Small- and Mid-Cap Core

First Quarter 2007
Investment Update

Market volatility continued to be the investment story in the first quarter. In general, fourth quarter earnings reports and continued merger and acquisition activity drove the stock market higher in January and most of February. However the market skidded in late February and early March as investors abruptly focused on escalating default rates in the subprime mortgage market and worried that problems could spread to the broader U.S. economy and perhaps even slow global growth. Fear proved temporary and the market finished the quarter with investors comfortable mortgage issues would be contained and, if necessary, the Fed would come to the rescue with lower interest rates. Against this back drop U.S. equity markets across the market cap spectrum finished in positive territory for the quarter. We are pleased to report that we delivered returns in excess of both of our benchmarks during this volatile period.

The Russell 2000 and the Russell Midcap Index performance in the quarter mirrored the broad market appreciating almost 2% and in excess of 4%, respectively, in January before sliding sharply. The late March rally allowed the Russell 2000 to finish 1.95% higher for the quarter while the Russell Midcap index which was the sweet spot of the U.S. market appreciated 4.37%. These gains were greater than that of S&P 500 which was up 0.64%. Within the Russell 2000, growth outperformed value for the quarter, up 2.48% compared to 1.46%.

Small Cap Core: Within the Russell 2000 sectors, only Financial Services and REITs had negative returns, down 3.92% and 1.50% respectively. The biggest positive contribution to Russell 2000 performance came from the consumer area with Staples up 14.15% and Discretionary up 12.93%. Also contributing were Materials & Processing up 6.93%, and Technology up 4.50%.

Stock selection was again key to our outperformance for the quarter. Our stock picks in health care, industrials and energy all contributed positively relative to the Russell 2000. Most of the underperformance relative to the benchmark occurred in our materials and consumer staples stocks.

Mid Cap Core: All of the Russell Midcap sectors had positive returns for the quarter. The biggest positive contribution to performance came from Materials & Processing up 11.36%. Other outperformers included Energy which rose 11.71%, Utilities which appreciated 7.68% and Consumer Staples up 4.72%. Sectors that lagged despite contributing positive returns were Producer Durables which rose just 0.15% Financial Services which appreciated only 0.28%.

Small- and Mid-Cap Core

Stock selection was again key to our outperformance for the quarter . Our stock picks in materials, health care, financial services and technology all contributed positively relative to the Russell Midcap. Underperformance relative to the benchmark occurred in in our energy and utility stocks.

Going forward we believe the market will continue to be choppy as investors struggle to make sense of conflicting economic news. This environment should continue to be a stock picker's market. It plays to our strength of independent, fundamental research designed to identify attractively valued stocks with a 12-18 month catalyst and a management team who can execute. The portfolios are currently invested in many such companies and we will use the market volatility to add new investment ideas as we progress through 2007.