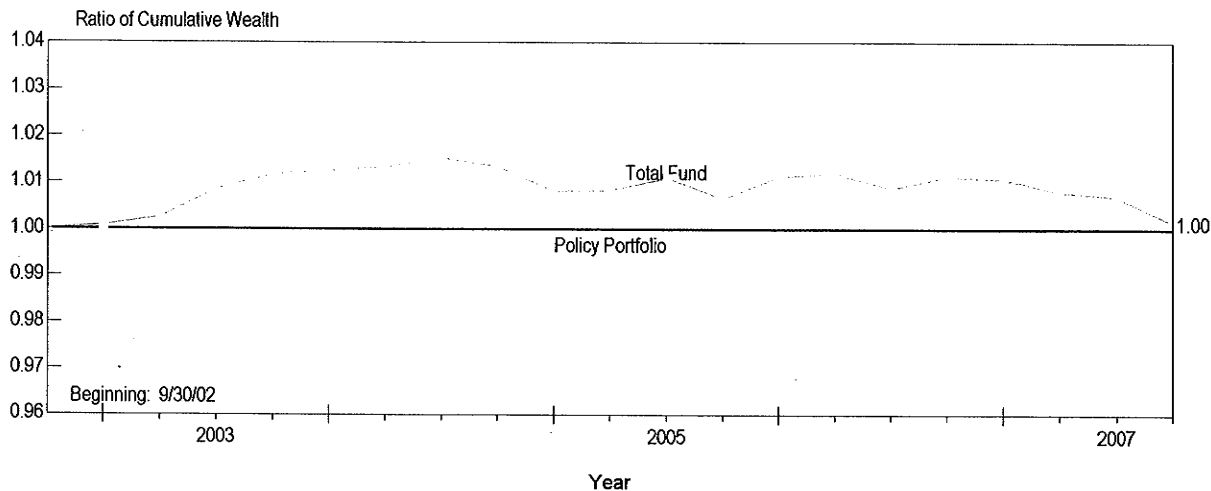
## HISTORICAL RETURNS (BY YEAR)

	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	14.0	14.0	0.0
2007 (9 months)	8.2	9.2	-1.0
Trailing 1-Year	14.4%	15.6%	-1.2
Trailing 3-Year	12.6	13.1	-0.5
Trailing 5-Year	14.2	14.1	0.1
Trailing 10-Year	8.1	7.8	0.3

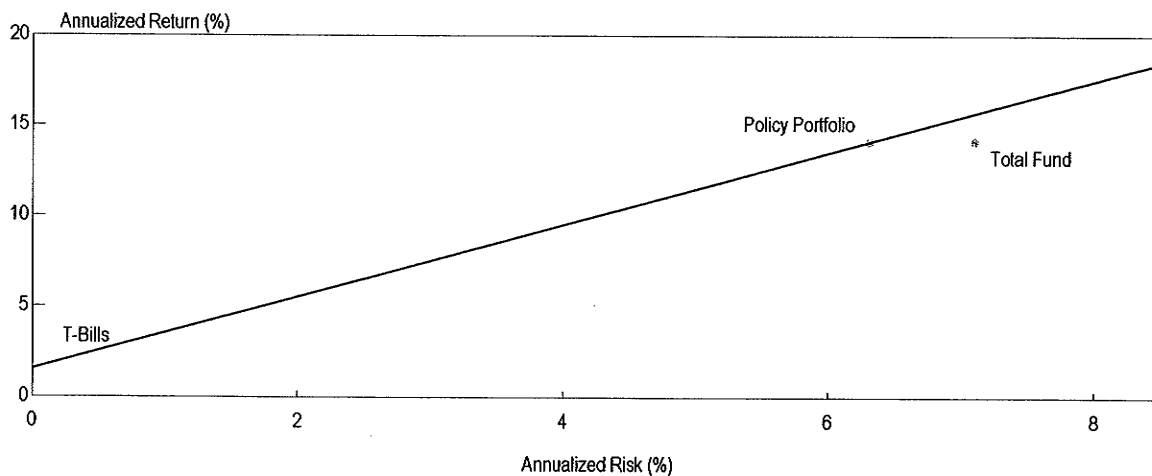
The table above compares the historical annual and cumulative annualized returns of VCERA's Total Fund with those of the Policy Portfolio.

Third Quarter 2007

**RATIO OF CUMULATIVE WEALTH  
5 YEARS ENDING 9/30/07**



**ANNUALIZED RISK RETURN  
5 YEARS ENDING 9/30/07**



The Ratio of Cumulative Wealth graph on the top of the page illustrates the Total Fund's cumulative performance relative to the policy portfolio. An upward sloping line between two points indicates that the component's return exceeded that of the Policy Portfolio, while a downward sloping line indicates a lesser return. A flat line is indicative of benchmark-like performance. As shown, the Total Fund has closely approximated the return of the Policy Portfolio over the trailing five-years.

The risk/return graph on the bottom of the page illustrates the historical risk (volatility of returns) and return of VCERA's Total Fund to that of its policy portfolio. During the trailing five-years, the Total Fund experienced a similar rate of return while incurring a higher level of risk than that of the Policy Portfolio.

**TOTAL FUND**

Third Quarter 2007

**IMRS SCORES**

	IMRS SCORE	IMRS Rating
<b>U.S. Equity</b>		
Delta	10	Fair
LSV	15	Good
Wasatch	17	Excellent
Western	16	Excellent
<b>Non-U.S. Equity</b>		
Capital Guardian	19	Excellent
Sprucegrove	16	Excellent
<b>Global Equity</b>		
GMO	19	Excellent
Wellington	16	Excellent
<b>Fixed Income</b>		
Western	17	Excellent
Reams	15	Good
Loomis Sayles	15	Good
<b>Real Estate</b>		
Prudential	16	Excellent
UBS	18	Excellent
Guggenheim	15	Good

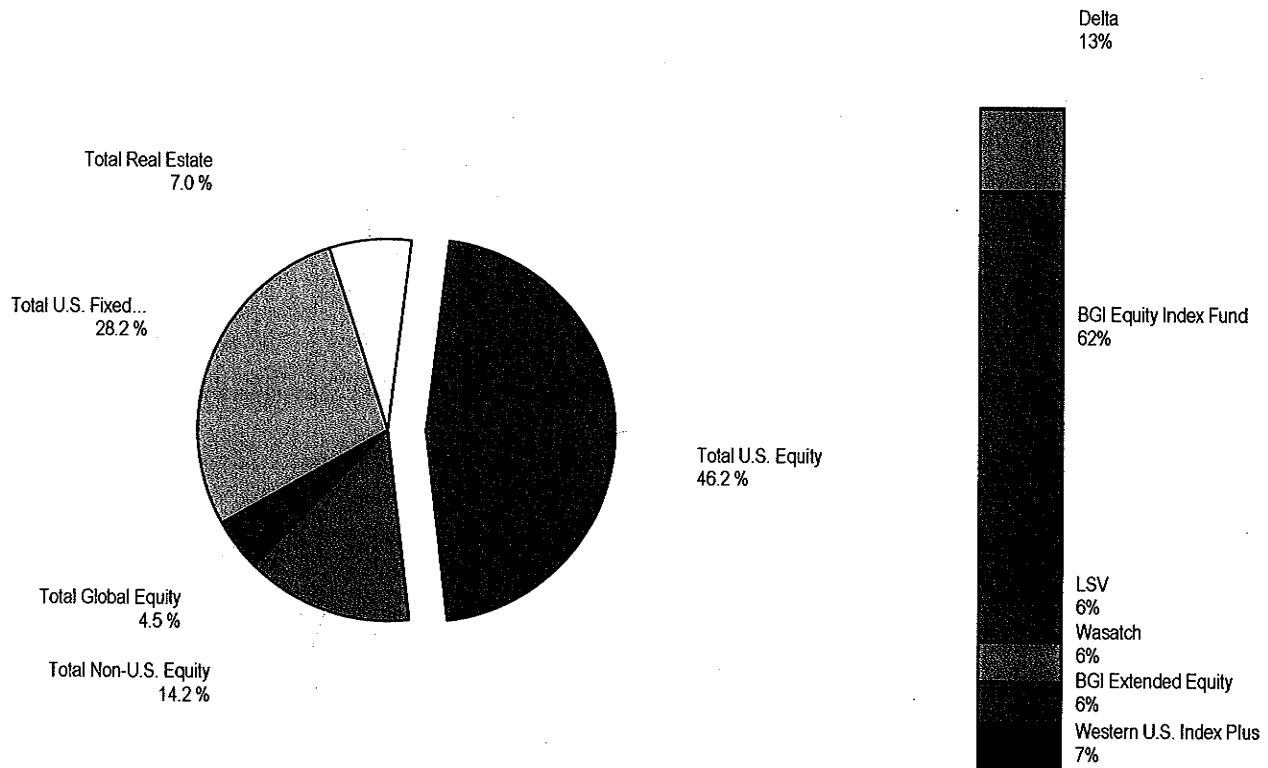
The table above highlights each manager's score within EnnisKnupp's proprietary Investment Manager Rating System (IMRS).

# TOTAL U.S. EQUITY

\$1,494.8 Million and 46.2% of Fund

Third Quarter 2007

## ASSET ALLOCATION ACTUAL AS OF 9/30/07

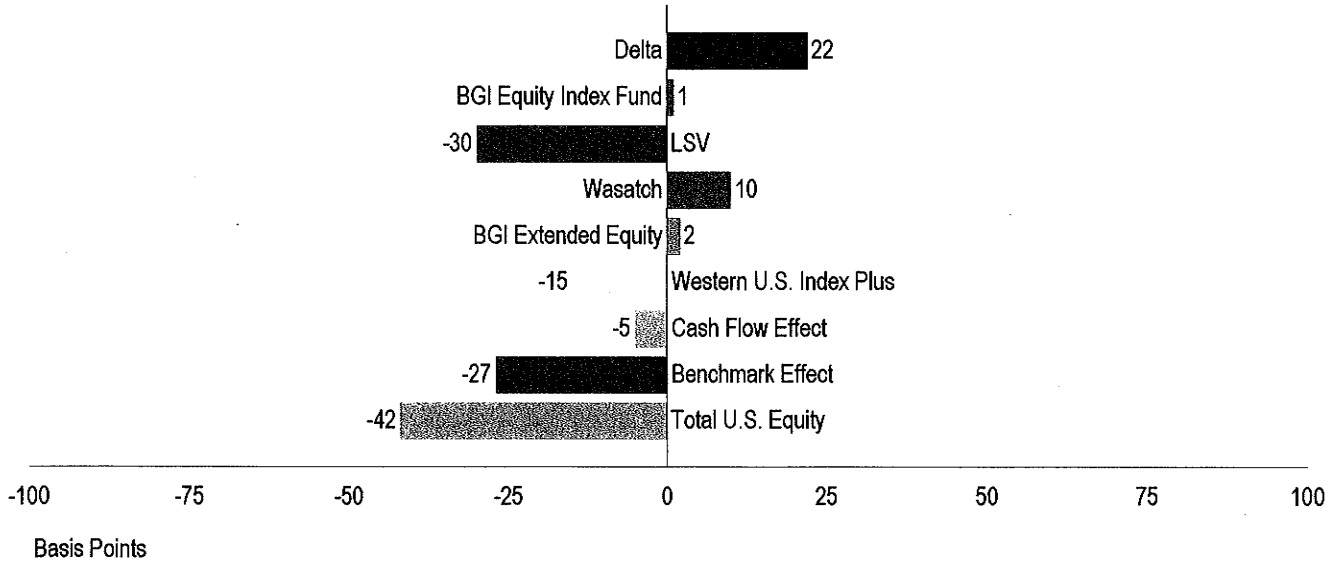


# TOTAL U.S. EQUITY

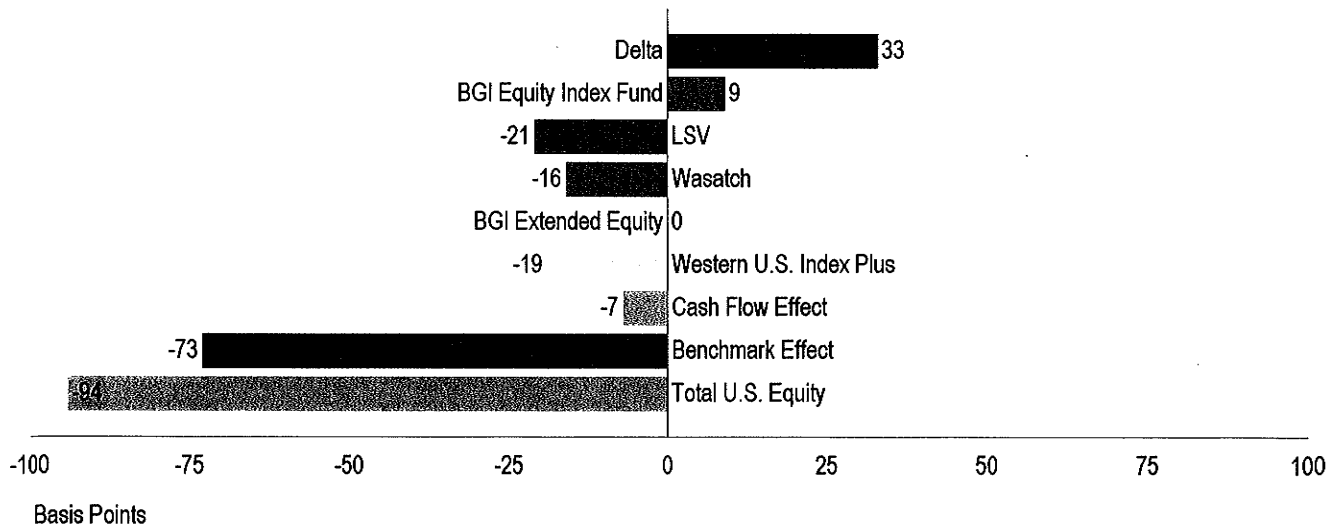
\$1,494.8 Million and 46.2% of Fund

Third Quarter 2007

## MANAGER ATTRIBUTION ANALYSIS 3 MONTHS ENDING 9/30/07



## MANAGER ATTRIBUTION ANALYSIS 1 YEAR ENDING 9/30/07





**TOTAL U.S. EQUITY****\$1,494.8 Million and 46.2% of Fund****Third Quarter 2007****RETURN SUMMARY  
ENDING 9/30/07**

	Third Quarter	Year-To-Date	1 Year Ending 9/30/07	3 Years Ending 9/30/07	5 Years Ending 9/30/07	10 Years Ending 9/30/07	Since Inception	Inception Date
<b>Total U.S. Equity</b>	<b>1.0 %</b>	<b>8.3 %</b>	<b>15.8 %</b>	<b>13.1 %</b>	<b>15.9 %</b>	<b>7.0 %</b>	<b>10.6 %</b>	<b>12/31/93</b>
Performance Benchmark*	1.5	9.0	16.7	13.8	16.2	6.8	10.9	
<b>Delta</b>	<b>3.8</b>	<b>12.1</b>	<b>19.1</b>	<b>13.5</b>	<b>16.0</b>	<b>7.0</b>	<b>11.5</b>	<b>9/30/91</b>
S&P 500 Index	2.0	9.1	16.4	13.1	15.5	6.6	11.1	
<b>BGI Equity Index Fund</b>	<b>2.0</b>	<b>9.2</b>	<b>16.5</b>	<b>13.2</b>	<b>15.5</b>	<b>6.6</b>	<b>6.4</b>	<b>7/31/97</b>
S&P 500 Index	2.0	9.1	16.4	13.1	15.5	6.6	6.4	
<b>LSV</b>	<b>-10.7</b>	<b>-5.6</b>	<b>2.9</b>	<b>11.0</b>	<b>18.1</b>	<b>--</b>	<b>13.7</b>	<b>9/30/98</b>
Russell 2000 Value Index	-6.3	-2.7	6.1	12.5	18.7	--	13.0	
<b>Wasatch</b>	<b>1.7</b>	<b>8.3</b>	<b>16.2</b>	<b>12.2</b>	<b>16.2</b>	<b>--</b>	<b>14.1</b>	<b>11/30/99</b>
Performance Benchmark**	0.0	9.3	18.9	14.1	18.7	--	6.9	
<b>BGI Extended Equity</b>	<b>-0.4</b>	<b>9.1</b>	<b>18.8</b>	<b>16.4</b>	<b>19.9</b>	<b>--</b>	<b>19.5</b>	<b>10/31/02</b>
DJ Wilshire 4500 Index	-0.6	9.0	18.8	15.9	19.7	--	19.3	
<b>Western U.S. Index Plus</b>	<b>-0.3</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>-2.2</b>	<b>5/31/07</b>
S&P 500 Index	2.0	--	--	--	--	--	0.3	

**Commentary on Investment Performance**

The U.S. equity portfolio advanced 1.0% during the quarter and underperformed the Performance Benchmark by 0.5 percentage points. The quarter's return was impeded by below-benchmark results from LSV and Western. Delta and Wasatch were successful in adding value during the period due to favorable security selection and sector positioning. As expected, the Plan's passively managed index funds managed by BGI closely tracked their respective benchmarks.

The U.S. equity portfolio continued to struggle relative to the Performance Benchmark during the year-to-date and trailing one-year periods. A significant portion of the component's poor relative performance was attributed to the below-benchmark returns generated by LSV and Wasatch. Conversely, an above-benchmark return generated by Delta benefited results.

Although positive on an absolute basis, longer-term relative performance of the U.S. equity component remained mixed. While the component's trailing three- and five-year returns fell short of the Index, the trailing ten-year return remained 0.2 percentage points ahead of the Performance Benchmark, net of fees.

The attribution analysis on the previous page highlights each manager's contribution to the relative performance within VCERA's U.S. equity component over the past three-month and trailing one-year periods. The benchmark effect in the quarter and one-year attribution graphs is a result of the cumulative performance of the individual manager's benchmarks (the S&P 500 Index, the DJ Wilshire 4500 Index, the Russell 2000 Value Index, and the Russell 2000 Growth Index) underperforming the U.S. equity component's Performance Benchmark (the DJ Wilshire 5000 Index).

\*The DJ Wilshire 5000 Index. Prior to May 2007, the Russell 3000 Index.

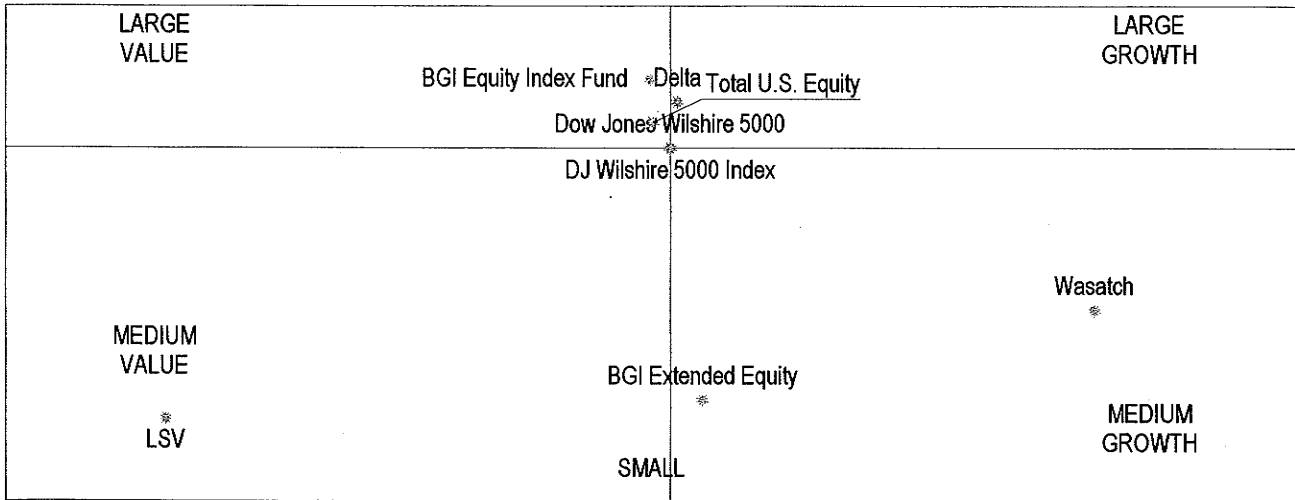
\*\*The Russell 2000 Growth Index. Prior to December 2001, the Russell 2000 Index.

# TOTAL U.S. EQUITY

\$1,494.8 Million and 46.2% of Fund

Third Quarter 2007

**EFFECTIVE STYLE MAP**  
5 YEARS ENDING 9/30/07



## U.S. Equity Style Map

The exhibit above highlights the style and capitalization orientation of the total U.S. equity component and the domestic equity managers utilized in VCERA's investment program.

As shown, the U.S. equity component exhibits a style and capitalization bias similar to that of the DJ Wilshire 5000 Index.

**Third Quarter 2007**

**RETURN SUMMARY  
ENDING 9/30/07**

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		10 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Delta</b>	3.8 %	28	12.1 %	31	19.2 %	30	13.5 %	50	16.0 %	44	7.0 %	58	11.5 %	56	9/30/91
S&P 500 Index	2.0	44	9.1	54	16.4	51	13.1	56	15.5	53	6.6	66	11.1	68	

**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**

Delta's return of 3.8% exceeded the S&P 500 Index by 1.8 percentage points during the quarter. Favorable security selection within the information technology sector proved beneficial. The portfolio's computers and peripherals, IT services, and communications equipment holdings were particularly additive to the period's relative results. In addition, an overweight allocation coupled with strong security selection within the materials and industrials sectors proved beneficial as relative performance in the sector significantly outperformed the broader market.

Absolute and relative performance remained favorable during the year-to-date period.

Over the trailing one-year period, Delta's return surpassed the S&P 500 Index by a comfortable margin. The manager's stock selection was particularly strong within the materials sector as the portfolio's holdings continue to benefit from favorable supply/demand fundamentals. Other notable contributors included the portfolio's computer and peripherals, IT services, and communications equipment holdings.

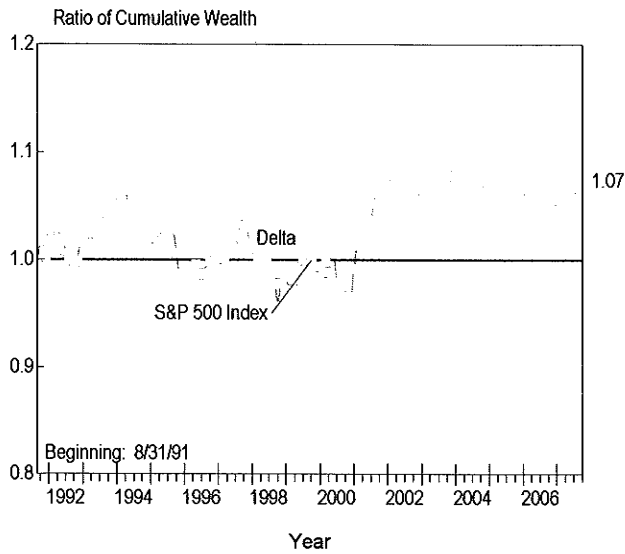
Delta's longer-period returns have been favorable when compared to those of the S&P 500 Index.

# DELTA

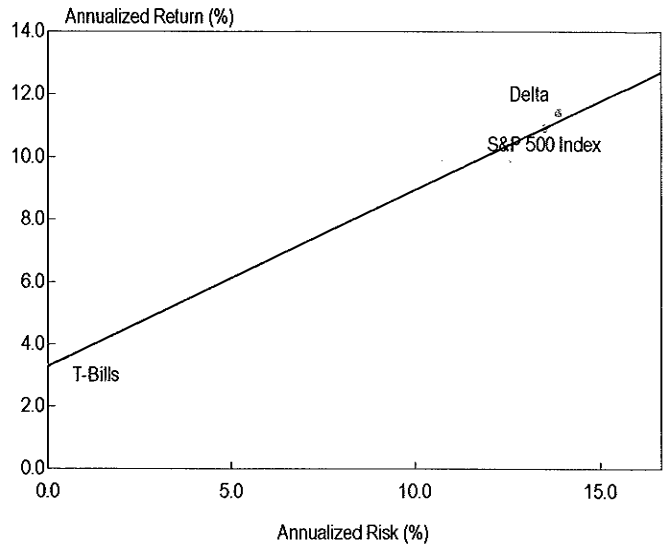
\$188.6 Million and 5.8% of Fund

Third Quarter 2007

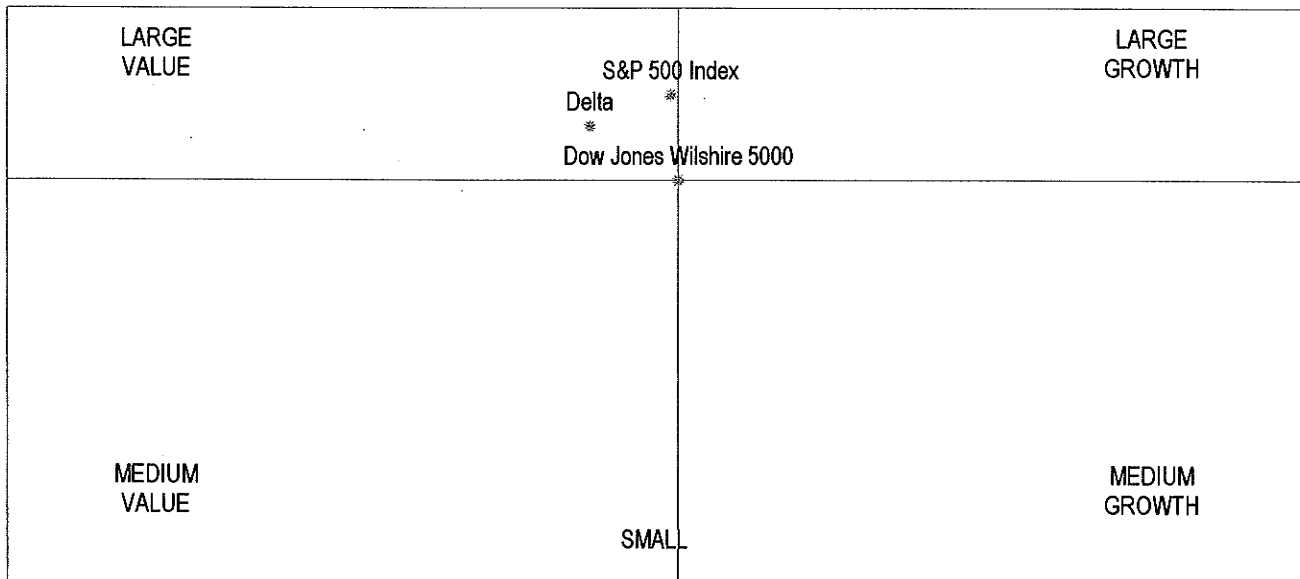
## RATIO OF CUMULATIVE WEALTH 16 YEARS 1 MONTH ENDING 9/30/07



## ANNUALIZED RISK RETURN 16 YEARS 1 MONTH ENDING 9/30/07



## EFFECTIVE STYLE MAP 16 YEARS 1 MONTH ENDING 9/30/07



## Third Quarter 2007

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	14.6	50	15.8	41	-1.2
2007 (9 months)	12.1	31	9.1	54	3.0
Trailing 1-Year	19.2 %	30	16.4 %	51	2.8
Trailing 3-Year	13.5	50	13.1	56	0.4
Trailing 5-Year	16.0	44	15.5	53	0.5
Trailing 10-Year	7.0	58	6.6	66	0.4
Since Inception (9/30/91)	11.5	56	11.1	68	0.4

The table above compares the historical annual and cumulative annualized returns of the Delta portfolio and its benchmark, the S&P 500 Index. The table below compares the characteristics of the Delta portfolio with those of the S&P 500 Index.

	Delta	S&P 500
<b>Capitalization Focus</b>	Large	Large
<b>Number of Holdings</b>	108	500
<b>Top 5 Holdings</b>	ExxonMobil General Electric Bank of America Microsoft ChevronTexaco	ExxonMobil General Electric AT&T Microsoft Citigroup
<b>Sector Emphasis</b>	Information Technology	Financials
<b>Cash Allocation</b>	5.0%	N/A
<b>Total Strategy Assets</b>	\$2.4 Billion	N/A
<b>Inception Date</b>	9/30/91	N/A
<b>Portfolio Manager(s)</b>	Team Managed	N/A

# BGI EQUITY INDEX FUND

\$933.8 Million and 28.9% of Fund

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
BGI Equity Index Fund	2.0 %	44	9.2 %	53	16.6 %	49	13.2 %	55	15.5 %	52	6.4 %	--	7/31/97
S&P 500 Index	2.0	44	9.1	54	16.4	51	13.1	56	15.5	53	6.4	--	

### 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 approximated the performance of the S&P 500 Index during the quarter. The energy sector (+9.8%) was among the S&P 500 Index's best performers in the third quarter. Information technology (+6.3%) and industrials (+5.8%) saw significant gains as well. The quarter's weakest performers were the financials (-4.2%) and consumer discretionary (-6.3%) sectors. Both were hurt by the continuing housing slump; the soft market makes mortgage defaults more likely and discourages consumer spending.

As expected, the Fund closely tracked the Index over all the longer-term trailing periods shown above due to the manager's indexing acumen and the Fund's low expenses.

### 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	15.9	40	15.8	41	0.1
2007 (9 months)	9.2	53	9.1	54	0.1
Trailing 1-Year	16.6 %	49	16.4 %	51	0.2
Trailing 3-Year	13.2	55	13.1	56	0.1
Trailing 5-Year	15.5	52	15.5	53	0.0
Since Inception (7/31/97)	6.4	--	6.4	--	0.0

# BGI EXTENDED EQUITY INDEX FUND

\$92.6 Million and 2.9% of Fund

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>BGI Extended Equity</b>	-0.4%	19	9.1%	27	18.8%	22	16.4%	23	19.5%	--	10/31/02
DJ Wilshire 4500 Index	-0.6	20	9.0	28	18.8	22	15.9	30	19.3	--	

### 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 Fund is passively managed using a "fund optimization" technique. The Fund typically invests all, or substantially all, assets in the 1,300 largest stocks in the Index and in a representative sample of the remainder. Stocks are selected based on appropriate industry weightings, market capitalizations, and certain fundamental characteristics (e.g. price/earnings ratio and dividend yield) that closely align the Fund's characteristics with those of its benchmark.

### Commentary on Investment Performance

The BGI Extended Equity Index Fund declined 0.4% and experienced 20 basis points of positive tracking relative to the DJ Wilshire 4500 Index during the quarter. The individual stocks that had the most significant positive impact on the Fund's return during the quarter were Hilton Hotels (+39%), and NVIDIA (+32%), a manufacturer of video and graphics cards. In contrast, stocks that were the main detractors included E\*TRADE (-41%), and Akamai Technologies (-41%), a global service provider for accelerating content and applications online.

As expected, the Fund closely tracked the Index over all the longer-term trailing periods shown above.

### 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	9.9	36	0.6
2006	15.2	45	14.3	50	0.9
2007 (9 months)	9.1	27	9.0	28	0.1
Trailing 1-Year	18.8%	22	18.8%	22	0.0
Trailing 3-Year	16.4	23	15.9	30	0.5
Since Inception (10/31/02)	19.5	--	19.3	--	0.2

# LSV

\$89.2 Million and 2.8% of Fund

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
LSV	-10.7 %	93	-5.6 %	91	2.9 %	92	11.0 %	75	18.1 %	57	13.7 %	58	9/30/98
Russell 2000 Value Index	-6.3	54	-2.7	82	6.1	82	12.5	60	18.7	49	13.0	74	

### 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.

### Manager Monitoring

We informed the Board some time ago about Rob Vishny's plans to begin scaling back his duties in anticipation of retiring. Subsequent to quarter-end, Mr. Vishny officially retired from LSV. He was a founding partner. LSV has increased its researchers in recent years and we feel his departure will not have a material impact on the investment process. A memorandum detailing our observations is included with this report.

### Commentary on Investment Performance

LSV's third quarter return lagged that of the Russell 2000 Value Index by 4.4 percentage points. The manager's deep value approach struggled in an environment where companies possessing high P/E, high P/B and low dividend yields were favored. From a sector perspective, performance was penalized by holdings in the REITs, financials, and industrials sectors. Financial stocks, in general, were hurt by the sub-prime concerns. Some of the portfolio's holdings were directly involved in mortgage lending but in other cases, the experienced secondary impact from the sub-prime fallout. Additionally, the manager reported that an overweight allocation to the consumer discretionary sector hurt while an overweight to the materials sector helped.

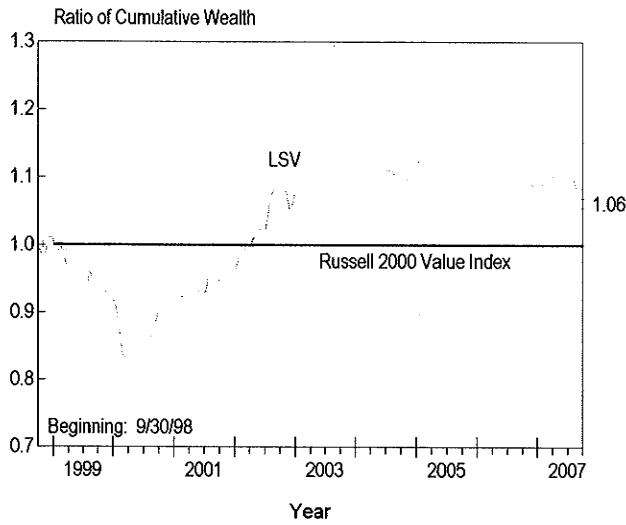
For the trailing one-year period, the portfolio returned 2.9% compared to 6.1% for the Index. The manager's deep value emphasis detracted from results during the period, as more expensive names out-performed in the benchmark. Although the overweight to materials and underweight to REITs added value, stock selection within these sectors detracted from relative performance. The portfolio also lagged in the industrials and financials sectors, which offset relative gains in consumer discretionary and technology sectors.

While positive on an absolute basis, the manager has been unable to add relative value over the trailing three- and five-year periods.

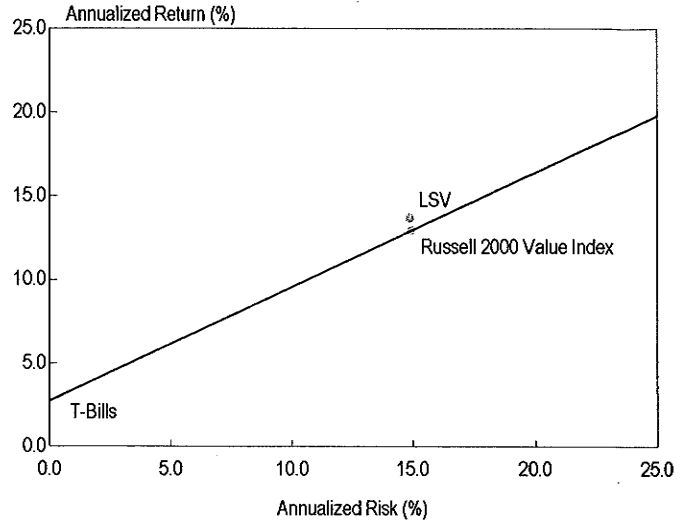


Third Quarter 2007

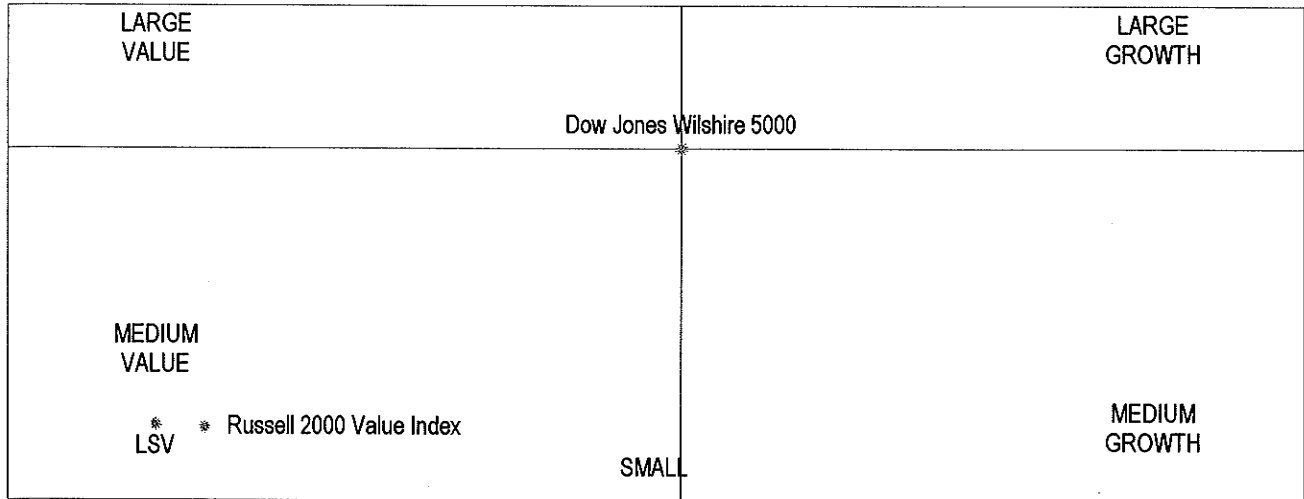
**RATIO OF CUMULATIVE WEALTH  
9 YEARS ENDING 9/30/07**



**ANNUALIZED RISK RETURN  
9 YEARS ENDING 9/30/07**



**EFFECTIVE STYLE MAP  
9 YEARS ENDING 9/30/07**



# LSV

\$89.2 Million and 2.8% of Fund

Third Quarter 2007

## 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	19.3	33	23.5	7	-4.2
2007 (9 months)	-5.6	91	-2.7	82	-2.9
Trailing 1-Year	2.9%	92	6.1%	82	-3.2
Trailing 3-Year	11.0	75	12.5	60	-1.5
Trailing 5-Year	18.1	57	18.7	49	-0.6
Since Inception (9/30/98)	13.7	58	13.0	74	0.7

The table above compares the historical annual and cumulative annualized returns of the LSV portfolio and its benchmark, the Russell 2000 Value Index. The table below compares the characteristics of the LSV portfolio with those of the Russell 2000 Value Index.

	LSV	Russell 2000 Value
<b>Capitalization Focus</b>	Small	Small
<b>Number of Holdings</b>	165	1,264
<b>Top 5 Holdings</b>	FMC Skyworks Solutions Technitrol Quanex Oil States	Exterran Holdings CF Industries Holdings Realty Income Aspen Insurance Holdings Aptargroup
<b>Sector Emphasis</b>	Financial Services	Financial Services
<b>Cash Allocation</b>	0.5%	N/A
<b>Total Strategy Assets</b>	\$2.4 Billion	N/A
<b>Inception Date</b>	9/30/98	N/A
<b>Portfolio Manager(s)</b>	Team Managed	N/A

**Third Quarter 2007**

**RETURN SUMMARY  
ENDING 9/30/07**

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Wasatch</b>	<b>1.7 %</b>	<b>63</b>	<b>8.4 %</b>	<b>89</b>	<b>16.2 %</b>	<b>89</b>	<b>12.2 %</b>	<b>89</b>	<b>16.2 %</b>	<b>86</b>	<b>14.2 %</b>	<b>--</b>	<b>11/30/99</b>
Performance Benchmark*	0.0	82	9.3	84	18.9	83	14.1	73	18.7	59	6.9	--	

**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 Index to the Russell 2000 Growth Index as of December 31, 2001 as a result of the transition.

**Commentary on Investment Performance**

The Wasatch Small Cap Growth Fund registered a gain of 1.7% and outperformed Russell 2000 Growth Index in what was a volatile quarter for U.S. equities. During the period, the Fund benefited from an overweight allocation and strong stock selection in the health care sector, which was one of the market's best-performing sectors. Top holdings that performed well included Healthways, Inc., a provider of disease management services, and Techne Corp., a manufacturer of research kits used in drug development. In addition, stock selection in the financial services and consumer discretionary sectors also added value, which were two very challenging areas of the market during the quarter.

During the last 12 months, Wasatch underperformed the return of the Index by 2.7 percentage points. The manager's below-benchmark exposure to stocks in the materials and processing, producer durables, and energy sectors weighed on performance, as these were the market's three best-performing groups amid continued strength in the global economy and rising commodity prices. Conversely, strong overall performance from the portfolio's health care holdings were the largest positive contribution to returns as a mix of health services and health technology stocks were standout performers.

The manager's longer-term returns are mixed when compared with those of the Performance Benchmark. While the portfolio's trailing three- and five-year returns lagged those of the benchmark, the since-inception result exceeded the benchmark by an impressive 7.3 percentage points, annually. The manager continues to believe that the quality of the companies within the portfolio and the mid-teens earnings growth they expect from them have the potential to pave the way for solid returns over the long run regardless of broad trends in the economy and stock market.

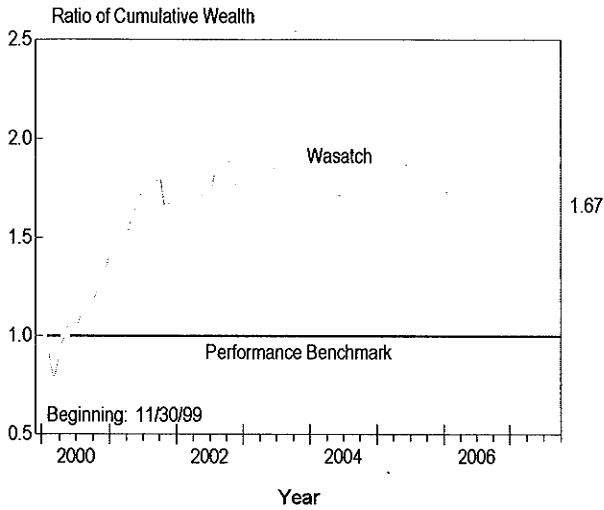
\*The Russell 2000 Growth Index. Prior to December 2001, the Russell 2000 Index.

# WASATCH

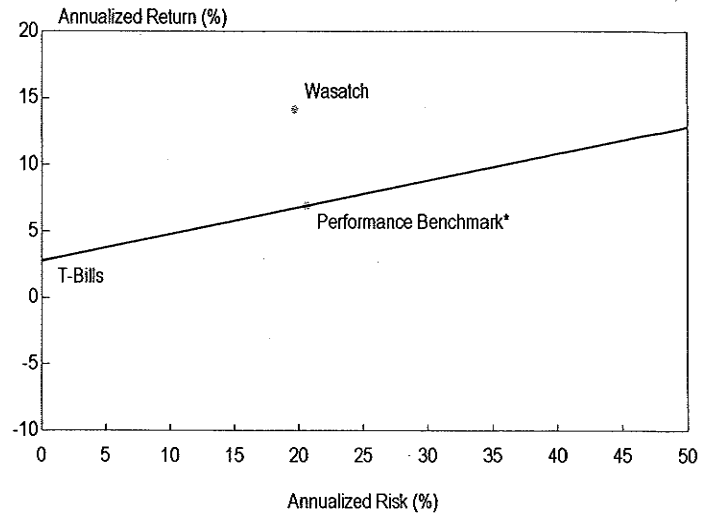
\$92.7 Million and 2.9% of Fund

Third Quarter 2007

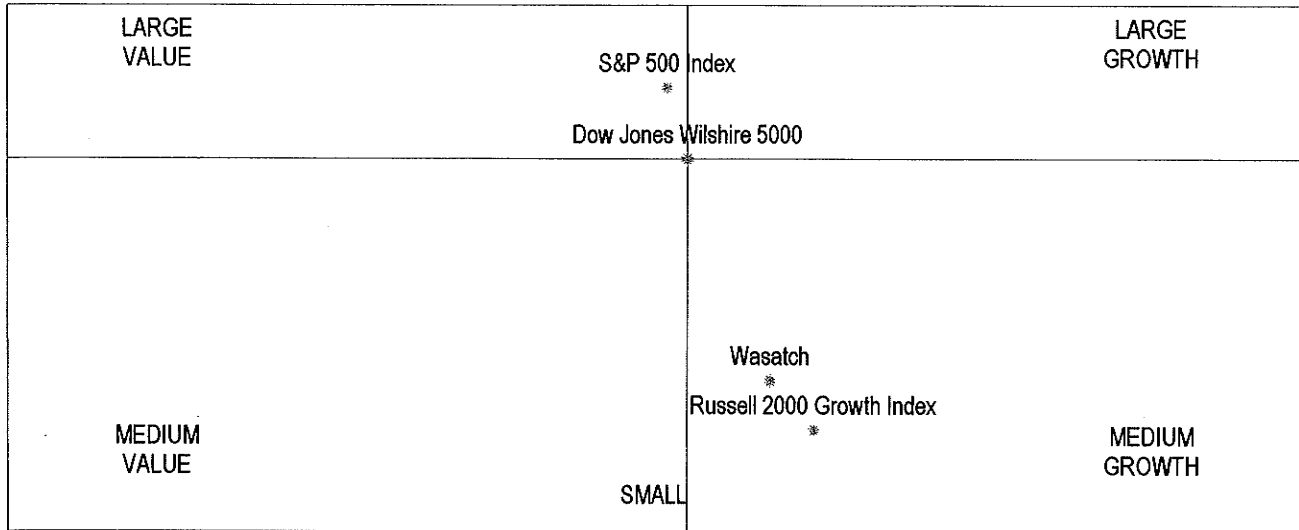
## RATIO OF CUMULATIVE WEALTH 7 YEARS 10 MONTHS ENDING 9/30/07



## ANNUALIZED RISK RETURN 7 YEARS 10 MONTHS ENDING 9/30/07



## EFFECTIVE STYLE MAP 7 YEARS 10 MONTHS ENDING 9/30/07



The style map 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 2007**

**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	8.0	78	13.3	34	-5.3
2007 (9 months)	8.4	89	9.3	84	-0.9
Trailing 1-Year	16.2 %	89	18.9 %	83	-2.7
Trailing 3-Year	12.2	89	14.1	73	-1.9
Trailing 5-Year	16.2	86	18.7	59	-2.5
Since Inception (11/30/99)	14.2	--	6.9	--	7.3

The table above compares the historical annual and cumulative annualized returns of the Wasatch portfolio and the Performance Benchmark. The table below compares the characteristics of the Wasatch portfolio with those of the Russell 2000 Growth Index.

	<b>Wasatch</b>	<b>Russell 2000 Growth</b>
<b>Capitalization Focus</b>	Small	Small
<b>Number of Holdings</b>	91	1,229
<b>Top 5 Holdings</b>	O'Reilly Automotive Knight Transportation Healthways HDFC Bank Techne	Flir Systems Chipotle Mexican Grill Priceline Hologic Kyphon
<b>Sector Emphasis</b>	Healthcare	Consumer Discretionary
<b>Cash Allocation</b>	3.6%	N/A
<b>Total Strategy Assets</b>	\$1.1 billion	N/A
<b>Inception Date</b>	11/30/99	N/A
<b>Portfolio Manager(s)</b>	Jeff Cardon	N/A

# WESTERN U.S. INDEX PLUS

\$97.9 Million and 3.0% of Fund

Third Quarter 2007

## RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Since Inception		Inception Date
	Return	Rank	Return	Rank	
<b>Western U.S. Index Plus</b>	<b>-0.3%</b>	<b>77</b>	<b>-2.2%</b>	<b>--</b>	<b>5/31/07</b>
S&P 500 Index	2.0	44	0.3	--	

### Philosophy and Process

Western employs a value-oriented investment approach that has proven success in adding excess returns across various market cycles. This versatility comes from the manager's multiple sources of value added and focus on finding long-term fundamental value. Western seeks to achieve balance between multiple sources of value added - duration management, yield curve positioning, sector allocation, and security selection - while diversifying risk. Western has one of the deepest teams of investment/risk professionals in the industry. The manager also has dedicated significant resources to analytics and risk management. We would highlight that active sector rotation and portfolio construction are key strengths of Western.

### Commentary on Investment Performance

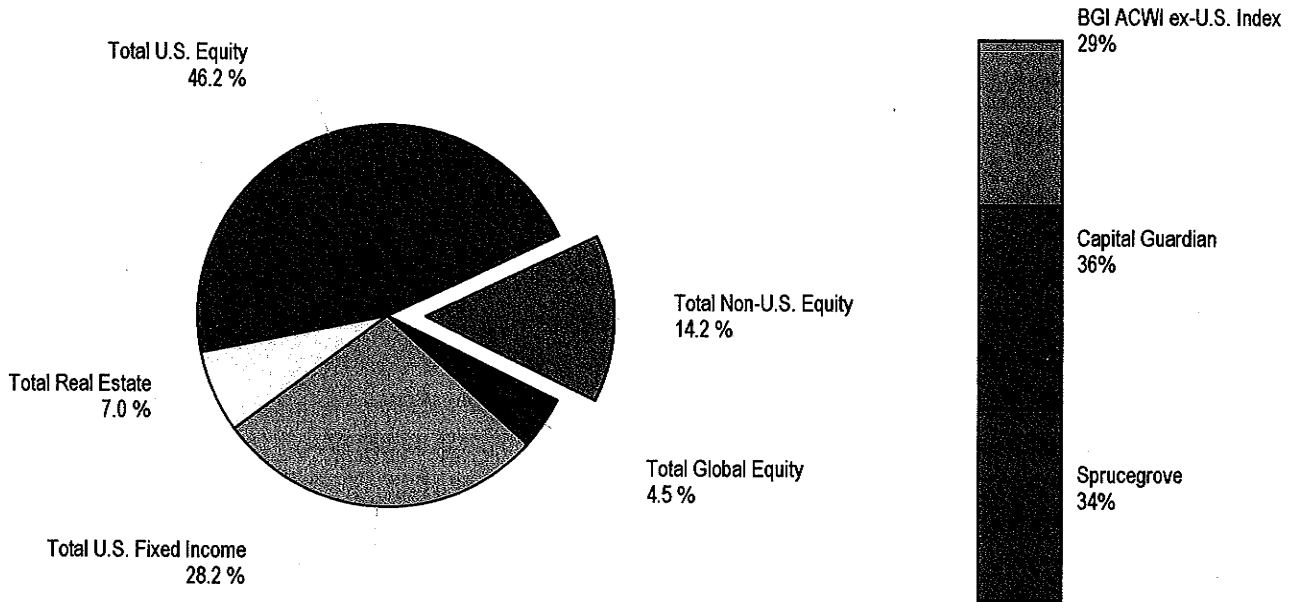
The Western Asset Index Plus portfolio declined 0.3% during the quarter and underperformed the S&P 500 Index by 2.3 percentage points. A significant widening of spreads during the period caused virtually all non-Treasury holdings to underperform, at a time when the manager's Treasury holdings were minimal. Moreover, an overweight allocation to the mortgage-backed sector combined with an overweight allocation to lower quality corporates and high-yield bonds suffered as spreads soared and volatility spiked higher toward the end of the quarter. On the positive side, an emphasis on shorter maturities was rewarded as the yield curve steepened. In addition, the portfolio's moderate exposure to TIPS as an inflation hedge benefited from a 3.3% annualized inflation adjustment.

Since the initial funding in May of 2007, the Western Index Plus portfolio has lagged the S&P 500 Index by 2.5 percentage points. An overweight allocation to the mortgage-backed sector and an emphasis on lower-quality credits detracted significantly from returns as spreads widened and volatility surged.

**TOTAL NON-U.S. EQUITY**  
**\$458.4 Million and 14.2% of Fund**

**Third Quarter 2007**

**ASSET ALLOCATION**  
**ACTUAL AS OF 9/30/07**

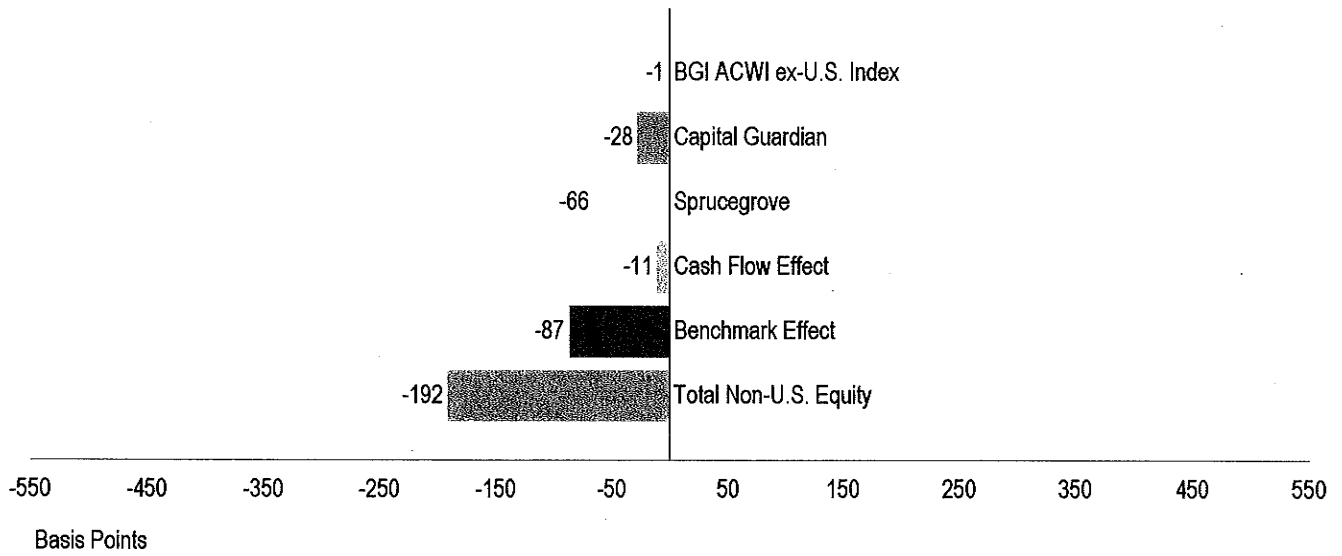


# TOTAL NON-U.S. EQUITY

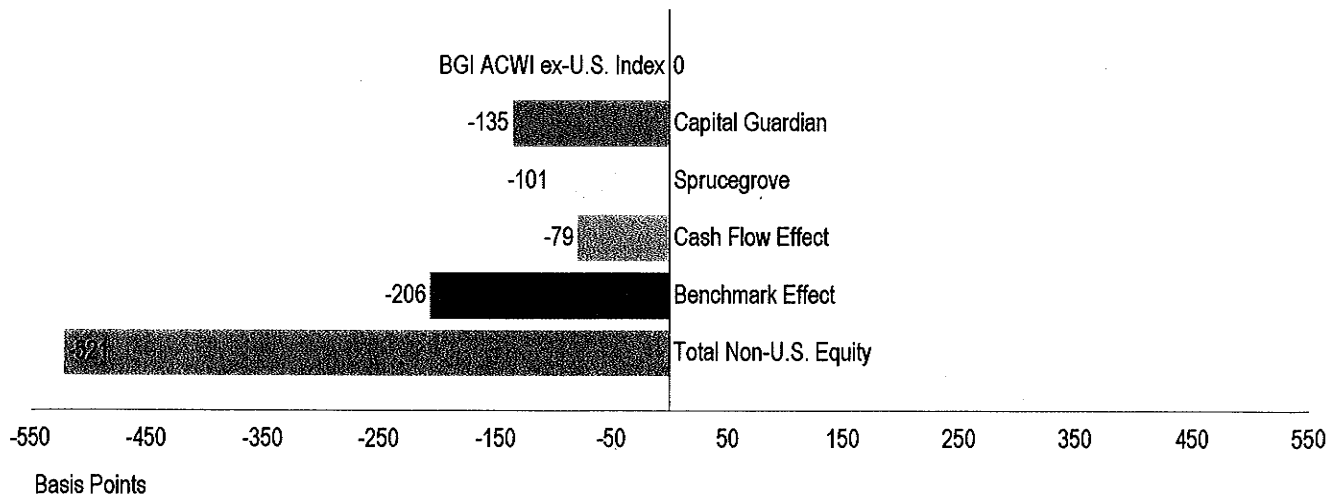
\$458.4 Million and 14.2% of Fund

Third Quarter 2007

## MANAGER ATTRIBUTION ANALYSIS 3 MONTHS ENDING 9/30/07



## MANAGER ATTRIBUTION ANALYSIS 1 YEAR ENDING 9/30/07





**TOTAL NON-U.S. EQUITY**  
**\$458.4 Million and 14.2% of Fund**

**Third Quarter 2007**

**RETURN SUMMARY**  
**ENDING 9/30/07**

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		10 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Total Non-U.S. Equity</b>	<b>2.7 %</b>	<b>57</b>	<b>13.1 %</b>	<b>76</b>	<b>25.3 %</b>	<b>70</b>	<b>24.2 %</b>	<b>48</b>	<b>24.1 %</b>	<b>49</b>	<b>9.5 %</b>	<b>50</b>	<b>10.8 %</b>	<b>34</b>	<b>3/31/94</b>
Performance Benchmark*	4.6	16	17.4	24	30.5	25	26.0	21	25.8	24	8.9	57	9.0	72	
<b>BGI ACWI ex-U.S. Index</b>	<b>4.6</b>	<b>20</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>13.2</b>	<b>22</b>	<b>3/31/07</b>
MSCI All Country World ex-U.S. Index	4.6	20	--	--	--	--	--	--	--	--	--	--	13.2	22	
<b>Capital Guardian</b>	<b>3.8</b>	<b>27</b>	<b>16.4</b>	<b>32</b>	<b>28.0</b>	<b>38</b>	<b>25.6</b>	<b>29</b>	<b>24.8</b>	<b>34</b>	<b>--</b>	<b>--</b>	<b>7.6</b>	<b>--</b>	<b>7/31/00</b>
Performance Benchmark*	4.6	20	17.4	22	30.5	27	26.0	26	25.8	24	--	--	8.8	--	
<b>Sprucegrove</b>	<b>0.3</b>	<b>84</b>	<b>8.6</b>	<b>87</b>	<b>22.0</b>	<b>80</b>	<b>22.2</b>	<b>77</b>	<b>23.2</b>	<b>54</b>	<b>--</b>	<b>--</b>	<b>17.8</b>	<b>26</b>	<b>3/31/02</b>
MSCI EAFE Index	2.2	50	13.2	55	24.9	54	23.2	59	23.6	48	--	--	16.0	51	

**Commentary on Investment Performance**

During the third quarter, the collective return of the non-U.S. equity component advanced 2.7% and underperformed the MSCI All Country World ex-U.S. Index by 1.9 percentage points. Both Sprucegrove and Capital Guardian hindered results due to unfavorable security selection and sector allocation decisions. BGI successfully tracked the performance of the MSCI ACWI ex-U.S. Index.

Despite posting a double-digit gain, the collective return of the non-U.S. equity component continued to struggle during the year-to-date period as both Sprucegrove and Capital Guardian posted below-benchmark returns.

Over the one-year period, the non-U.S. equity component advanced an impressive 25.3% but lagged the Performance Benchmark by approximately 5.2 percentage points. While Sprucegrove accounted for the majority of the performance shortfall, Capital Guardian struggled on a relative basis and further detracted from the period's relative results.

While strong on an absolute basis, longer-term relative performance of the non-U.S. equity component remained mixed. While the component's trailing three- and five-year returns fell short of the Index, the trailing ten-year and since-inception returns remained ahead of the Performance Benchmark.

The attribution analysis on the previous page highlights each manager's contribution to relative performance within VCERA's non-U.S. equity component. The benchmark effect in the quarter and one-year attribution graphs is a result of the cumulative performance of the individual managers' benchmarks (the MSCI All Country World ex-U.S. Index and the MSCI EAFE Index) underperforming the non-U.S. equity components performance benchmark (the MSCI All Country World ex-U.S. Index).

\*The MSCI All Country World ex-U.S. Index. Prior to May 2002, the MSCI EAFE Index.

## BGI ACWI ex-U.S. Index

\$135.1 Million and 4.2% of Fund

Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Since Inception		Inception Date
	Return	Rank	Return	Rank	
<b>BGI ACWI ex-U.S. Index</b>	<b>4.6%</b>	<b>20</b>	<b>13.2%</b>	<b>22</b>	<b>3/31/07</b>
MSCI All Country World ex-U.S. Index	4.6	20	13.2	22	

#### Philosophy and Process

The Barclays Global Investors (BGI) ACWI ex-U.S. Index Fund is designed to track the performance and risk characteristics of the MSCI All Country World ex-U.S. Index

#### Commentary on Investment Performance

The BGI ACWI ex-U.S. Index Fund successfully tracked the performance of the MSCI All Country World ex-U.S. Index during the quarter.

As expected, the Fund closely tracked the MSCI All Country World ex-U.S. Index over all the longer-term trailing period shown above.

**Third Quarter 2007**

**RETURN SUMMARY  
ENDING 9/30/07**

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Capital Guardian	3.8 %	27	16.4 %	32	28.0 %	38	25.6 %	29	24.8 %	34	7.6 %	--	7/31/00
Performance Benchmark*	4.6	20	17.4	22	30.5	27	26.0	26	25.8	24	8.8	--	

**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**

The Capital Guardian non-U.S. equity portfolio underperformed the return of the MSCI All Country World ex-U.S. Index by 0.8 percentage points during the third quarter. Adverse stock selection within the financials and materials sectors detracted from relative returns. An overweight exposure to Japan was another negative contributor, although the strength of the yen softened the impact. Somewhat offsetting the period's underperformance was strong selections within the consumer discretionary and energy sectors. Stock selection within the U.K. and Canada were equally as strong. Helping performance further was an overweight allocation to emerging markets as emerging markets outperformed developed markets during the period.

On a year-to-date basis, performance was 1.0 percentage point below the Performance Benchmark primarily due to poor stock selection in Japanese financials. Stock picks within the industrial, information technology, and health care sectors further detracted from relative results.

Over the trailing one-year period, the portfolio underperformed the benchmark by 2.5 percentage points. The portfolios holdings in the U.K and Continental Europe hurt performance while stock selection in Canadian materials companies and positions in emerging markets had a positive impact to relative results.

The manager has been unable to add value relative to the Index over the longer-term periods highlighted above.

\*The MSCI All Country World ex-U.S. Index. Prior to May 2002, the MSCI EAFE Index.

# CAPITAL GUARDIAN

\$165.8 Million and 5.1% of Fund

Third Quarter 2007

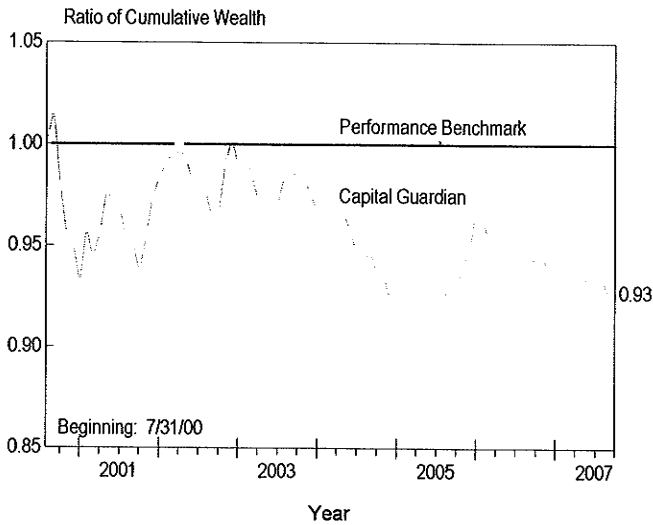
## COUNTRY ALLOCATION RETURNS 3 MONTHS ENDING 9/30/07

	Manager Allocation	Index Allocation	Index Return
<b>Europe</b>			
Austria	0.7 %	0.4 %	-8.4 %
Belgium	0.6	1.0	-4.8
Czech Republic*	0.0	0.1	13.3
Denmark	0.5	0.7	9.0
Finland	1.1	1.5	19.0
France	10.1	7.7	-0.4
Germany	4.9	6.5	3.7
Greece	0.1	0.6	11.1
Hungary*	0.0	0.2	-0.8
Ireland	0.6	0.5	-12.3
Italy	0.5	2.9	0.3
Netherlands	3.6	2.7	5.3
Norway	0.4	0.8	7.6
Poland*	0.1	0.3	0.9
Portugal	0.0	0.3	-6.2
Russia*	1.4	1.6	9.0
Spain	2.6	3.2	5.1
Sweden	0.5	2.0	2.4
Switzerland	6.6	5.0	1.6
United Kingdom	13.0	16.9	0.2
<b>Asia/Pacific</b>			
Australia	2.5 %	5.0 %	11.1 %
China*	2.0	2.9	41.9
Hong Kong	2.4	1.6	23.9
India*	1.2	1.2	20.2
Indonesia*	0.4	0.3	15.3
Japan	20.5	15.6	-0.9
Korea*	2.8	2.8	14.0
Malaysia*	0.8	0.4	1.0
New Zealand	0.0	0.1	-1.0
Pakistan*	--	0.0	-5.9
Philippines*	0.2	0.1	-0.6
Singapore	1.0	0.9	9.0
Sri Lanka*	0.0	0.0	-8.7
Taiwan, China*	2.6	2.0	6.4
Thailand*	0.2	0.2	13.4
<b>Americas</b>			
Argentina*	0.0 %	0.1 %	3.1 %
Brazil*	2.3	2.1	20.7
Canada	6.2	6.4	9.5
Chile*	0.1	0.2	-2.6
Colombia*	0.1	0.1	-0.5
Mexico*	2.4	0.9	-4.4
Peru*	0.0	0.1	22.1
United States	0.4	0.0	2.0
Venezuela*	--	0.0	-8.8
<b>Other</b>			
Egypt*	0.5 %	0.1 %	11.7 %
Israel*	0.4	0.4	8.0
Jordan*	0.0	0.0	-4.0
Morocco*	0.0	0.1	14.1
South Africa*	1.8	1.2	6.0
Turkey*	0.5	0.3	24.4
Other Countries*	0.3	--	--
<b>Cash</b>			
Cash	1.3 %	--	--
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>4.6 %</b>
Developed	78.7	82.1	
Emerging*	20.1	17.9	
Cash	1.3	--	

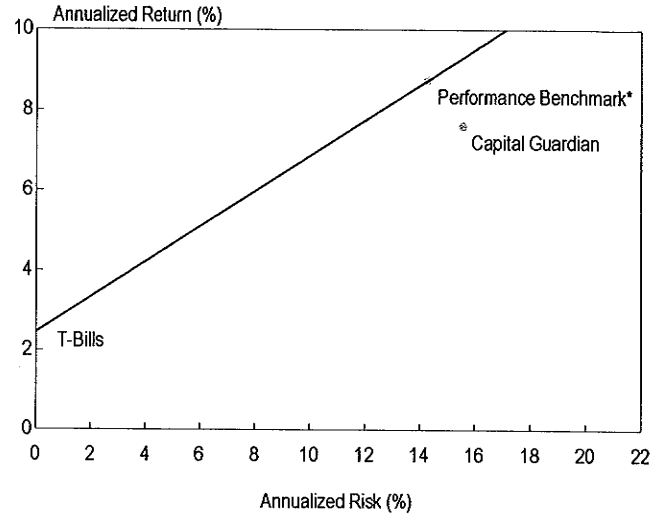
\*Emerging market countries

**Third Quarter 2007**

**RATIO OF CUMULATIVE WEALTH  
7 YEARS 2 MONTHS ENDING 9/30/07**



**ANNUALIZED RISK RETURN  
7 YEARS 2 MONTHS ENDING 9/30/07**



	<b>Capital Guardian</b>	<b>MSCI All Country World ex-U.S. Index</b>
<b>Country Emphasis</b>	Japan 20.5% United Kingdom 13.0% France 10.1% Switzerland 6.6% Canada 6.2%	United Kingdom 16.9% Japan 15.6% France 7.7% Germany 6.5% Canada 6.4%
<b>Capitalization/Style Factors</b>	Large Value	Large/Blend
<b>Average Market Capitalization</b>	\$56.0 billion	\$9.0 billion
<b>Number of Holdings</b>	220	2,089
<b>Top 5 Holdings</b>	Royal Dutch Shell Potash Corp. of Saskatchewan BAE Systems Barrick Gold SOFTBANK	BP HSBC Vodafone Group Nestle Total
<b>Sector Emphasis</b>	Financials	Financials
<b>Cash Allocation</b>	1.3%	N/A
<b>Annual Turnover</b>	32.0%	N/A
<b>Annual Expense Ratio</b>	N/A	
<b>Total Fund Assets</b>	\$165.8 billion	N/A
<b>Inception Date</b>	7/14/2000	N/A
<b>Portfolio Manager</b>	Team Approach	N/A

# CAPITAL GUARDIAN

\$165.8 Million and 5.1% of Fund

Third Quarter 2007

## 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	22.6	78	26.6	46	-4.0
2007 (9 months)	16.4	32	17.4	22	-1.0
Trailing 1-Year	28.0 %	38	30.5 %	27	-2.5
Trailing 3-Year	25.6	29	26.0	26	-0.4
Trailing 5-Year	24.8	34	25.8	24	-1.0
Since Inception (7/31/00)	7.6	--	8.8	--	-1.2

The table above compares the historical annual and cumulative annualized returns of the Capital Guardian portfolio and its Performance Benchmark.

**Third Quarter 2007**

**RETURN SUMMARY  
ENDING 9/30/07**

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Sprucegrove</b>	<b>0.3 %</b>	<b>84</b>	<b>8.6 %</b>	<b>87</b>	<b>22.0 %</b>	<b>80</b>	<b>22.2 %</b>	<b>77</b>	<b>23.2 %</b>	<b>54</b>	<b>17.8 %</b>	<b>26</b>	<b>3/31/02</b>
MSCI EAFE Index	2.2	50	13.2	55	24.9	54	23.2	59	23.6	48	16.0	51	

**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 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 0.3% return lagged that of the MSCI EAFE Index by 1.9 percentage points during the quarter. The quarter's below-Index result was due to poor stock selection in the U.K., Ireland and Australia, which was only partially offset by out-performance in Japan and a positive contribution from the portfolio's emerging market exposure. From a sector perspective, significant weakness in the portfolio's U.K. and Irish building and financial related holdings held performance back as building materials suppliers Wolseley (U.K./Industrials) and Grafton (Ireland/Industrials), and homebuilder Barratt Developments (U.K./Consumer Discretionary), as well as Irish Life & Permanent (Ireland/Financials), all traded significantly lower on heightened concern surrounding the health of the U.K. and Irish housing markets.

Due to the adverse performance during the third quarter, Sprucegrove's year-to-date return lagged those of the Index.

Sprucegrove's one-year return was strong in absolute terms; however, the return lagged that of the MSCI EAFE Index by 2.9 percentage points. Hurting relative performance was poor stock selection within the consumer discretionary and industrials sectors.

Long-term performance remained mixed as the three- and five-year results placed modestly below the benchmark while the since-inception results remained more favorable due to the manager's value orientation and adept stock selection.

# SPRUCEGROVE

\$157.5 Million and 4.9% of Fund

Third Quarter 2007

## COUNTRY ALLOCATION/RETURNS 3 MONTHS ENDING 9/30/07

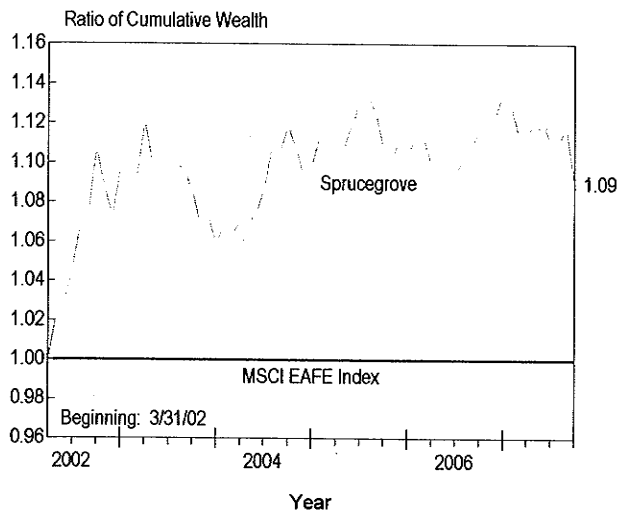
	Manager Allocation	Index Allocation	Index Return
<b>Europe</b>			
Austria	0.0%	0.6%	-8.4%
Belgium	0.0	1.3	-4.8
Czech Republic*	0.0	0.0	13.3
Denmark	0.4	0.9	9.0
Finland	0.3	1.9	19.0
France	3.7	10.2	-0.4
Germany	3.8	8.5	3.7
Greece	1.3	0.8	11.1
Hungary*	1.3	0.0	-0.8
Ireland	6.6	0.7	-12.3
Italy	3.7	3.8	0.3
Netherlands	4.6	3.6	5.3
Norway	0.3	1.1	7.6
Poland*	0.0	0.0	0.9
Portugal	0.0	0.4	-6.2
Russia*	0.0	0.0	9.0
Spain	1.8	4.2	5.1
Sweden	0.0	3.0	2.4
Switzerland	10.7	7.0	1.6
United Kingdom	23.1	22.4	0.2
<b>Asia/Pacific</b>			
Australia	1.8%	6.7%	11.1%
China*	0.0	0.0	41.9
Hong Kong	4.3	2.1	23.9
India*	1.8	0.0	20.2
Indonesia*	0.0	0.0	15.3
Japan	10.1	20.6	-0.9
Korea*	3.4	0.0	14.0
Malaysia*	0.5	0.0	1.0
New Zealand	0.0	0.2	-1.0
Pakistan*	0.0	0.0	-5.9
Philippines*	0.0	0.0	-0.6
Singapore	4.6	0.1	9.0
Sri Lanka*	0.0	0.0	-8.7
Taiwan, China*	0.0	0.0	6.4
Thailand*	0.0	0.0	13.4
<b>Americas</b>			
Argentina*	0.0%	0.0%	3.1%
Brazil*	2.4	0.0	20.7
Canada	2.9	0.0	9.5
Chile*	0.0	0.0	-2.6
Colombia*	0.0	0.0	-0.5
Mexico*	3.6	0.0	-4.4
Peru*	0.0	0.0	22.1
United States	0.0	0.0	2.0
Venezuela*	0.0	0.0	-8.8
<b>Other</b>			
Egypt*	0.0%	0.0%	11.7%
Israel*	0.0	0.0	8.0
Jordan*	0.0	0.0	-4.0
Morocco*	0.0	0.0	14.1
South Africa*	1.1	0.0	6.0
Turkey*	0.0	0.0	24.4
Other Countries*	0.0	--	--
<b>Cash</b>			
Cash	1.8%	--	--
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2.2%</b>
Developed	84.0	100.0	
Emerging*	14.2	0.0	
Cash	1.8	--	

\*Emerging market countries

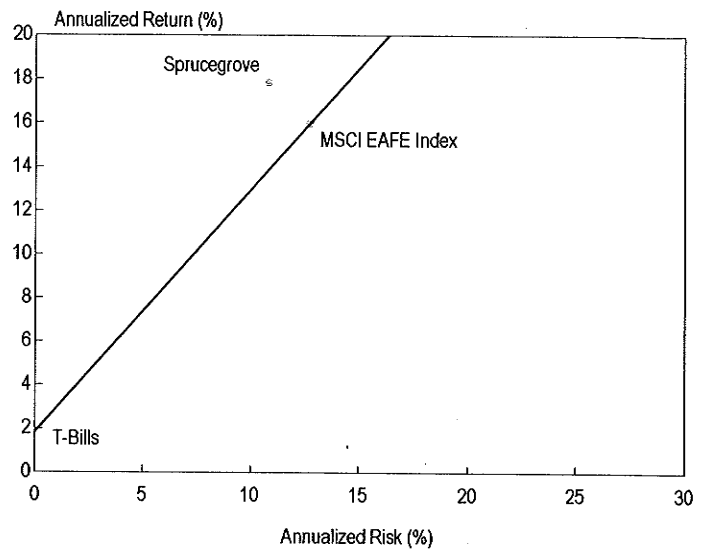


**Third Quarter 2007**

**RATIO OF CUMULATIVE WEALTH  
5 YEARS 6 MONTHS ENDING 9/30/07**



**ANNUALIZED RISK RETURN  
5 YEARS 6 MONTHS ENDING 9/30/07**



	<b>Sprucegrove</b>	<b>MSCI EAFE</b>
<b>Country Emphasis</b>	United Kingdom 23.1% Switzerland 10.7% Japan 10.1% Ireland 6.6% Singapore 4.6%	United Kingdom 22.3% Japan 20.6% France 10.2% Germany 8.5% Switzerland 6.6%
<b>Capitalization/Style Factors</b>	Large Value	Large/Blend
<b>Average Market Capitalization</b>	\$35.6 billion	\$12.5 billion
<b>Number of Holdings</b>	108	1,139
<b>Top 5 Holdings</b>	Nestle Total Petrobras ENI SpA Allied Irish Banks	BP HSBC Vodafone Group Nestle Total
<b>Sector Emphasis</b>	Financials	Financials
<b>Cash Allocation</b>	1.8%	N/A
<b>Annual Turnover</b>	8.0%	N/A
<b>Annual Expense Ratio</b>	N/A	N/A
<b>Total Fund Assets</b>	\$1.2 billion	N/A
<b>Inception Date</b>	4/1/2002	N/A
<b>Portfolio Manager</b>	Team Approach	N/A

# SPRUCEGROVE

\$157.5 Million and 4.9% of Fund

Third Quarter 2007

## HISTORICAL RETURNS

(BY YEAR)

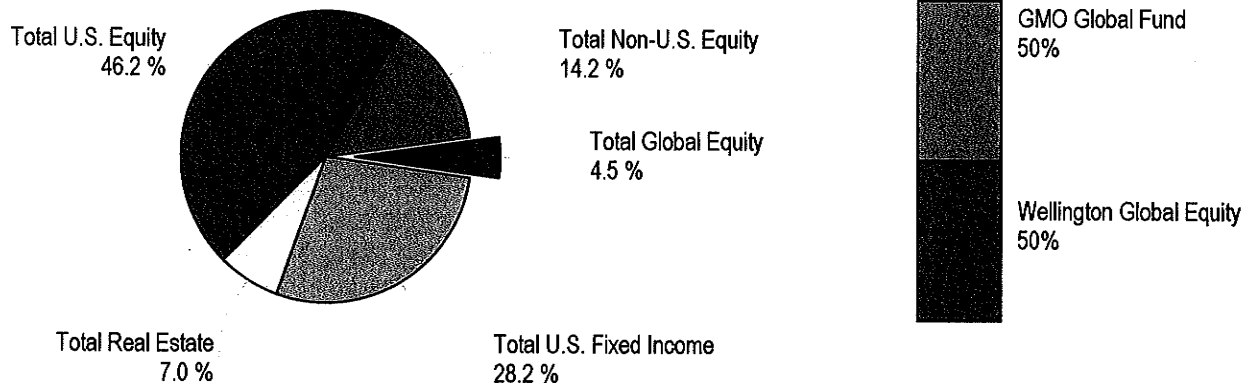
	Sprucegrove		MSCI EAFE Index		Return Difference
	Return	Rank	Return	Rank	
2002 (9 months)	-8.2%	22	-16.4%	57	8.2
2003	33.8	65	38.6	40	-4.8
2004	24.6	9	20.2	33	4.4
2005	14.3	61	13.6	69	0.7
2006	29.9	20	26.3	50	3.6
2007 (9 months)	8.6	87	13.2	55	-4.6
Trailing 1-Year	22.0%	80	24.9%	54	-2.9
Trailing 3-Year	22.2	77	23.2	59	-1.0
Since Inception (3/31/02)	17.8	26	16.0	51	1.8

The table above compares the historical annual and cumulative annualized returns of the Sprucegrove portfolio and its benchmark, the MSCI EAFE Index.

**TOTAL GLOBAL EQUITY**  
**\$145.3 Million and 4.5% of Fund**

**Third Quarter 2007**

**ASSET ALLOCATION**  
**ACTUAL AS OF 9/30/07**

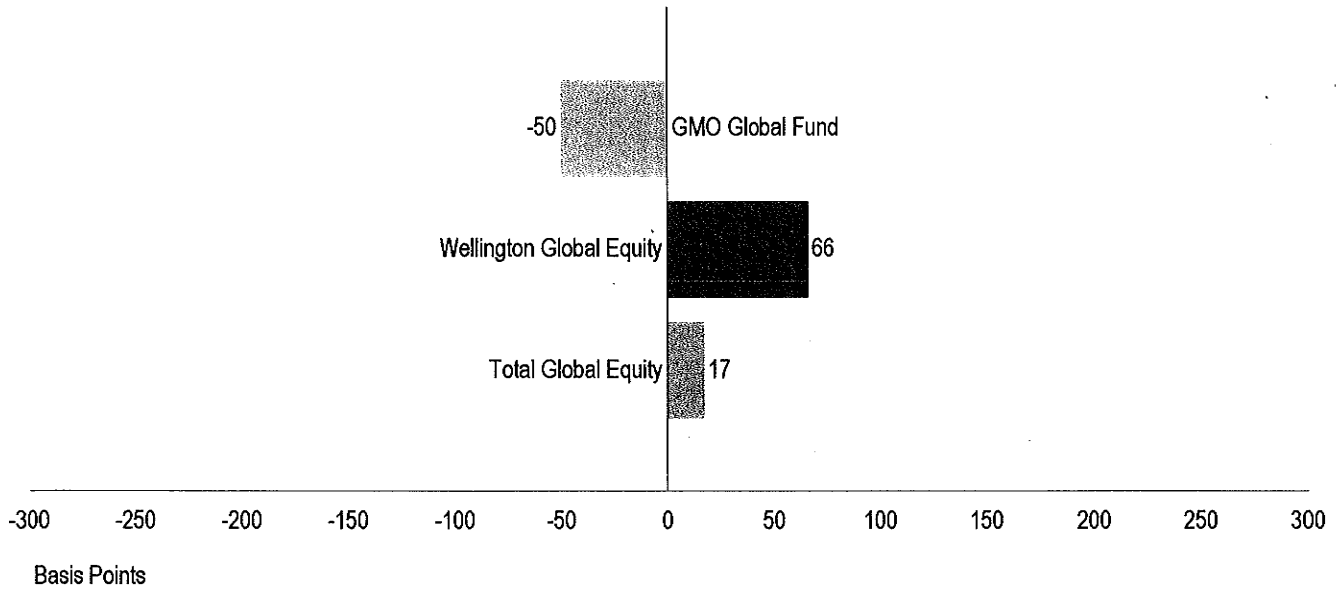


# TOTAL GLOBAL EQUITY

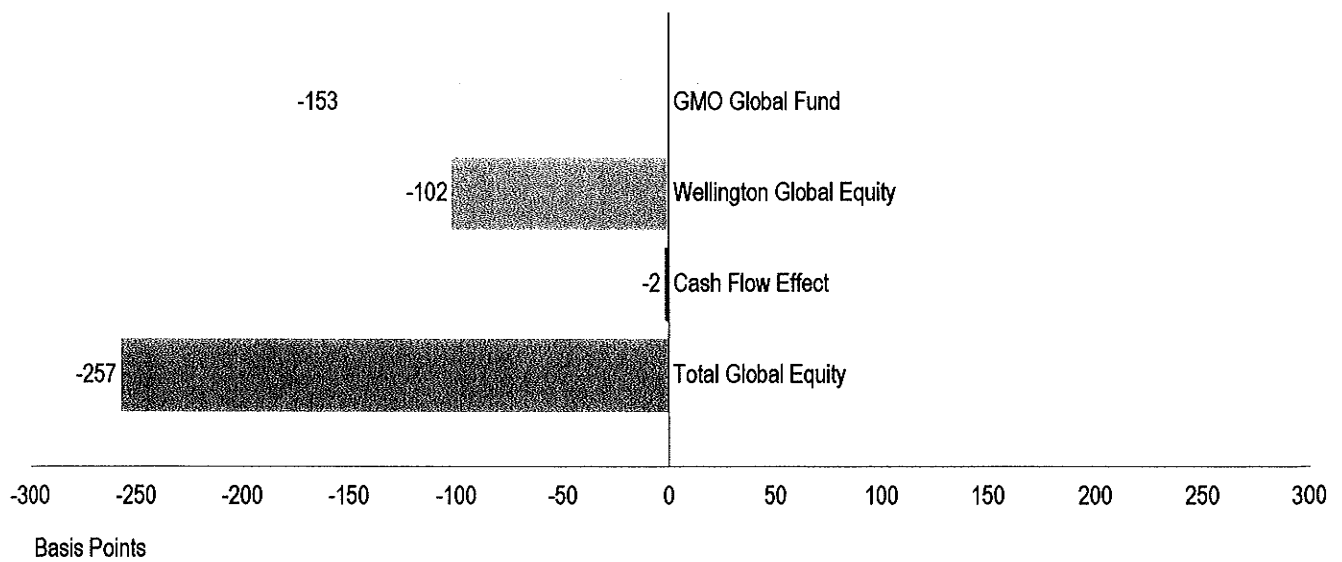
\$145.3 Million and 4.5% of Fund

Third Quarter 2007

## MANAGER ATTRIBUTION ANALYSIS 3 MONTHS ENDING 9/30/07



## MANAGER ATTRIBUTION ANALYSIS 1 YEAR ENDING 9/30/07



**TOTAL GLOBAL EQUITY**  
**\$145.3 Million and 4.5% of Fund**

**Third Quarter 2007**

**RETURN SUMMARY**  
**ENDING 9/30/07**

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Total Global Equity</b>	<b>3.6 %</b>	<b>31</b>	<b>12.1 %</b>	<b>43</b>	<b>21.4 %</b>	<b>50</b>	<b>18.6 %</b>	<b>--</b>	<b>4/30/05</b>
MSCI All Country World Index	3.5	32	13.7	35	24.0	35	20.6	--	
<b>GMO Global Fund</b>	<b>2.5</b>	<b>46</b>	<b>11.8</b>	<b>45</b>	<b>21.0</b>	<b>55</b>	<b>19.0</b>	<b>--</b>	<b>4/30/05</b>
MSCI All Country World Index	3.5	32	13.7	35	24.0	35	20.6	--	
<b>Wellington Global Equity</b>	<b>4.8</b>	<b>26</b>	<b>12.5</b>	<b>42</b>	<b>21.9</b>	<b>48</b>	<b>18.3</b>	<b>--</b>	<b>5/31/05</b>
MSCI All Country World Index	3.5	32	13.7	35	24.0	35	20.5	--	

**Commentary on Investment Performance**

The collective return of the global equity component advanced 3.6% during the quarter and outperformed the MSCI All Country World Index by 0.1 percentage point. GMO struggled in relative terms and underperformed the Index by 1.0 percentage point. Wellington added approximated 1.3 percentage points of value above the Index.

While strong on an absolute basis, the global equity component's year-to-date and trailing one-year results lagged those of the Index. Both managers hindered results.

Longer-term relative performance of the global equity component fell short of the Index.

The attribution analysis on the previous page highlights each manager's contribution to relative performance within VCERA's global equity component over the past three-month and trailing one-year periods. The bar labeled "Cash Flow Effect" illustrates the effect on performance by the timing of cash contributions, withdrawals, and asset movements between accounts. The "Total" bar in these graphs represents the difference between the global equity component's return and that of the Index.

# GMO

\$73.0 Million and 2.3% of Fund

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>GMO Global Fund</b>	<b>2.5%</b>	<b>46</b>	<b>11.8%</b>	<b>45</b>	<b>21.0%</b>	<b>55</b>	<b>19.0%</b>	<b>--</b>	<b>4/30/05</b>
MSCI All Country World Index	3.5	32	13.7	35	24.0	35	20.6	--	

### 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 2.5% during the quarter and underperformed the MSCI All Country World Index by 1.0 percentage point. The manager's decision to underweight U.S.-based companies in favor of those overseas was beneficial; however stock selection in several of the underlying funds that make up the portfolio was poor. The strategies that underperformed their respective benchmarks during the quarter included both U.S. stock strategies, both emerging market strategies, and the International Value strategy. Additionally, a lower-than-Index allocation to emerging markets held performance back as emerging markets, in general, outperformed both the U.S. and developed country markets by a considerable margin.

While positive on an absolute basis, the manager's year-to-date results lagged those of the Index.

Over the trailing twelve months, the portfolio posted a strong absolute return of 21.0%, but failed to keep pace with the MSCI All Country World Index. The manager's high-quality, large-cap stock emphasis continued to be unrewarded and remained a significant impediment to relative results. GMO continues to believe more attractive opportunities can be found abroad, hence the corresponding overweight in non-U.S. equities. In addition, the manager continues to believe that low quality stocks within the U.S. are overvalued and high quality stocks represent the best opportunity.

Since GMO's inception with VCERA, the manager has lagged the return of the MSCI All Country World Index by an annualized 1.6 percentage points.

## Third Quarter 2007

COUNTRY ALLOCATION/RETURNS  
3 MONTHS ENDING 9/30/07

	Manager Allocation	Index Allocation	Index Return
<b>Europe</b>			
Austria	0.3 %	0.3 %	-8.4 %
Belgium	1.0	0.6	-4.8
Czech Republic*	0.0	0.1	13.3
Denmark	0.7	0.4	9.0
Finland	1.3	0.8	19.0
France	5.7	4.4	-0.4
Germany	7.4	3.7	3.7
Greece	0.1	0.3	11.1
Hungary*	0.1	0.1	-0.8
Ireland	0.7	0.3	-12.3
Italy	1.6	1.6	0.3
Netherlands	2.0	1.5	5.3
Norway	0.6	0.5	7.6
Poland*	0.2	0.2	0.9
Portugal	0.0	0.2	-6.2
Russia*	0.8	0.9	9.0
Spain	1.3	1.8	5.1
Sweden	2.1	1.1	2.4
Switzerland	2.1	2.9	1.6
United Kingdom	11.1	9.7	0.2
<b>Asia/Pacific</b>			
Australia	2.9 %	2.9 %	11.1 %
China*	1.2	1.7	41.9
Hong Kong	1.4	0.9	23.9
India*	0.6	0.7	20.2
Indonesia*	0.1	0.2	15.3
Japan	11.5	9.0	-0.9
Korea*	1.3	1.6	14.0
Malaysia*	0.2	0.2	1.0
New Zealand	0.0	0.1	-1.0
Pakistan*	--	0.0	-5.9
Philippines*	0.0	0.1	-0.6
Singapore	1.8	0.5	9.0
Sri Lanka*	--	0.0	-8.7
Taiwan, China*	0.9	1.2	6.4
Thailand*	0.1	0.1	13.4
<b>Americas</b>			
Argentina*	0.0 %	0.1 %	3.1 %
Brazil*	1.0	1.2	20.7
Canada	0.4	3.7	9.5
Chile*	0.1	0.1	-2.6
Colombia*	--	0.0	-0.5
Mexico*	0.4	0.5	-4.4
Peru*	0.0	0.1	22.1
United States	35.1	42.6	2.0
Venezuela*	--	0.0	-8.8
<b>Other</b>			
Egypt*	0.0 %	0.1 %	11.7 %
Israel*	0.2	0.2	8.0
Jordan*	--	0.0	-4.0
Morocco*	--	0.0	14.1
South Africa*	0.6	0.7	6.0
Turkey*	0.0	0.2	24.4
<b>Cash</b>			
Cash	1.4 %	--	--
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>3.5 %</b>
Developed	90.8	89.7	
Emerging*	7.8	10.3	
Cash	1.4	--	

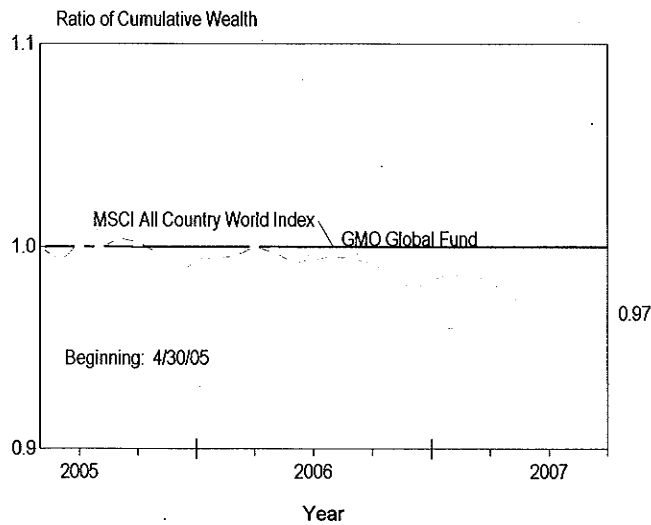
\*Emerging market countries

# GMO Global Fund

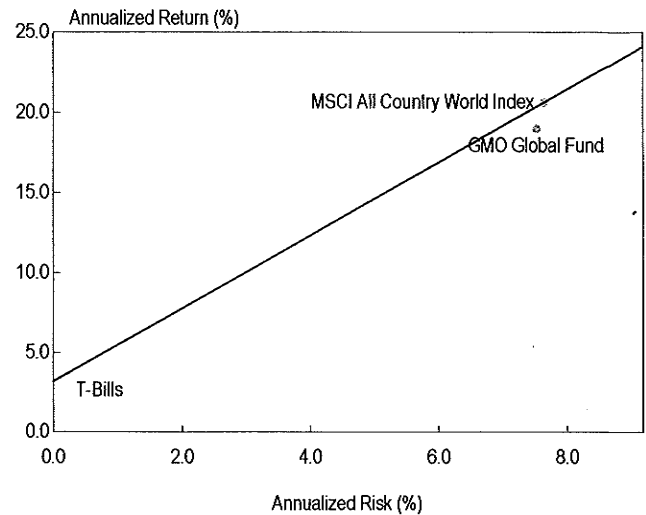
\$73.0 Million and 2.3% of Fund

Third Quarter 2007

## RATIO OF CUMULATIVE WEALTH 2 YEARS 5 MONTHS ENDING 9/30/07



## ANNUALIZED RISK RETURN 2 YEARS 5 MONTHS ENDING 9/30/07



## HISTORICAL RETURNS (BY YEAR)

	GMO Global Fund		MSCI All Country World Index		Return Difference
	Return	Rank	Return	Rank	
2005 (8 months)	13.7 %	--	14.4 %	--	-0.7
2006	19.7	52	21.0	47	-1.3
2007 (9 months)	11.8	45	13.7	35	-1.9
Trailing 1-Year	21.0 %	55	24.0 %	35	-3.0
Since Inception (4/30/05)	19.0	--	20.6	--	-1.6



## Third Quarter 2007

RETURN SUMMARY  
ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Wellington Global Equity</b>	<b>4.8 %</b>	<b>26</b>	<b>12.5 %</b>	<b>42</b>	<b>21.9 %</b>	<b>48</b>	<b>18.3 %</b>	<b>--</b>	<b>5/31/05</b>
MSCI All Country World Index	3.5	32	13.7	35	24.0	35	20.5	--	

**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.

**Manager Monitoring**

In October, the Board decided to terminate the Wellington Global Research Equity in favor of a 130/30 global equity strategy managed by Acadian due to reduced confidence level in the Wellington's ability to provide outperformance going forward.

**Commentary on Investment Performance**

The Global Research Equity Portfolio returned 4.8% during the third quarter and outperformed the MSCI All-Country World Index by 1.3 percentage points. Positive relative results in eight of the ten broad market sectors drove the portfolio's outperformance during the quarter. Specifically, strong stock selection within the financials, materials, telecommunication services, and consumer discretionary sectors contributed most to relative results. Within the materials sector, Cia Vale do Rio Doce, a Brazilian metals and mining company, and Vedanta Resources, a London-based diversified metals and mining company rose as strong global demand fueled higher prices.

The manager's year-to-date and one-year results lagged those of the Index.

While positive on an absolute basis, the manager has been unable to add relative value since its inception with VCERA in 2005.

# WELLINGTON

\$72.2 Million and 2.2% of Fund

Third Quarter 2007

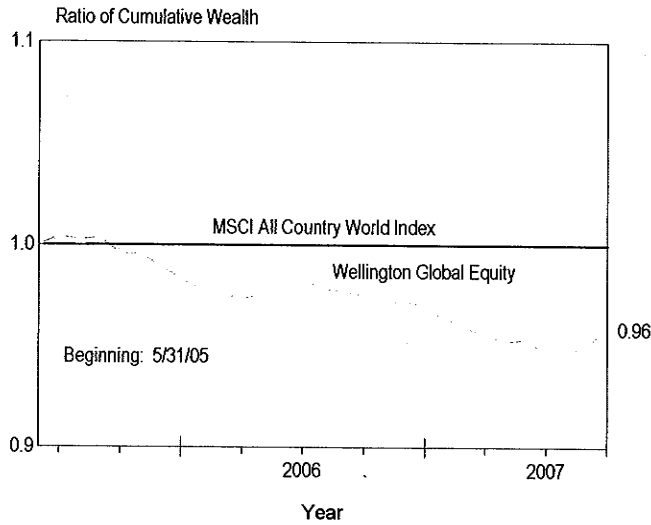
## COUNTRY ALLOCATION RETURNS 3 MONTHS ENDING 9/30/07

	Manager Allocation	Index Allocation	Index Return
<b>Europe</b>			
Austria	--	0.3%	-8.4%
Belgium	0.3%	0.6	-4.8
Czech Republic*	--	0.1	13.3
Denmark	--	0.4	9.0
Finland	1.6	0.8	19.0
France	5.8	4.4	-0.4
Germany	4.7	3.7	3.7
Greece	--	0.3	11.1
Hungary*	--	0.1	-0.8
Ireland	2.5	0.3	-12.3
Italy	1.5	1.6	0.3
Netherlands	2.4	1.5	5.3
Norway	0.2	0.5	7.6
Poland*	--	0.2	0.9
Portugal	--	0.2	-6.2
Russia*	3.6	0.9	9.0
Spain	1.5	1.8	5.1
Sweden	1.2	1.1	2.4
Switzerland	4.4	2.9	1.6
United Kingdom	5.5	9.7	0.2
<b>Asia/Pacific</b>			
Australia	1.4%	2.9%	11.1%
China*	1.3	1.7	41.9
Hong Kong	0.9	0.9	23.9
India*	0.3	0.7	20.2
Indonesia*	0.5	0.2	15.3
Japan	7.1	9.0	-0.9
Korea*	--	1.6	14.0
Malaysia*	--	0.2	1.0
New Zealand	--	0.1	-1.0
Pakistan*	--	0.0	-5.9
Philippines*	--	0.1	-0.6
Singapore	--	0.5	9.0
Sri Lanka*	--	0.0	-8.7
Taiwan, China*	0.8	1.2	6.4
Thailand*	--	0.1	13.4
<b>Americas</b>			
Argentina*	--	0.1%	3.1%
Brazil*	3.7%	1.2	20.7
Canada	3.5	3.7	9.5
Chile*	--	0.1	-2.6
Colombia*	--	0.0	-0.5
Mexico*	--	0.5	-4.4
Peru*	--	0.1	22.1
United States	41.8	42.6	2.0
Venezuela*	--	0.0	-8.8
<b>Other</b>			
Egypt*	0.7%	0.1%	11.7%
Israel*	--	0.2	8.0
Jordan*	--	0.0	-4.0
Morocco*	--	0.0	14.1
South Africa*	0.5	0.7	6.0
Turkey*	0.9	0.2	24.4
<b>Cash</b>			
Cash	1.5%	--	--
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3.5%</b>
Developed	86.3	89.7	
Emerging*	12.2	10.3	
Cash	1.5	--	

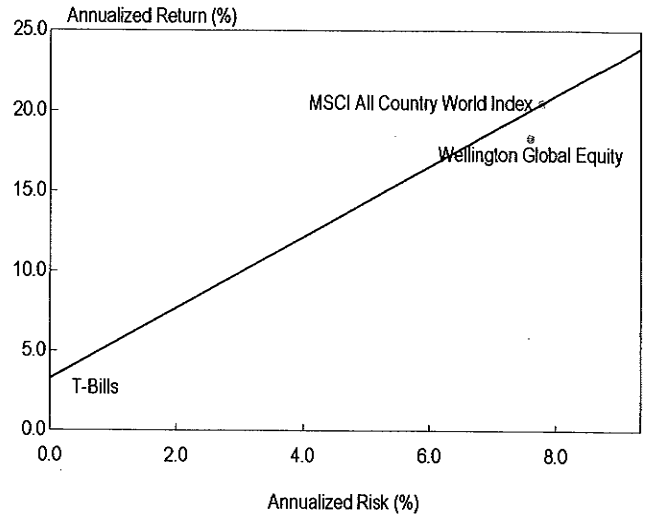
\*Emerging market countries

**Third Quarter 2007**

**RATIO OF CUMULATIVE WEALTH  
 2 YEARS 4 MONTHS ENDING 9/30/07**



**ANNUALIZED RISK RETURN  
 2 YEARS 4 MONTHS ENDING 9/30/07**



**HISTORICAL RETURNS  
 (BY YEAR)**

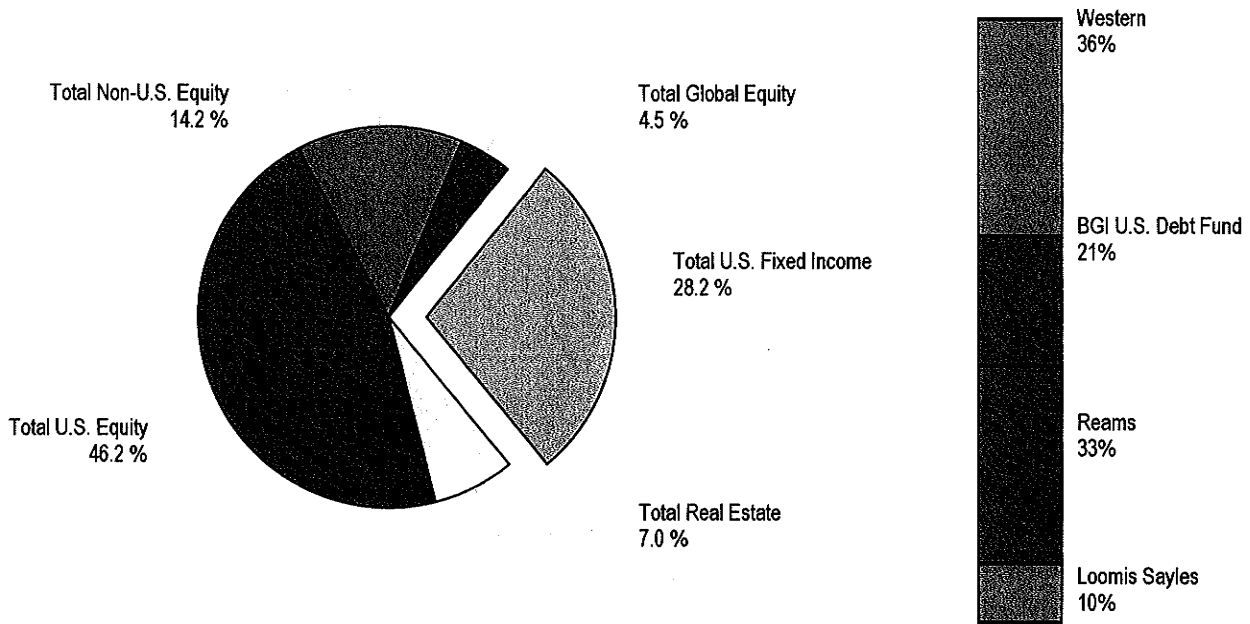
	Wellington Global Equity		MSCI All Country World Index		Return Difference
	Return	Rank	Return	Rank	
2005 (7 months)	10.5%	--	12.3%	--	-1.8
2006	19.2	53	21.0	47	-1.8
2007 (9 months)	12.5	42	13.7	35	-1.2
Trailing 1-Year	21.9%	48	24.0%	35	-2.1
Since Inception (5/31/05)	18.3	--	20.5	--	-2.2

# TOTAL U.S. FIXED INCOME

\$911.9 Million and 28.2% of Fund

Third Quarter 2007

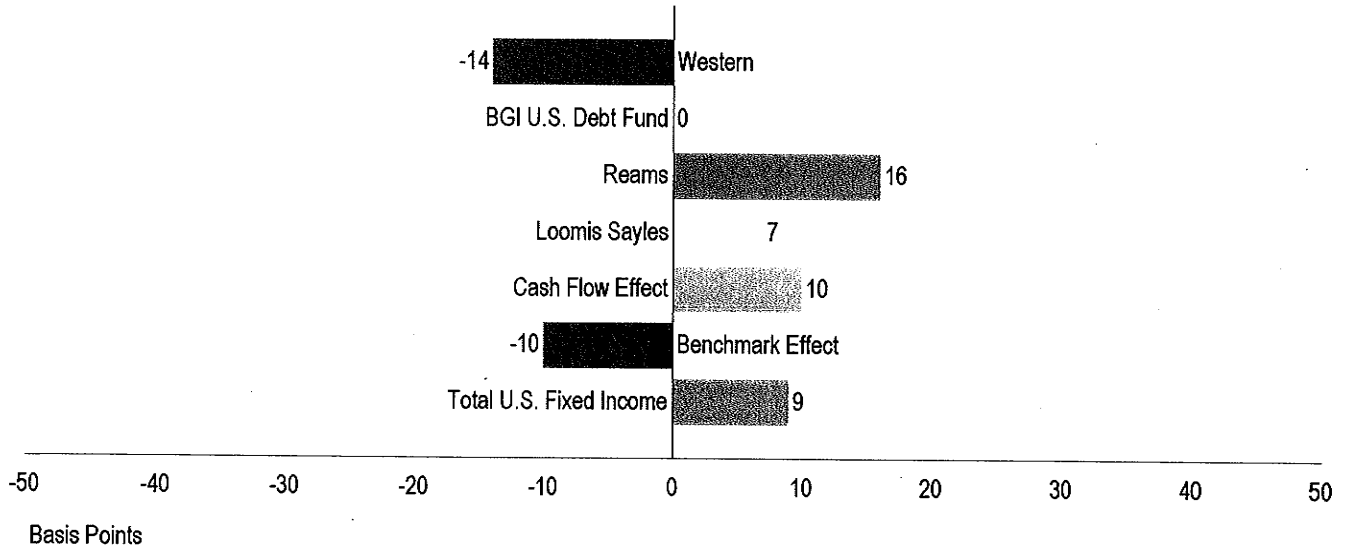
## ASSET ALLOCATION ACTUAL AS OF 9/30/07



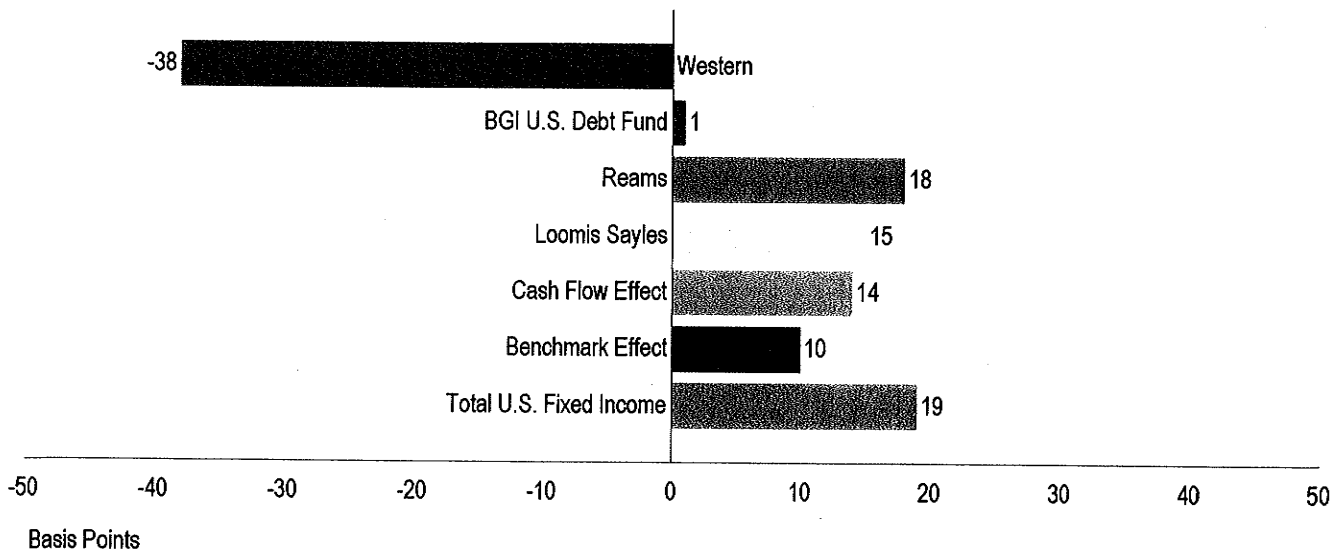
**TOTAL U.S. FIXED INCOME**  
**\$911.9 Million and 28.2% of Fund**

**Third Quarter 2007**

**MANAGER ATTRIBUTION ANALYSIS**  
**3 MONTHS ENDING 9/30/07**



**MANAGER ATTRIBUTION ANALYSIS**  
**1 YEAR ENDING 9/30/07**



# TOTAL U.S. FIXED INCOME

\$911.9 Million and 28.2% of Fund

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		10 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Total U.S. Fixed Income</b>	2.9 %	29	3.8 %	52	5.3 %	45	4.6 %	30	5.4 %	31	6.3 %	24	6.2 %	--	2/28/94
LB Aggregate Bond Index	2.8	40	3.8	37	5.1	53	3.9	64	4.1	82	6.0	56	6.2	--	
<b>Western</b>	2.5	61	2.6	94	4.1	93	4.3	15	5.8	8	6.7	5	6.8	5	12/31/96
LB Aggregate Bond Index	2.8	27	3.8	23	5.1	28	3.9	48	4.1	70	6.0	43	6.2	44	
<b>BGI U.S. Debt Fund</b>	2.9	27	3.9	22	5.2	26	3.9	50	4.1	69	6.0	41	6.0	--	11/30/95
LB Aggregate Bond Index	2.8	27	3.8	23	5.1	28	3.9	48	4.1	70	6.0	43	6.0	--	
<b>Reams</b>	3.3	6	4.3	7	5.7	11	4.9	5	6.1	7	--	--	5.0	46	9/30/01
LB Aggregate Bond Index	2.8	27	3.8	23	5.1	28	3.9	48	4.1	70	--	--	4.9	57	
<b>Loomis Sayles</b>	2.6	49	4.8	3	7.7	1	--	--	--	--	--	--	6.7	--	7/31/05
Performance Benchmark	1.9	88	3.6	41	6.1	6	--	--	--	--	--	--	5.2	--	

### Commentary on Investment Performance

The collective return of the fixed income component advanced 2.9% during the quarter and outperformed the Lehman Brothers Aggregate Bond Index by 0.1 percentage point. Above-benchmark results generated by Reams and Loomis Sayles were partially offset by below-benchmark results from Western. The BGI U.S. Debt Index Fund experienced 10 basis points of positive tracking relative to Index during the quarter.

Absolute and relative performance remained favorable over the year-to-date period.

Over the trailing one-year period, the collective return of the fixed income component exceeded the return of the Policy Portfolio by approximately 0.2 percentage points. Loomis Sayles and Reams continued to be the primary drivers of the period's above-benchmark results.

Longer-term relative performance of the fixed income component remained favorable.

The attribution analysis on the previous page highlights each manager's contribution to relative performance within VCERA's fixed income component over the past three-month and trailing one-year periods. The bar labeled "Cash Flow Effect" illustrates the effect on performance by the timing of cash contributions, withdrawals, and asset movements between accounts. The benchmark effect in the quarter and one-year attribution graphs is a result of the cumulative performance of the individual manager's benchmarks outperforming the fixed income component's benchmark.

## Third Quarter 2007

RETURN SUMMARY  
ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>Western</b>	<b>2.5%</b>	<b>61</b>	<b>2.6%</b>	<b>94</b>	<b>4.1%</b>	<b>93</b>	<b>4.3%</b>	<b>15</b>	<b>5.8%</b>	<b>8</b>	<b>6.8%</b>	<b>5</b>	<b>12/31/96</b>
LB Aggregate Bond Index	2.8	27	3.8	23	5.1	28	3.9	48	4.1	70	6.2	44	

**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 Core Plus strategy returned 2.5% and lagged the LB Aggregate Bond Index by 0.3 percentage points during the quarter. Western underperformed across all spread products. The majority of the underperformance was the result of the manager's overweight allocation to mortgage-related issues; particularly within pass-throughs and ABS (i.e., 2% sub-prime exposure all rated AAA). Although the manager was underweight the credit sector, security selection had a negative impact on performance. Western's bias towards higher beta corporate names proved detrimental, particularly within autos and financials. Within the Plus sectors, emerging market debt exposure hurt performance as spreads widened in light of the U.S. credit crisis. Non-dollar exposure also negatively impacted the portfolio during the quarter. On a positive note, Western's slightly long duration position, and an allocation to TIPS helped performance during the quarter.

The manager continued to lag the Index over the year-to-date and trailing one-year periods due to underperformance associated with its top-down macro view.

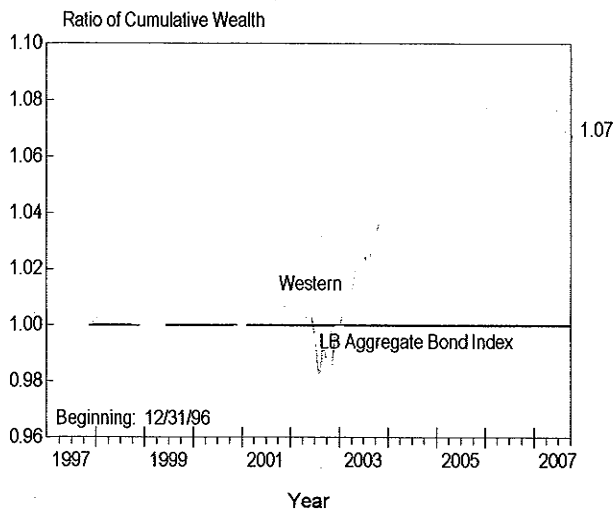
The trailing three-, five-year and since-inception returns compared favorably to those of the Lehman Brothers Aggregate Bond Index primarily due to the manager's adept stock selection and rotation into and out of various segments of the market.

# WESTERN

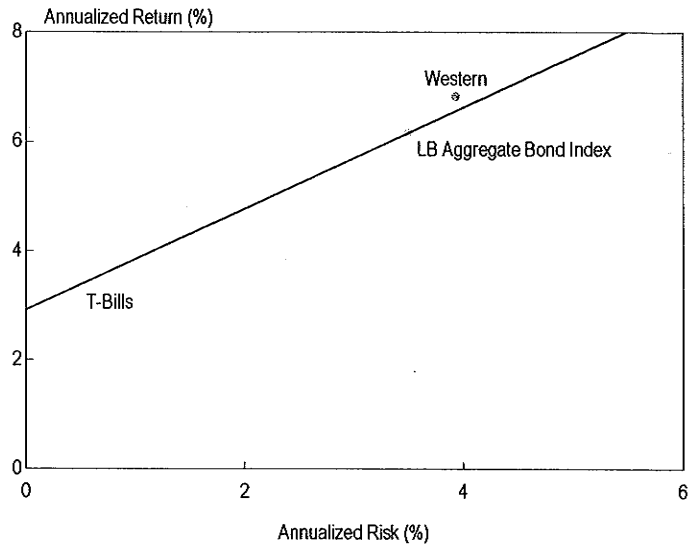
\$327.9 Million and 10.1% of Fund

## Third Quarter 2007

**RATIO OF CUMULATIVE WEALTH  
10 YEARS 9 MONTHS ENDING 9/30/07**



**ANNUALIZED RISK RETURN  
10 YEARS 9 MONTHS ENDING 9/30/07**



The table below details Western's sector allocation relative to the LB Aggregate Bond Index. The allocation to cash represents highly-liquid short-term fixed income instruments such as money market funds and commercial paper.

	Western Fixed Income Portfolio		LB Aggregate Bond Index	
	% at 6/30/07	% at 9/30/07	% at 9/30/07	Third Quarter Return
<b>Sector Weightings:</b>				
Treasury/Agency	16%	9%	33%	3.6%
Corporate	24	21	22	2.1
Mortgage-Related	52	62	44	2.6
Asset-Backed	1	1	1	1.4
Foreign Bonds	5	3	N/A	N/A
Other	--	--	N/A	N/A
Cash & Equiv.	3	4	N/A	N/A
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>2.8</b>
<b>Average Duration</b>	<b>5.0 years</b>	<b>4.7 years</b>	<b>4.6 years</b>	<b>--</b>



## Third Quarter 2007

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	5.1	15	4.3	53	0.8
2007 (9 months)	2.6	94	3.8	23	-1.2
Trailing 1-Year	4.1%	93	5.1%	28	-1.0
Trailing 3-Year	4.3	15	3.9	48	0.4
Trailing 5-Year	5.8	8	4.1	70	1.7
Since Inception (12/31/96)	6.8	5	6.2	44	0.6

The table above compares the historical annual and cumulative annualized returns of the Western portfolio and its benchmark, the LB Aggregate Bond Index.

# BGI U.S. DEBT FUND

\$196.0 Million and 6.1% of Fund

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		5 Years Ending 9/30/07		10 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
<b>BGI U.S. Debt Fund</b>	2.9%	27	3.9%	22	5.2%	26	3.9%	50	4.1%	69	6.0%	41	6.0%	--	11/30/95
LB Aggregate Bond Index	2.8	27	3.8	23	5.1	28	3.9	48	4.1	70	6.0	43	6.0	--	

### Philosophy and Process

The BGI U.S. Debt Fund is an index fund which is designed to replicate the performance of the LB 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

BGI's third-quarter return experienced slight positive tracking versus the return of the Lehman Brothers Aggregate Bond Index. Fixed income markets experienced a turbulent third-quarter ride, driven by signs of slowing economic growth and fears of widespread losses from sub-prime mortgage-backed securities. With spreads widening amid the increase in investors' risk aversion, investors fled less liquid and more risky assets in favor of higher-quality issues and U.S. Treasuries.

As expected, the Fund closely tracked the LB Aggregate Bond Index over all the longer-term trailing periods shown above.

### HISTORICAL RETURNS (BY YEAR)

	BGI U.S. Debt Fund		LB Aggregate Bond Index		Return Difference
	Return	Rank	Return	Rank	
2000 (9 months)	9.3%	31	9.2%	36	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	4.3	55	4.3	53	0.0
2007 (9 months)	3.9	22	3.8	23	0.1
Trailing 1-Year	5.2%	26	5.1%	28	0.1
Trailing 3-Year	3.9	50	3.9	48	0.0
Trailing 5-Year	4.1	69	4.1	70	0.0
Since Inception (11/30/95)	6.0	--	6.0	--	0.0

## Third Quarter 2007

RETURN SUMMARY  
ENDING 9/30/07

	Third Quarter		Year-To-Date		1 Year Ending 9/30/07		3 Years Ending 9/30/07		Since Inception		Inception Date
	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	
Reams	3.3%	6	4.3%	7	5.7%	11	4.9%	5	5.0%	46	9/30/01
LB Aggregate Bond Index	2.8	27	3.8	23	5.1	28	3.9	48	4.9	57	

**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**

The Reams Core-Plus portfolio advanced 3.3% during the third quarter, exceeding the return of the LB Aggregate Bond Index by 0.5 percentage points. The majority of excess returns came from the manager's sector selections: an underweight to credit and mortgages contributed 56 basis points of added value. This is partly attributable to having zero sub-prime exposure. While investment-grade credit spreads widened, Reams' security selection in this sector added about 20 basis points of excess return. Successful trading strategies in the volatile high-yield credit sector also contributed positively despite difficult market conditions.

The performance of the Reams portfolio exceeded the LB Aggregate Bond Index over the year-to-date and trailing one-year periods. The portfolio benefited from positive security selection in mortgage securities, investment grade credit, and high yield. Yield curve positioning also aided results as the portfolio was underweighted in the weaker-performing long end of the curve.

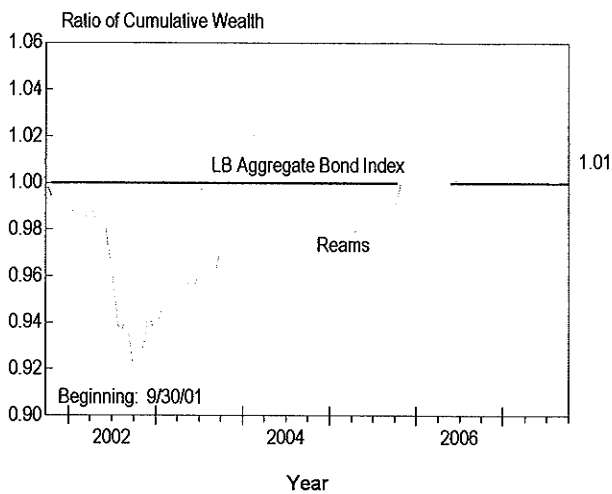
Reams has outperformed the Index by a comfortable margin over the longer time periods analyzed above.

# REAMS

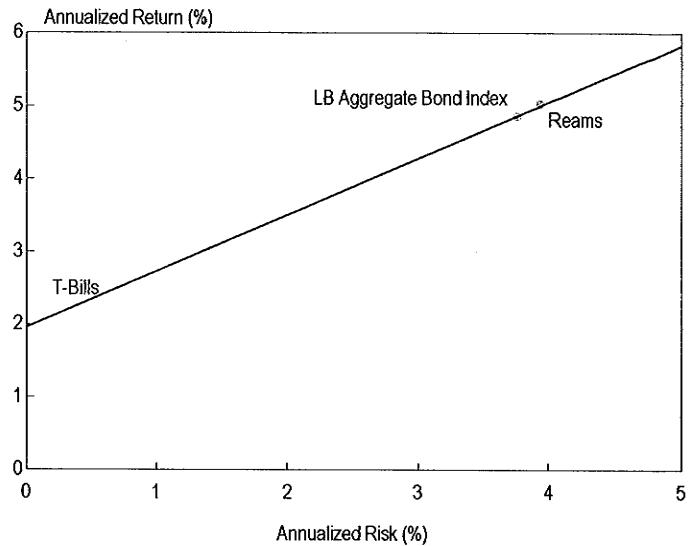
\$298.5 Million and 9.2% of Fund

Third Quarter 2007

**RATIO OF CUMULATIVE WEALTH  
6 YEARS ENDING 9/30/07**



**ANNUALIZED RISK RETURN  
6 YEARS ENDING 9/30/07**



The table below details Reams' sector allocations relative to the LB Aggregate Bond Index.

	Reams Fixed Income Portfolio		LB Aggregate Bond Index	
	% at 6/30/07	% at 9/30/07	% at 9/30/2007	Third Quarter Return
<b>Sector Weightings:</b>				
Treasury/Agency	20%	1%	33%	3.6%
Corporate	13	33	22	2.1
Mortgage-Related	62	66	44	2.6
Asset-Backed	--	--	1	1.4
Foreign Bonds	4	--	N/A	N/A
Other	--	--	N/A	N/A
Cash & Equiv.	--	--	N/A	N/A
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>2.8%</b>
Average Duration	4.7 years	3.9 years	4.6 Years	--

## Third Quarter 2007

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	5.0	16	4.3	53	0.7
2007 (9 months)	4.3	7	3.8	23	0.5
Trailing 1-Year	5.7 %	11	5.1 %	28	0.6
Trailing 3-Year	4.9	5	3.9	48	1.0
Trailing 5-Year	6.1	7	4.1	70	2.0
Since Inception (9/30/01)	5.0	46	4.9	57	0.1

The table above compares the historical annual and cumulative annualized returns of the Reams portfolio and its benchmark, the LB Aggregate Bond Index.

# LOOMIS SAYLES

\$89.5 Million and 2.8% of Fund

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter	Year-To-Date	1 Year Ending 9/30/07	Since Inception	Inception Date
Loomis Sayles	2.6%	4.8%	7.7%	6.7%	7/31/05
Performance Benchmark	1.9	3.6	6.1	5.2	
LB Aggregate Bond Index	2.8	3.8	5.1	4.2	

### Philosophy and Process

Loomis Sayles' fixed income philosophy is rooted in identifying undervalued securities through in-house credit research. Its philosophy emphasizes identifying issuers whose credit ratings appear likely to be upgraded or downgraded. The fixed income analysts use forward-looking analyses of cash flow, along with source and application of funds, to identify factors that may affect a debt issuer's future credit rating. Loomis Sayles believes that considerable value can be added by holding under-rated issues for which the firm has projected a credit upgrading.

Loomis typically allocates up to 40% of its assets to high yield securities and its portfolio's duration is significantly higher than that of the broad bond market. The manager also invests in convertible securities. The performance benchmark for the strategy is 60% Lehman Brothers Aggregate Bond Index and 40% Lehman Brothers High Yield Index.

### Commentary on Investment Performance

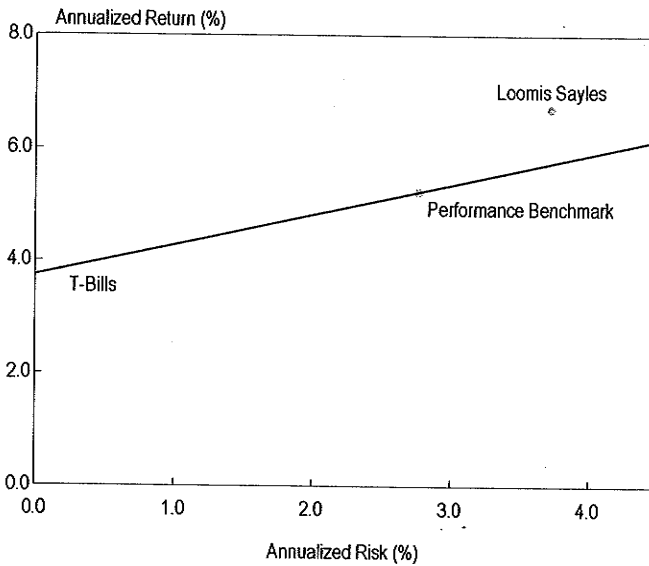
Loomis Sayles generated a return of 2.6% during the third quarter and outperformed the Performance Benchmark by 0.7 percentage points. The portfolio's high quality bond holdings contributed the most to relative results as investors sought a flight to quality during the third quarter. In addition, the portfolio's non-U.S. dollar holdings, led by South Africa and Canada, also contributed positively to performance. Conversely, the Fund's exposure to high yield detracted from results as spread widened and investors sought safety in higher quality issues during the quarter. Loomis Sayles had no sub-prime exposure in its full discretion accounts.

Loomis Sayles was successful in adding incremental value versus the Performance Benchmark during the year-to-date period.

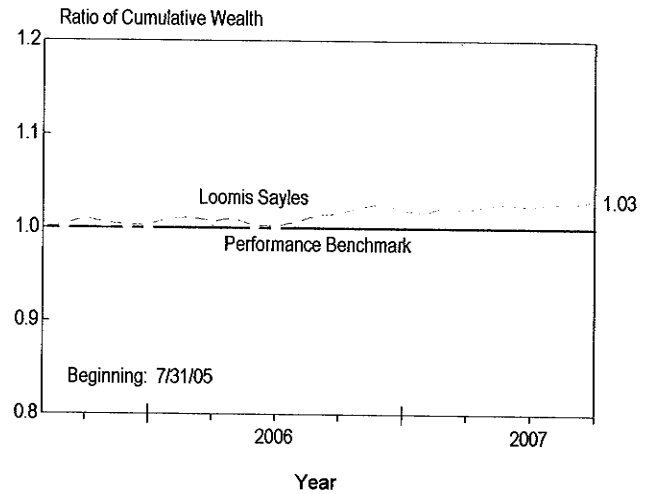
Loomis Sayles has outperformed the Performance Benchmark by a comfortable margin over the longer time periods analyzed above. Historically, the manager has benefited greatly from its interest rate positioning. Additionally, allocations to non-U.S. bonds (both in developed and emerging countries) and high-yield bonds have greatly impacted results.

**Third Quarter 2007**

**ANNUALIZED RISK RETURN  
2 YEARS 2 MONTHS ENDING 9/30/07**



**RATIO OF CUMULATIVE WEALTH  
2 YEARS 2 MONTHS ENDING 9/30/07**



**HISTORICAL RETURNS  
(BY YEAR)**

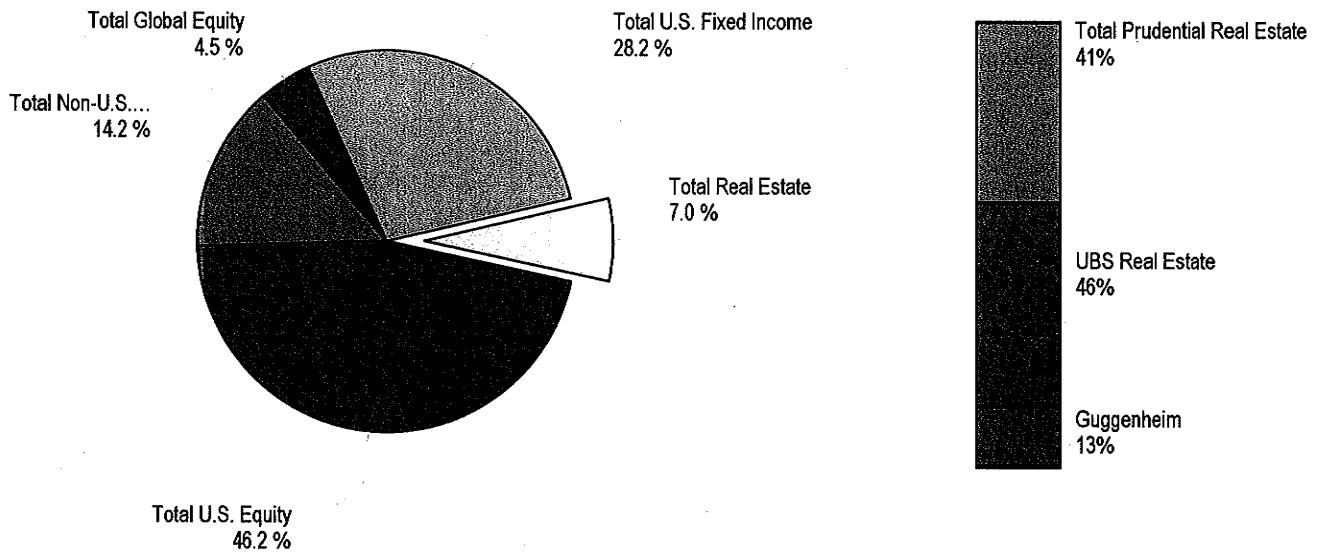
	Loomis Sayles		Performance Benchmark		Return Difference
	Return	Rank	Return	Rank	
2005 (5 months)	0.7 %	--	0.4 %	--	0.3
2006	9.0	1	7.3	2	1.7
2007 (9 months)	4.8	3	3.6	41	1.2
Trailing 1-Year	7.7 %	1	6.1 %	6	1.6
Since Inception (7/31/05)	6.7	--	5.2	--	1.5

# TOTAL REAL ESTATE

\$226.0 Million and 7.0% of Fund

Third Quarter 2007

## ASSET ALLOCATION ACTUAL AS OF 9/30/07





**TOTAL REAL ESTATE****\$226.0 Million and 7.0% of Fund****Third Quarter 2007****RETURN SUMMARY  
ENDING 9/30/07**

	Third Quarter	Year-To-Date	1 Year Ending 9/30/07	3 Years Ending 9/30/07	5 Years Ending 9/30/07	Since Inception	Inception Date
<b>Total Real Estate</b>	<b>3.0%</b>	<b>11.9%</b>	<b>17.1%</b>	<b>16.8%</b>	<b>15.1%</b>	<b>11.9%</b>	<b>3/31/94</b>
Policy Benchmark	4.0	12.6	16.7	17.7	14.6	12.0	
<b>Total Prudential Real Estate</b>	<b>4.2</b>	<b>14.6</b>	<b>18.7</b>	<b>15.5</b>	<b>--</b>	<b>14.0</b>	<b>6/30/04</b>
Policy Benchmark	4.0	12.6	16.7	17.7	--	17.5	
<b>UBS Real Estate</b>	<b>2.1</b>	<b>10.9</b>	<b>16.5</b>	<b>16.9</b>	<b>--</b>	<b>14.9</b>	<b>3/31/03</b>
NCREIF Open End Fund Index	4.0	12.6	16.7	17.0	--	15.1	
<b>Guggenheim</b>	<b>2.8</b>	<b>8.3</b>	<b>16.0</b>	<b>--</b>	<b>--</b>	<b>16.9</b>	<b>6/30/06</b>
Performance Benchmark	3.4	7.6	14.1	--	--	15.8	

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.

**Commentary on Investment Performance**

The real estate component's collective return of 3.0% lagged the Policy Benchmark by 1.0 percentage point during the third quarter. Above-benchmark results generated by Prudential were offset by below-benchmark results from UBS and Guggenheim.

Despite posting a double-digit gain, the year-to-date return of the real estate component lagged the return of the Policy Portfolio by approximately 0.8 percentage points.

While strong on an absolute basis, longer-term relative performance of the real estate component remained mixed. While the component's trailing one- and five-year returns remained ahead of the Policy Benchmark, the trailing three-year and since-inception returns fell short by a narrow margin.

# PRUDENTIAL

\$92.0 Million and 2.8% of Fund

## Third Quarter 2007

### RETURN SUMMARY ENDING 9/30/07

	Third Quarter	Year-To-Date	1 Year Ending 9/30/07	3 Years Ending 9/30/07	Since Inception	Inception Date
<b>Total Prudential Real Estate</b>	<b>4.2%</b>	<b>14.5%</b>	<b>18.5%</b>	<b>15.5%</b>	<b>14.0%</b>	<b>6/30/04</b>
Policy Benchmark	4.0	12.6	16.7	17.7	17.5	
<b>PRISA Fund I</b>	<b>4.2</b>	<b>14.5</b>	<b>18.6</b>	<b>--</b>	<b>19.2</b>	<b>3/31/05</b>
NCREIF Open End Fund Index	4.0	12.6	16.7	--	17.3	

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 include 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 2005.

#### Investment Approach

Prudential's 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.

#### Commentary on Investment Performance

Prudential's PRISA Fund I returned 4.2% during the third quarter, outperforming the NCREIF Open End Fund Index by 0.2 percentage points. The manager reported that the Fund's office property portfolio experienced appreciation gains of \$129.7 million during the third quarter and that this accounted for nearly 47% of the Fund's appreciation return. The Fund currently stands at \$12.4 billion in net assets and is 23.8% levered. The Fund's allocations among property types and geographic regions remained largely unchanged from recent quarters.

During the third quarter, the Fund invested \$724.3 million, of which 89% was in office properties. The largest transaction was for three office buildings purchased in Bethesda, Maryland for \$281.1 million. The manager notes that the buildings are currently 84% occupied. This is consistent with the Fund's plan to increase its exposure to office properties. During the quarter, the Fund sold its Power Center Portfolio for net proceeds of \$262.8 million which was inline with the Fund's strategy to reduce its exposure to assets with limited income growth potential.

Performance of over the longer-term periods shown above remained mixed.

**Third Quarter 2007**

**RETURN SUMMARY  
ENDING 9/30/07**

	Third Quarter	Year-To-Date	1 Year Ending 9/30/07	3 Years Ending 9/30/07	Since Inception	Inception Date
<b>UBS Real Estate</b>	<b>2.1%</b>	<b>10.9%</b>	<b>16.5%</b>	<b>16.9%</b>	<b>14.9%</b>	<b>3/31/03</b>
NCREIF Open End Fund Index	4.0	12.6	16.7	17.0	15.1	
NCREIF NPI	3.6	12.2	17.3	18.0	15.7	

**Portfolio Characteristics**

UBS Realty's Real Estate Separate Account (RESA) is an actively managed core portfolio that utilizes broad market and economic trends to provide attractive returns while limiting downside risk. The investment process for the portfolio is very analytic and research intensive. The RESA team relies on multiple proprietary pricing and asset allocation models which analyze different property types in over 25 national markets. The UBS Realty Strategy Team, which is composed of the senior-most professionals from the different areas of UBS Realty, works on an ongoing basis with the research department to modify continually the proprietary modeling systems. RESA management tends to purchase properties in slower-growing markets, as they believe that faster-growth areas generate more attention by the investment community, and thus the ability for value-added is diminished.

**Commentary on Investment Performance**

The UBS RESA portfolio posted a return of 2.1% during the third quarter, lagging both the NCREIF Open End Fund Index NCREIF Property Index by 1.9 and 1.5 percentage points, respectively. During the period, the manager continued with its objective of increasing its industrial property exposure, moving from 9% to 11% quarter-over-quarter. This came from the reduction of exposure to office properties, which declined from 33% to 30%. In addition, the Fund maintained a significant exposure to apartments (29%) and retail (24%) with a smaller allocation to hotels (6%).

Part of the increase in exposure to industrial property came from a \$48.4 million acquisition of nine industrial buildings in the Midwest and Southwest. At acquisition, the properties were 97% leased. Additionally, two investments were made in apartment properties located in Florida and California. Two properties were sold during the quarter for a net sales price of \$265.9 million. The largest transaction was an office portfolio in Atlanta which had experienced a slower than projected leasing pace and a single-tenant industrial property in Indiana.

While strong in absolute terms, longer-term performance lagged the Index.

# GUGGENHEIM

\$30.5 Million and 0.9% of Fund

Third Quarter 2007

## RETURN SUMMARY ENDING 9/30/07

	Third Quarter	Year-To-Date	1 Year Ending 9/30/07	Since Inception	Inception Date
<b>Guggenheim</b>	<b>2.8%</b>	<b>8.3%</b>	<b>16.0%</b>	<b>16.9%</b>	<b>6/30/06</b>
Performance Benchmark	3.4	7.6	14.1	15.8	

### Portfolio Characteristics

The Guggenheim Real Estate PLUS Trust 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

The third quarter return of the Guggenheim portfolio lagged the Performance Benchmark by approximately 0.6 percentage points. During the period, Guggenheim increased its public market target allocation to 30% and reduced its overall allocation to private markets to 70%. With respect to the public market investments, the Fund increased its allocation to an affiliated fund manager that invests in real estate derivatives. This fund entered into a swap agreement to receive the return of the FTSE NAREIT Equity REITs Index in exchange for a fixed amount during the period. In addition, the Fund reduced its allocation to the TIAA-CREF Asset Management Core Property Fund L.P. and increased its allocation to one of the real estate funds managed by an affiliate of the Fund's manager that holds direct property investments. This affiliated fund made six property acquisitions and a property disposition during the quarter. The property acquisitions were of office properties located in San Francisco, CA, Anaheim, CA and Los Angeles, CA, retail properties located in Cornelius, NC and Raleigh, NC and an industrial property in Franklin, MA. The property disposition was of an office property located in St. Louis Park, MN.

Over the longer-term periods shown above, the Guggenheim PLUS II portfolio exceeded the return of the performance benchmark by a comfortable margin.

## RETURNS OF THE MAJOR CAPITAL MARKETS

## RETURNS OF THE MAJOR CAPITAL MARKETS

	Third Quarter	Annualized Periods Ending 9/30/07				
		1-Year	3-Year	5-Year	10-Year	15-Year
<b>Domestic Stock Indices:</b>						
DJ Wilshire 5000 Index	1.5%	17.0%	14.0%	16.5%	6.8%	11.2%
S&P 500 Index	2.0	16.4	13.1	15.5	6.6	11.1
Russell 3000 Index	1.5	16.5	13.8	16.2	6.8	11.2
Russell 1000 Value Index	-0.2	14.5	15.2	18.1	8.8	12.9
Russell 1000 Growth Index	4.2	19.4	12.2	13.8	4.1	9.0
Russell MidCap Value Index	-3.5	13.7	17.2	21.0	11.3	14.5
Russell MidCap Growth Index	2.1	21.2	17.0	20.4	7.5	11.3
Russell 2000 Value Index	-6.3	6.1	12.5	18.7	10.1	14.0
Russell 2000 Growth Index	0.0	18.9	14.1	18.7	3.6	8.3
<b>Domestic Bond Indices:</b>						
Lehman Brothers Aggregate Index	2.8%	5.1%	3.9%	4.1%	6.0%	6.3%
Lehman Brothers Govt/Credit Index	3.0	5.1	3.7	4.2	6.0	6.3
Lehman Brothers Long Govt/Credit Index	3.5	3.7	4.3	5.4	7.1	7.7
Lehman Brothers 1-3 Year Govt/Credit Index	2.4	5.6	3.6	3.2	4.9	5.1
Lehman Brothers U.S. MBS Index	2.6	5.4	4.3	4.1	5.8	6.2
Lehman Brothers High Yield Index	0.3	7.5	7.4	12.7	5.9	7.7
Lehman Brothers Universal Index	2.6	5.3	4.2	4.9	6.1	6.5
<b>Real Estate Indices:</b>						
NCREIF Net Property Index	3.6%	17.3%	18.0%	14.8%	13.1%	10.7%
NCREIF ODCE Index	3.7	17.1	17.3	14.0	12.2	10.0
DJ Wilshire Real Estate Securities Index	1.4	3.9	19.7	22.5	12.4	14.4
FTSE NAREIT US Real Estate Index	2.6	5.7	19.0	21.5	12.2	14.3
<b>Foreign/Global Stock Indices:</b>						
MSCI All Country World Index	3.5%	24.0%	19.6%	20.5%	7.3%	10.1%
MSCI All Country World ex-U.S. Index	4.6	30.5	26.0	25.8	8.8	10.0
MSCI EAFE Index	2.2	24.9	23.2	23.6	8.0	9.4
MSCI EAFE Index (in local currency)	-2.5	14.2	19.6	17.3	5.9	8.6
MSCI World ex-U.S.A. Small Cap Index	-3.7	21.3	23.9	27.8	10.5	--
MSCI Emerging Markets Index	14.4	58.2	40.8	38.7	11.6	12.1
<b>Foreign Bond Indices:</b>						
Citigroup World Gov't Bond Index	8.1%	9.5%	4.8%	8.0%	5.8%	6.1%
Citigroup Hedged World Gov't Bond Index	2.9	3.6	4.6	4.1	5.8	7.1
<b>Cash Equivalents:</b>						
Treasury Bills (30-Day)	1.1%	4.3%	3.3%	2.4%	3.2%	3.5%
EnnisKnupp STIF Index	1.4	5.5	4.2	3.1	4.0	4.3
<b>Inflation Index:</b>						
Consumer Price Index	0.1%	2.8%	3.2%	2.9%	2.6%	2.6%

## APPENDIX II

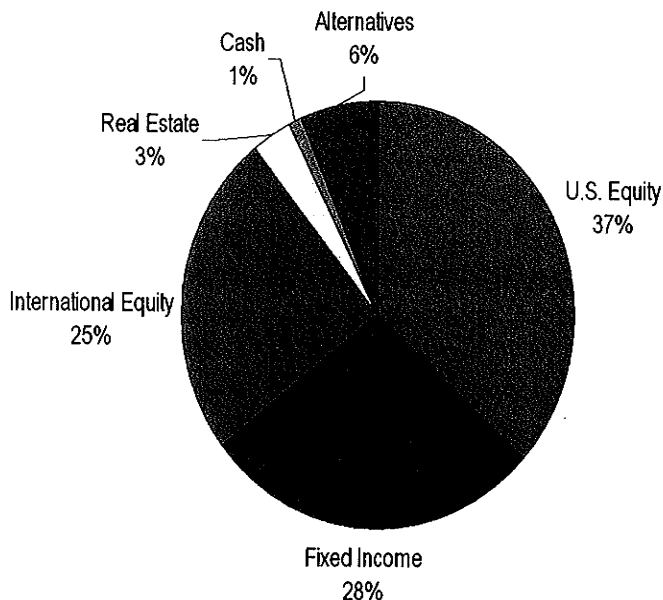
### Description of Fund Benchmarks and Universe Rankings

#### Total Fund

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 pension funds. The index is calculated based on a universe of 52 funds compiled by Mellon Analytical Solutions with an aggregate market value of \$748.3 billion as of 6/30/2007.

Mellon Analytical Aggregate Public Fund as of 9/30/2007



**Total U.S. Equity**

Benchmark. The Russell 3000 Index.

Universe. A universe of 403 actively managed domestic stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$531.7 billion as of 9/30/2007.

**Delta**

Benchmark. The S&P 500 Index.

Universe. A universe of 375 actively managed domestic large cap stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$898.8 billion as of 9/30/2007.

**BGI Equity Index Fund**

Benchmark. The S&P 500 Index.

Universe. A universe of 375 actively managed domestic large cap stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$898.8 billion as of 9/30/2007.

**BGI Extended Equity Index Fund**

Benchmark. The DJ Wilshire 4500 Index.

Universe. A universe of 68 actively managed domestic large cap stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$83.4 billion as of 9/30/2007.

**LSV**

Benchmark. The Russell 2000 Value Index.

Universe. A universe of 107 actively managed domestic large cap stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$84.8 billion as of 9/30/2007.

**Wasatch Advisors**

Benchmark. The Russell 2000 Growth Index. Prior to December 2001, the Russell 2000 Index.

Universe. A universe of 88 actively managed domestic large cap stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$66.7 billion as of 9/30/2007.

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### **Western U.S. Index Plus**

Benchmark. The S&P 500 Index.

Universe. A universe of 375 actively managed domestic large cap stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$898.8 billion as of 9/30/2007.

### **Total Non-U.S. Equity**

Benchmark. The Morgan Stanley Capital International All-Country World ex-U.S. Free Index. Prior to May 2002, the Morgan Stanley Capital International EAFE-Free Stock Index.

Universe. A universe of 351 actively managed domestic stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$309.1 billion as of 9/30/2007.

### **BGI ACWI ex U.S.**

Benchmark. The Morgan Stanley Capital International All-Country World ex-U.S. Free Index.

Universe. A universe of 76 actively managed domestic stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$385.1 billion as of 9/30/2007.

### **Capital Guardian**

Benchmark. The Morgan Stanley Capital International All-Country World ex-U.S. Free Index. Prior to May 2002, the Morgan Stanley Capital International EAFE-Free Stock Index.

Universe. A universe of 76 actively managed domestic stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$385.1 billion as of 9/30/2007.

### **Sprucegrove**

Benchmark. The Morgan Stanley Capital International EAFE-Free Stock Index.

Universe. A universe of 76 actively managed domestic stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$385.1 billion as of 9/30/2007.



**Total Global Equity**

Benchmark. The Morgan Stanley Capital International All Country World Index.

Universe. A universe of 53 actively managed global stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$107.0 billion as of 9/30/2007.

**Grantham Mayo Van Otterloo (GMO)**

Benchmark. The Morgan Stanley Capital International All Country World Index.

Universe. A universe of 53 actively managed global stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$107.0 billion as of 9/30/2007.

**Wellington**

Benchmark. The Morgan Stanley Capital International All Country World Index.

Universe. A universe of 53 actively managed global stock portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$107.0 billion as of 9/30/2007.

**Total Fixed Income**

Benchmark. The Lehman Brothers Aggregate Bond Index.

Universe. A universe of 117 actively managed fixed income portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$593.3 billion as of 9/30/2007.

**Western Asset Management**

Benchmark. The Lehman Brothers Aggregate Bond Index.

Universe. A universe of 117 actively managed fixed income portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$593.3 billion as of 9/30/2007.

**BGI U.S. Debt Index Fund**

Benchmark. The Lehman Brothers Aggregate Bond Index.

Universe. A universe of 117 actively managed fixed income portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$593.3 billion as of 9/30/2007.

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### Reams

Benchmark. The Lehman Brothers Aggregate Bond Index.

Universe. A universe of 117 actively managed fixed income portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$593.3 billion as of 9/30/2007.

### Loomis Sayles

Benchmark. 60% of the Lehman Brothers Aggregate Bond Index and 40% of the Lehman Brothers High Yield Index.

Universe. A universe of 117 actively managed fixed income portfolios compiled by Mellon Analytical Solutions with an aggregate market value of \$593.3 billion as of 9/30/2007.

### Total Real Estate

Benchmark. The National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Fund. Prior to January 2006, the NCREIF Property Index.

### Prudential Real Estate

Benchmark. The National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Fund. Prior to January 2006, the NCREIF Property Index.

### Prudential Real Estate PRISA

Benchmark. The National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Fund.

### UBS RESA

Benchmark. The National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Fund.

### Guggenheim

Benchmark. 70% of the National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Fund and 30% of the NAREIT Index.

**Description of Benchmarks (continued)**

**Russell 3000 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 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 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 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 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 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 Open End Fund Index**- A capitalization-weighted index of privately owned investment grade income-producing properties representing approximately \$67 billion in assets.

## APPENDIX II

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### 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.

**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.

Capital Guardian is currently on watch for performance reasons.

Wellington is currently on watch for potentially adverse information, trends or developments that the Board feels might impair the investment manager's ability to deliver a successful outcome.

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Manager	Restrictions	In Compliance as of 9/30/07
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 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 NO YES YES YES
Capital Guardian	-Portfolio is a commingled fund.	N/A
Sprucegrove	-Portfolio is a commingled fund.	N/A
GMO	-Portfolio is a separate account of mutual funds.	N/A
Wellington	-Portfolio is a commingled fund.	N/A
BGI U.S. Debt	-Portfolio is a commingled fund.	N/A
Reams	-Duration may be managed to a maximum 25% deviation relative to the Aggregate Bond Index -The total portfolio shall maintain an average quality rating of A -A maximum of 20% of the portfolio may be invested in bonds issued by a non-U.S. entity -A maximum of 15% of the portfolio may be invested in high yield bonds -A maximum of 5% of the portfolio may be invested in any single investment grade U.S. issuer -A maximum of 5% of the portfolio may be invested in high interest rate sensitivity mortgage-backed securities -The portfolio's combined allocation may not exceed 30% to the following securities; non-U.S. bonds, privately placed debt, excluding 144A securities and mortgage-backed securities that exhibit unusually high interest rate sensitivity -Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least 90% of the total portfolio -The portfolio contains no prohibited securities named in the investment guidelines -Derivatives are not used to lever the portfolio*	YES YES YES YES YES YES YES YES YES YES YES
Loomis Sayles	-At least 50% of the portfolio must be invested in investment grade securities at time of purchase -A maximum of 5% of the portfolio may be invested in any single investment grade U.S. issuer -60% of the portfolio must be invested in U.S. domiciled issues	YES YES YES
Western	-Duration may be managed to a maximum 20% deviation relative to the Aggregate Bond Index -The total portfolio shall maintain an average quality rating of AA -A maximum of 20% of the portfolio may be invested in bonds issued by a non-U.S. entity at time of purchase -A maximum of 10% of the portfolio may be invested in high yield bonds at time of purchase -A maximum of 1% per issue for below investment grade securities -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 NO YES YES YES YES YES YES YES YES YES YES

\* Based on affirmative statement from manager

## INVESTMENT MANAGEMENT FEES

	Fee in Basis Points	Liquidity	Investment Vehicle
Delta	26	Daily	Separate Acct.
BGI Equity Index	1	Daily	Commingled Fund
BGI Extended Market Fund	4	Daily	Commingled Fund
LSV	63	Daily	Separate Acct.
Wasatch	79	Daily	Separate Acct.
Western U.S. Index Plus	20	Daily	Separate Acct.
Capital Guardian	49	Monthly	Commingled Fund
Sprucegrove	40	Monthly	Commingled Fund
BGI ACWI ex-U.S. Index	14	Daily	Commingled Fund
GMO	66	Daily	Commingled Fund
Wellington	72	Monthly	Commingled Fund
BGI U.S. Debt Fund	4	Daily	Commingled Fund
Reams	18	Daily	Separate Acct.
Western	22	Daily	Separate Acct.
Loomis Sayles	38	Daily	Separate Acct.
Prudential	81	Quarterly	Commingled Fund
UBS Realty	90	Monthly	Commingled Fund
Guggenheim	50	Quarterly	Commingled Fund
Total Fund	22	--	--