

BEAVER COUNTY RETIREMENT SYSTEM

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Investment Review First Quarter 2007

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➤ "Pension Funds May Feel Little Sub-Prime Strain" - *WSJ/April 2007*



CIM INVESTMENT MANAGEMENT, INC.

Investment Building, 239 Fourth Ave., Suite 1302, Pittsburgh, PA 15222

Beaver County Retirement System
County Courthouse
810 Third Street
Beaver, PA 15009

April 25, 2007

Dear Members of the Board:

The American economy is still growing steadily. There were a few scares in the first quarter because of higher delinquency rates on "sub-prime" mortgage loans. The stock market did experience increased volatility and the Dow dropped more than 400 points on February 27th. But equities rebounded quickly, making up much of the ground lost by quarter end.

For the three months ending March 31, 2007, the S & P 500 Index returned +0.64% while the Dow Jones Industrial Index ended the quarter -0.33%. Bonds posted respectable returns. The Lehman Aggregate Bond Index was +1.50% and the Lehman Government/Credit Index returned +1.47% for the three months ended March 31, 2007.

CIM client portfolios were in line with their indices in the first quarter. We have been positioned for a skittish market for some time and expect to hold up well should risk increase later in the year.

Yours very truly,

CIM INVESTMENT MANAGEMENT, INC.

Andrew C. Fisher
President

Sarah E. R. Wilson
First Vice President

Sub-Prime Mortgages Dominate Financial News – December 31, 2006 to March 31, 2007

The sub-prime mortgage market serves borrowers with weak credit. The 1996-2005 housing boom went on as long as it did, in part, because of easier lending standards. Unfortunately for both the borrowers and lenders, long-term contracts are dependent upon job stability and the borrower's capacity to manage his or her finances. Now that \$400 billion worth of adjustable rate mortgages are due to reset in 2007, many of these borrowers will have trouble meeting their new, higher mortgage payments. Many never understood the terms of their loans in the first place. They may have put little or no money down on their homes and were unaware of the provisions that allowed their payments to increase after a set period of time or when market interest rates increased. Accusations of "predatory lending" have been commonplace during increased. Accusations of "predatory lending" have been commonplace during Congressional hearings. One little noted fact; higher grade adjustable rate mortgages are actually in worse shape than sub-prime fixed rate mortgages. It seems it is the reset to higher interest rates on variable rate loans that is causing the problem.

The markets are trying to sort out the impact these events will have on the economy. Expectations for weaker GDP growth in the first quarter and beyond are being driven by the housing market. Because delinquencies are increasing and bankers are tightening their lending standards, there may be a need for an injection of liquidity into the financial system. In fact, the Federal Reserve Board announced in March that it had dropped its bias toward higher rates in favor of a more neutral stance. The Federal Funds rate stands at 5¼%, as it has for the past nine months. The Fed's comments may have been affected by an increase in the delinquency rate on sub-prime mortgages to 13.3%. In other comments, the Fed reiterated that its primary concern was inflation rather than weak economic growth.

The S & P 500 Index returned +0.64% in the first quarter. The Dow Jones Industrials were off by -0.33% and the NASDAQ returned

+0.26%. Small cap stocks had a good quarter; the S & P 600 returned +3.21%. Mid cap stocks were even better at +5.80%. The bond market posted gains of +1.47% and +1.50% for the Lehman Government/Credit and Aggregate indices, respectively. The intermediate indices were up +1.59% and +1.57% for the Lehman Intermediate Government/Credit and Intermediate Aggregate. The Treasury yield curve became slightly positively sloped for the first time in seven months as the yield on the ten-year note ended the quarter at 4.65% versus a yield to maturity of 4.60% on the two-year note.

	Index Returns	
	Quarter 12/31/06-3/31/07	One-Year 3/31/06-3/31/07
S&P 500	0.64%	11.83%
S&P MidCap 400	5.80	8.45
Russell 2000	1.95	5.91
S&P 600 Smallcap	3.21	5.30
Dow Jones Industrials	(0.33)	13.83
NASDAQ	0.26	3.50
MSCI EAFE	4.14	20.67
Lehman Aggregate	1.50	6.59
Lehman Gov./Credit	1.47	6.38

The stock market declined more than 3½% in one day on February 27th. Though the market recovered later in the quarter, the increase in volatility disrupted what had been a very slow and steady rise in equity since a market bottom in July 2006. That was also the point at which the Fed stopped raising interest rates after 17 consecutive rate hikes over a two-year period.

The yen carry trade seems to be a major concern with institutional investors. Borrowers of yen at interest rates of 0.25% have been reinvesting that money in higher yielding assets. If there were to be an unwinding of those positions, liquidity could dry up as volatility increases and investors flee to high quality assets. This type of event can be exacerbated by the use of leverage, which is popular with hedge funds.

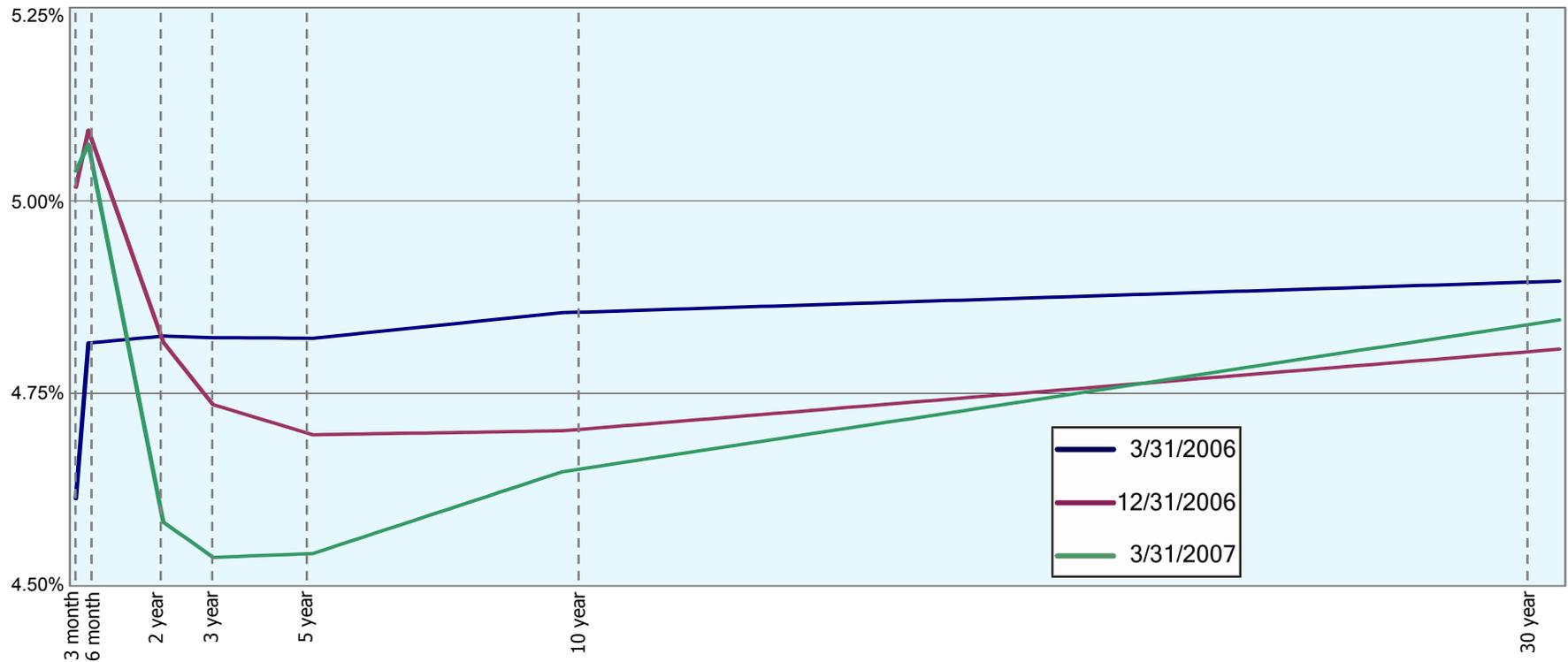
CIM clients are well positioned to withstand more volatility. Our equity portfolios will be managed with a high degree of emphasis on the limitation of volatility, keeping our risk exposure more on stock specific risk and less on general market risk. Our bond portfolios are not exposed to sub-prime mortgages. We have also emphasized liquidity in our fixed income investments. We own bonds that trade well in choppy markets and will hold up in a tight credit environment.

By Nathan Sax, CFA, Director of Fixed Income



U.S. Treasury Yield Curve

First Quarter 2007



	<u>3/31/2006</u>	<u>12/31/2006</u>	<u>3/31/2007</u>	<u>Quarterly Change</u>	<u>Annual Change</u>
3 Month	4.61%	5.02%	5.04%	0.02%	0.43%
6 Month	4.82	5.09	5.07	(0.02)	0.26
2 Year	4.82	4.82	4.58	(0.23)	(0.24)
3 Year	4.82	4.74	4.54	(0.20)	(0.29)
5 Year	4.81	4.70	4.54	(0.15)	(0.27)
10 Year	4.85	4.71	4.65	(0.06)	(0.20)
30 Year	4.89	4.81	4.85	0.03	(0.05)

ECONOMIC MATRIX

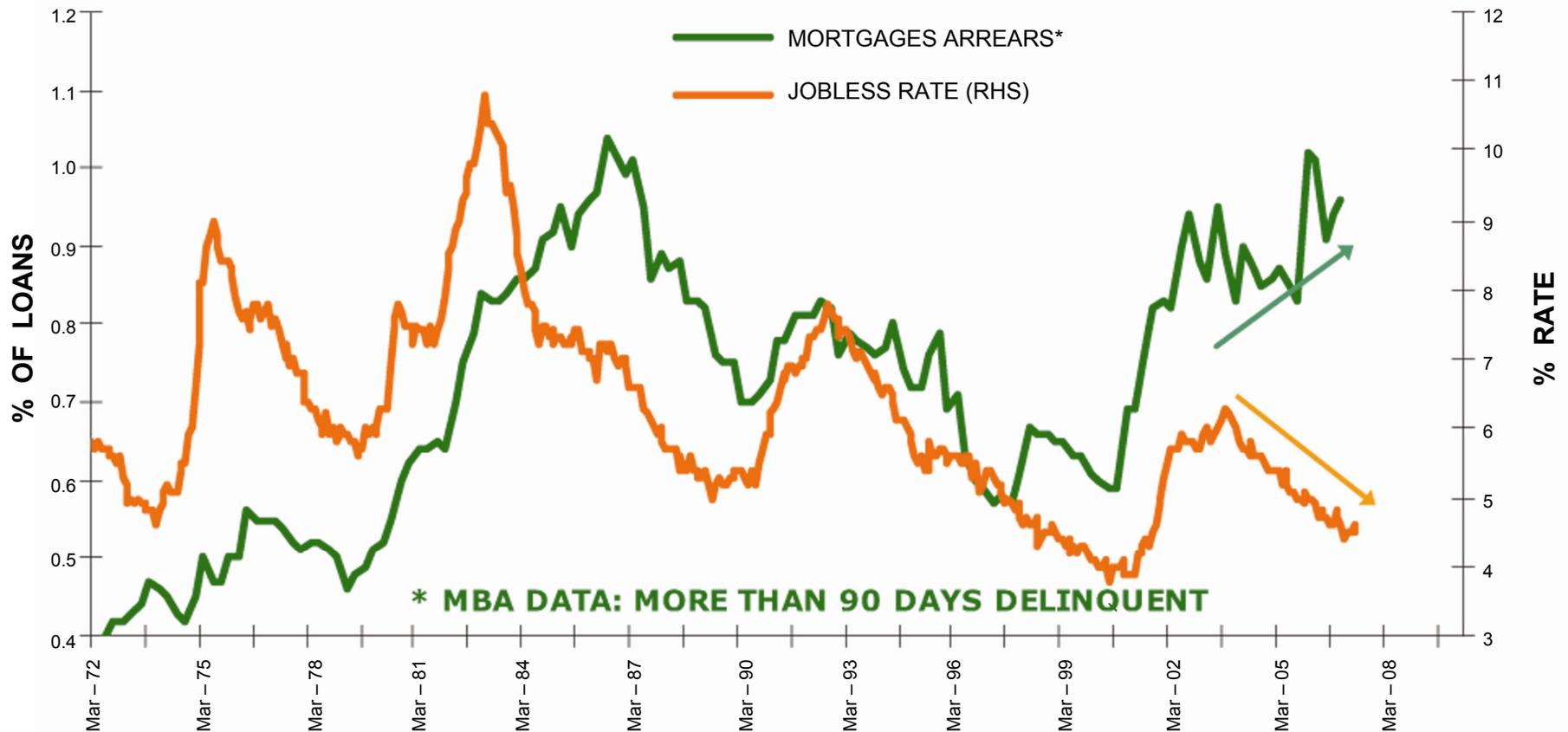
	Comments	Market Impact	
ECONOMIC GROWTH	Economists have lowered their first quarter GDP estimates to a range of 1.5% to 2.0%. Slowdowns in housing, automobile production and capital expenditures have lowered expectations for the level of economic growth.	Thomson Financial estimates that S & P company profits grew at an annual rate of only 3.8% in the first quarter and an estimated 4.0% in the second quarter. This follows 14 consecutive quarters of double-digit growth at an annual rate.	Bearish for stocks Bullish for bonds
INFLATION	The Fed clearly indicated that their near term focus will be on higher inflation. Recent statistics on prices at the wholesale and retail levels came in higher than expected.	Investors worried about inflation were reassured as to the Fed's willingness to defend against easy money. There is still ample liquidity in the markets.	Neutral for stocks Neutral for bonds
MONETARY POLICY	The Fed dropped its bias towards tighter policy. However, the central bank has not indicated that an ease is forthcoming.	The capital markets are slightly more optimistic regarding monetary policy. Fed Funds futures are trading as though the Fed will ease by 25 basis points in September and another 25 by year's end.	Bullish for stocks Bullish for bonds
FISCAL POLICY	The budget deficit has declined significantly. America's deficit now stands at 1.6% of GDP, far better than the domestic deficits of Europe and Japan.	Congress is still working on a solution to the Alternative Minimum Tax. If left unchanged, the AMT would impact an increasing number of middle class taxpayers in coming years.	Bullish for stocks Bullish for bonds
FOREIGN EXCHANGE	Following a severe decline in value against the Euro in 2002, 2003 and 2004, the dollar improved in 2005. It resumed its slide in 2006 and thus far in 2007.	Foreign participation in U.S. markets is partially dependent upon the strength of our currency. Given the outlook for interest rates, the dollar is likely to remain sluggish.	Bearish for stocks Bearish for bonds
TECHNICAL FACTORS	The S & P 500 hit a seven-year high before correcting suddenly in late February. That broke a string of gains that began in July 2006.	Investor sentiment turned down in the first quarter. This is the third straight year the market has seen a short term decline of this magnitude.	Bearish for stocks Bullish for bonds

Summary: Weakness in the housing market was further impacted by news that the lower grade (sub-prime) mortgage market is experiencing accelerating delinquencies. This may have led the Federal Reserve Board to change its stance on short term interest rates to allow for possible easing later in 2007. This is not surprising because credit problems can be mitigated by increasing the amount of liquidity in the banking system and securities markets.



IF UNEMPLOYMENT DOES RISE...

UNEMPLOYMENT AND MORTGAGE DELINQUENCIES

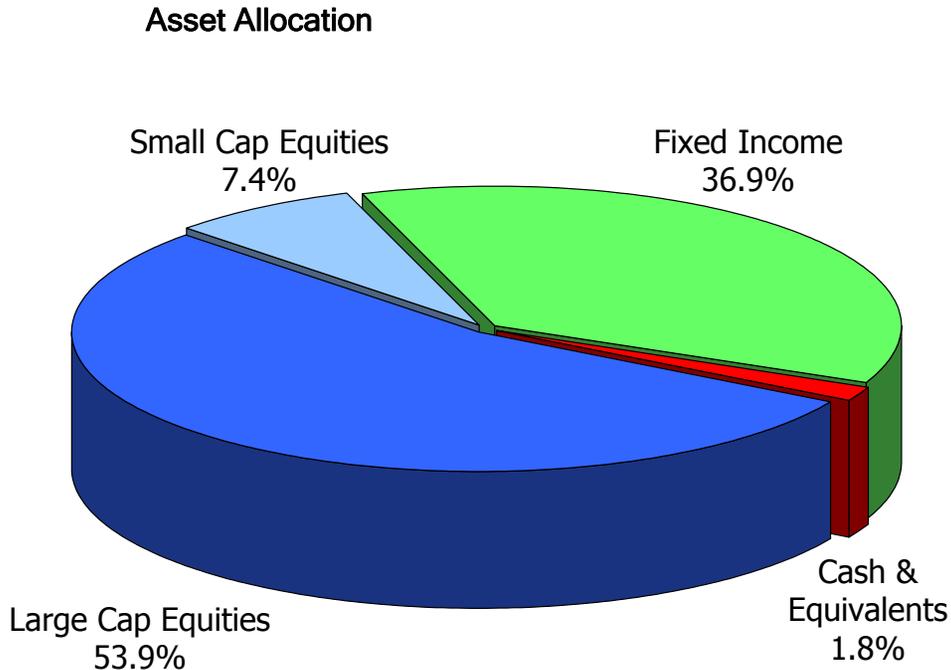


The chart shows a break in the normal pattern. Delinquent mortgage loans are rising while the rate of unemployment is falling. If the unemployment rate does rise, delinquencies would be likely to accelerate.



PERFORMANCE SUMMARY

Beaver County Retirement System as of March 31, 2007



PORTFOLIO VALUE ON 12/31/06	\$79,733,654.81
CONTRIBUTIONS	1,114,331.36
WITHDRAWALS	(3,035,520.93)
REALIZED GAINS	(562.30)
UNREALIZED GAINS	111,265.27
INTEREST	401,068.42
DIVIDENDS	212,416.09
CHANGE IN ACCRUED INTEREST	8,179.79
PORTFOLIO VALUE ON 3/31/07	\$78,544,832.51

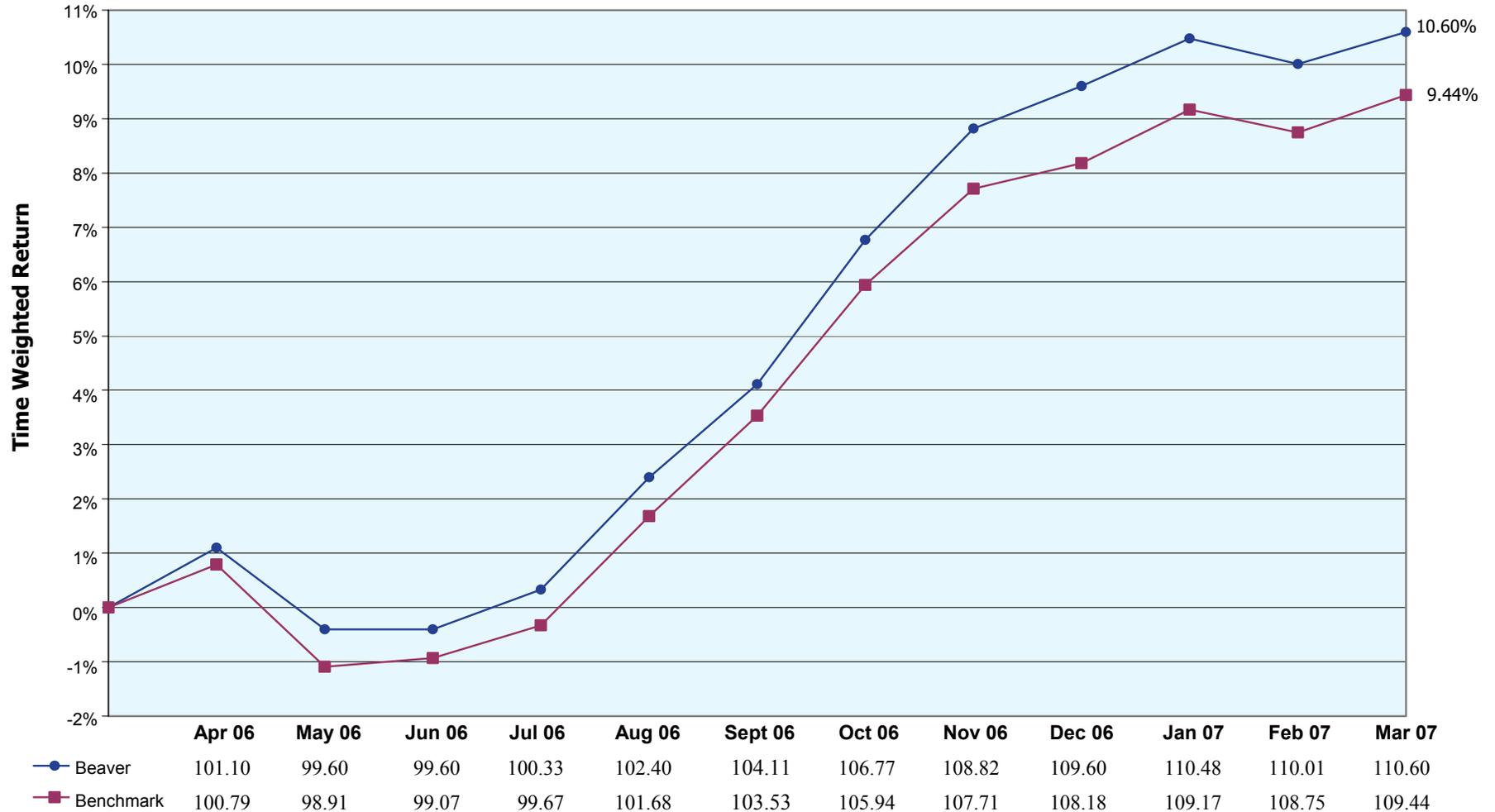
TOTAL INVESTMENT GAIN FOR THE TRAILING 3 MONTHS	\$732,367.27
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	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Total Return</u>
First Quarter 2007 (12/31/06 to 3/31/07)	79,733,654.81	78,544,832.51	0.91%
Trailing 12 Months (3/31/06 to 3/31/07)	67,739,967.60	78,544,832.51	10.60%
Inception to Date (12/26/95 to 3/31/07)	29,690,332.35	78,544,832.51	150.39%



CUMULATIVE PERFORMANCE

1 Year Cumulative Performance – 3/31/06 to 3/31/07

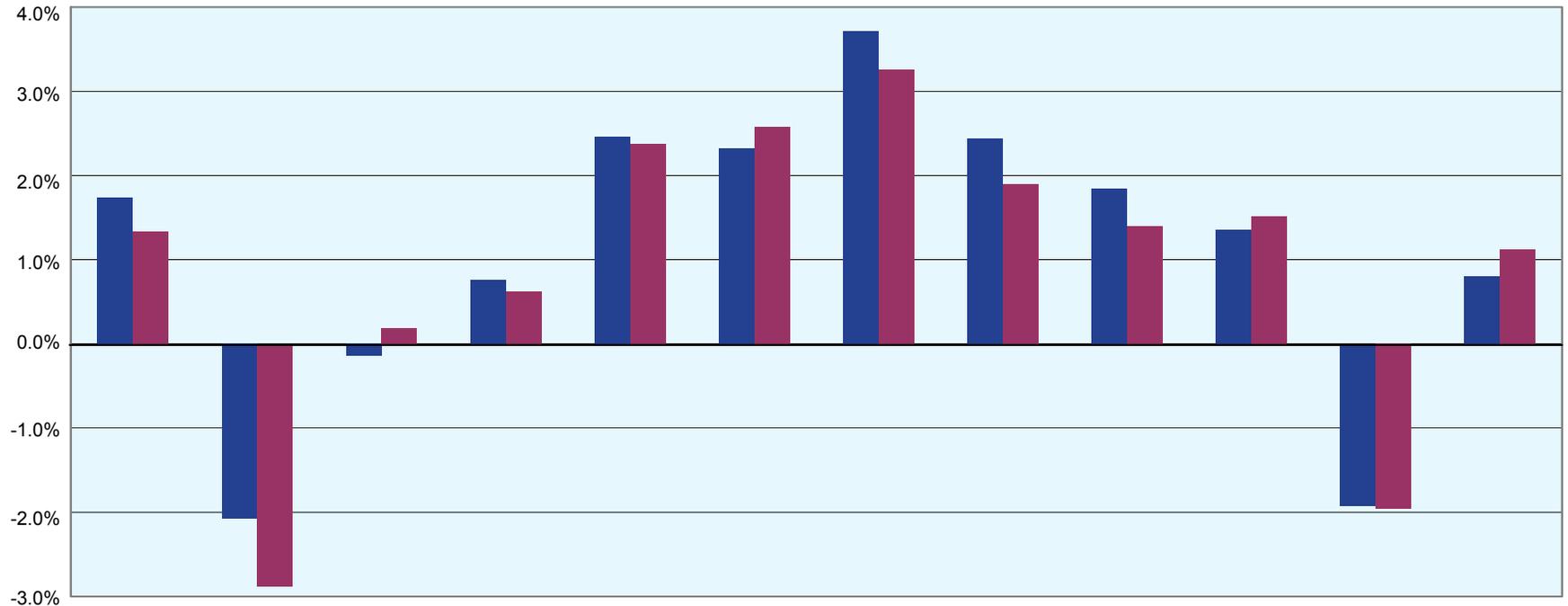


Footnote: The Benchmark used is 53% Standard & Poor's 500 Index, 40% Lehman Bros. Government/Credit Index and 7% Standard & Poor's 600 Small Cap Index since 4/30/06. Prior to that, Benchmark used was 65.5% Standard & Poor's 500 Index, 27% Lehman Bros. Government/Credit Index and 7.5% Standard & Poor's 600 Small Cap Index. Performance results are presented gross of management fees and net of commissions. Please refer to your Investment Management Agreement for applicable management fees. Fees are pro rata by quarter. Performance reported as of the end of each month.



Portfolio Performance Compared to Benchmark

Large Cap Equity Performance 1 Year – 3/31/06 to 3/31/07



	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07
Beaver	1.75	(2.09)	(0.09)	0.76	2.48	2.35	3.72	2.46	1.84	1.39	(1.92)	0.80
Benchmark	1.34	(2.88)	0.14	0.62	2.38	2.58	3.26	1.90	1.40	1.51	(1.96)	1.12
Difference	0.41	0.79	(0.23)	0.14	0.10	(0.23)	0.46	0.56	0.44	(0.12)	0.04	(0.32)

First Quarter 2007 (12/31/06 to 3/31/07)

Trailing 12 Months (3/31/06 to 3/31/07)

Beaver

0.24%

14.12%

**Standard & Poor's
500 Index**

0.64%

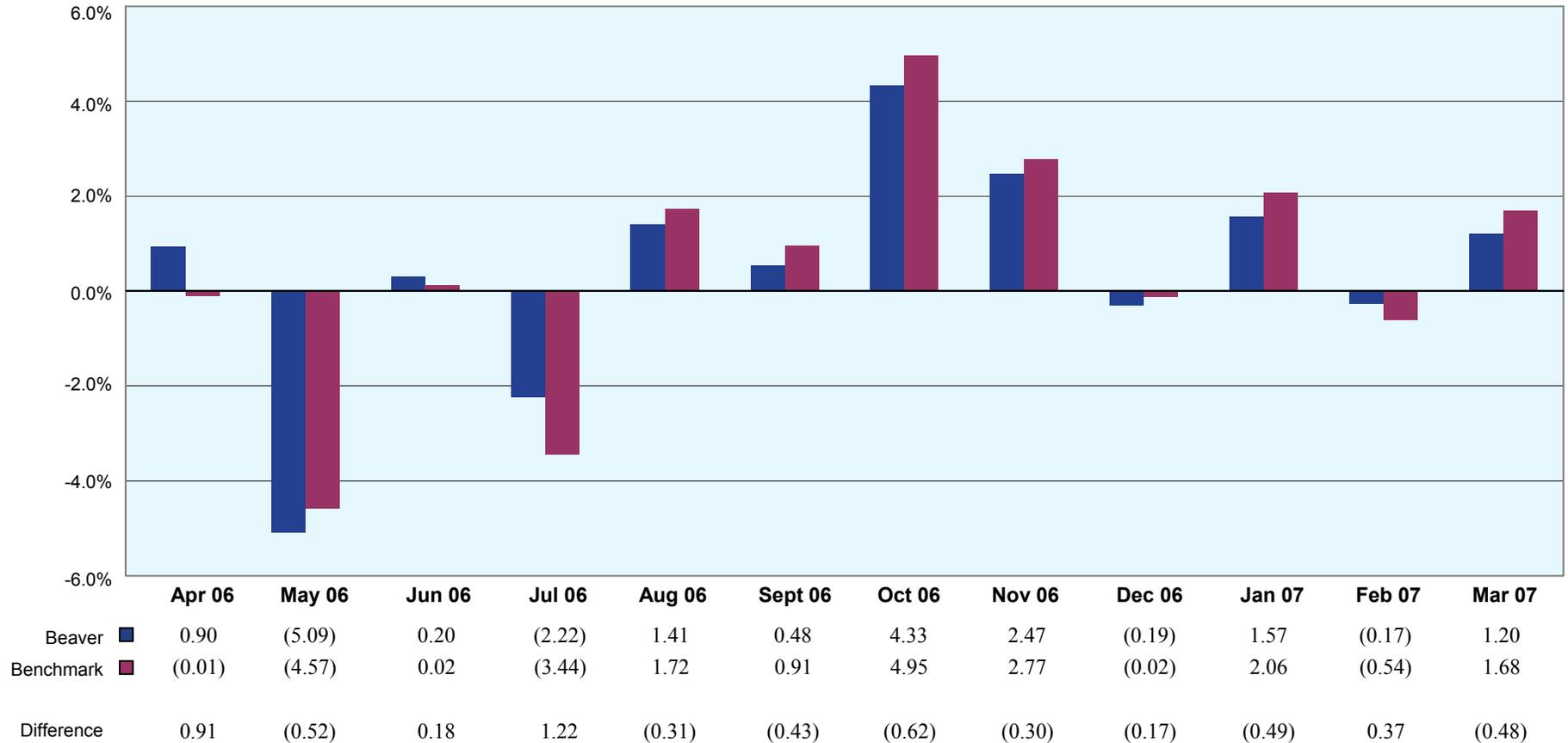
11.83%

Footnote: Performance results are presented gross of management fees and net of commissions. Please refer to your Investment Management Agreement for applicable management fees. Fees are pro rata by quarter. Performance reported as of the end of each month.



Portfolio Performance Compared to Benchmark

Small Cap Equity Performance 1 Year – 12/31/05 to 12/31/06



Beaver County

Standard & Poor's 600 Index

First Quarter 2007 (12/31/06 to 3/31/07)

2.61%

3.21%

Trailing 12 Months (3/31/06 to 3/31/07)

4.69%

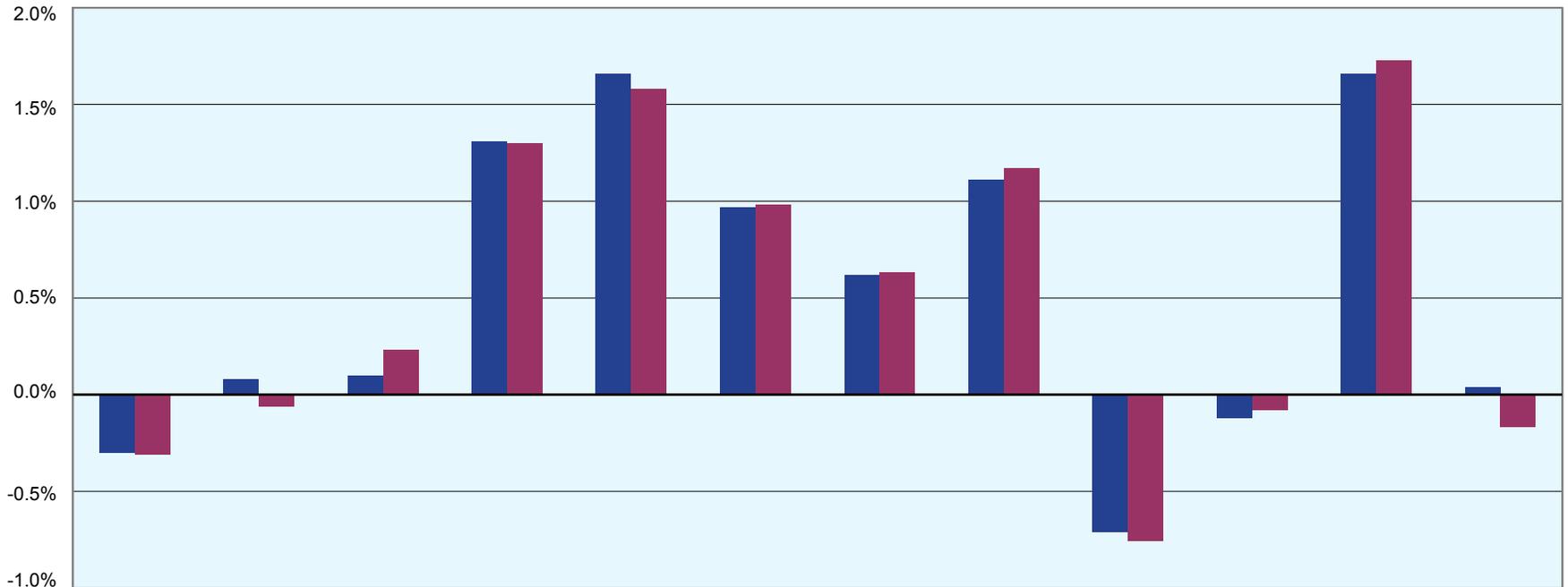
5.29%

Footnote: Performance results are presented gross of management fees and net of commissions. Please refer to your Investment Management Agreement for applicable management fees. Fees are pro rata by quarter. Performance reported as of the end of each month.



Portfolio Performance Compared to Benchmark

Fixed Income Performance 1 Year – 3/31/06 to 3/31/07



	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07
Beaver	(0.30)	0.08	0.10	1.31	1.66	0.97	0.62	1.11	(0.71)	(0.12)	1.66	0.04
Benchmark	(0.31)	(0.06)	0.23	1.30	1.58	0.98	0.63	1.17	(0.76)	(0.08)	1.73	(0.17)
Difference	0.01	0.14	(0.13)	0.01	0.08	(0.01)	(0.01)	(0.06)	0.05	(0.04)	(0.07)	0.21

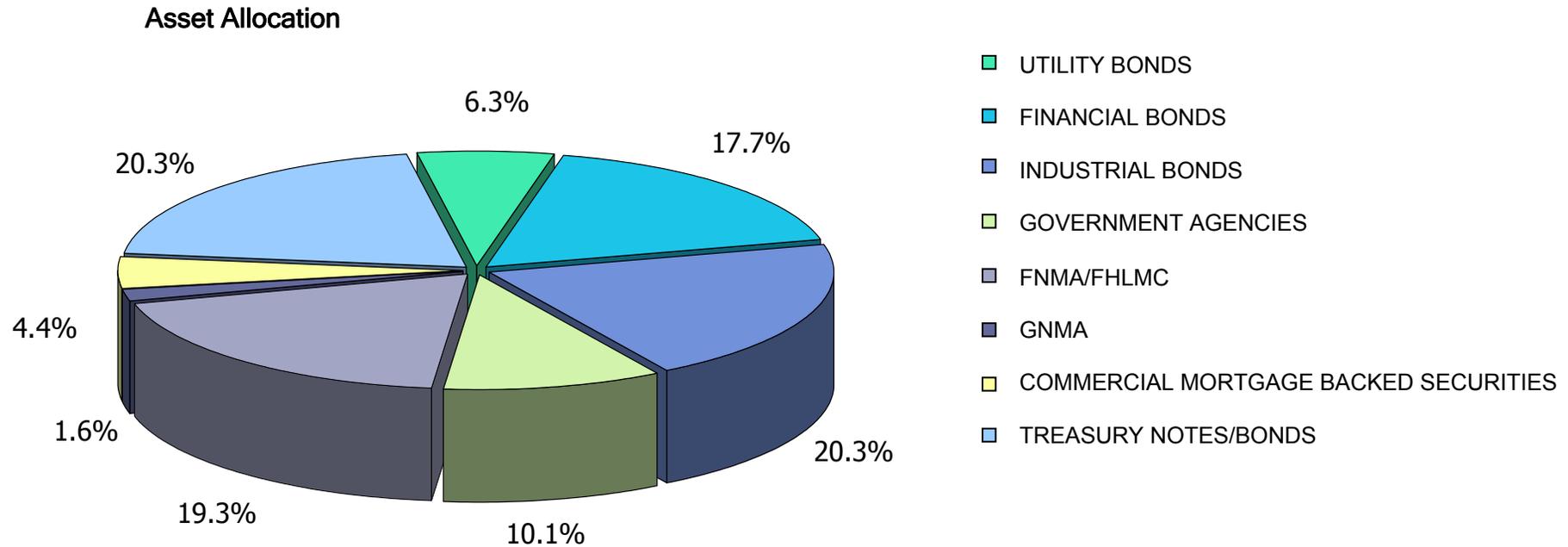
	<u>Beaver</u>	<u>Lehman Bros. Government/Credit Index</u>
First Quarter 2007 (12/31/06 to 3/31/07)	1.58%	1.47%
Trailing 12 Months (3/31/06 to 3/31/07)	6.57%	6.38%

Footnote: Performance results are presented gross of management fees and net of commissions. Please refer to your Investment Management Agreement for applicable management fees. Fees are pro rata by quarter. Performance reported as of the end of each month.



PORTFOLIO STATISTICS

Beaver County Retirement System – Fixed Income Account as of March 31, 2007

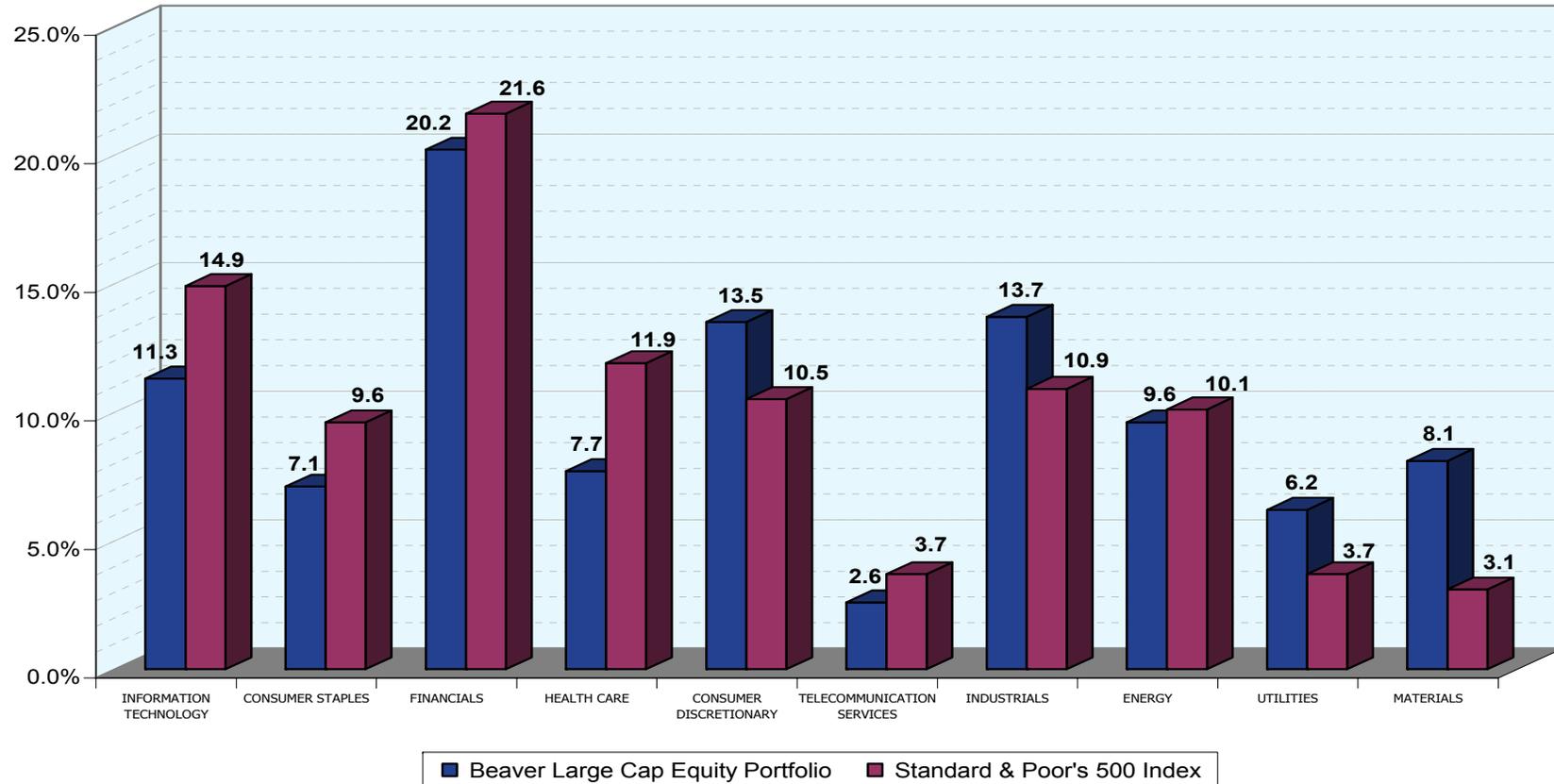


Statistical Characteristics		
	Beaver	LBGC
Coupon	5.47%	5.36%
Yield to Maturity	5.30%	5.08%
Modified Adjusted Duration	4.92 yrs	5.12 yrs
Average Price	\$101.00	\$102.58
Average Credit Quality	Aa2	Aa2

Sector Allocation		
	Beaver	LBGC
Utility Bonds	6.3%	3.2%
Financial Bonds	17.7%	14.1%
Industrial Bonds	20.3%	15.8%
Government Agencies	10.1%	19.0%
Non-Corporate	0.0%	6.1%
FNMA/FHLMC	19.3%	0.0%
GNMA	1.6%	0.0%
Commercial Mortgage Backed Securities	4.4%	0.0%
Treasury Notes/Bonds	20.3%	41.8%

PORTFOLIO STATISTICS

Beaver County Retirement System – Large Cap Portfolio Industry Sector Diversification as of March 31, 2007



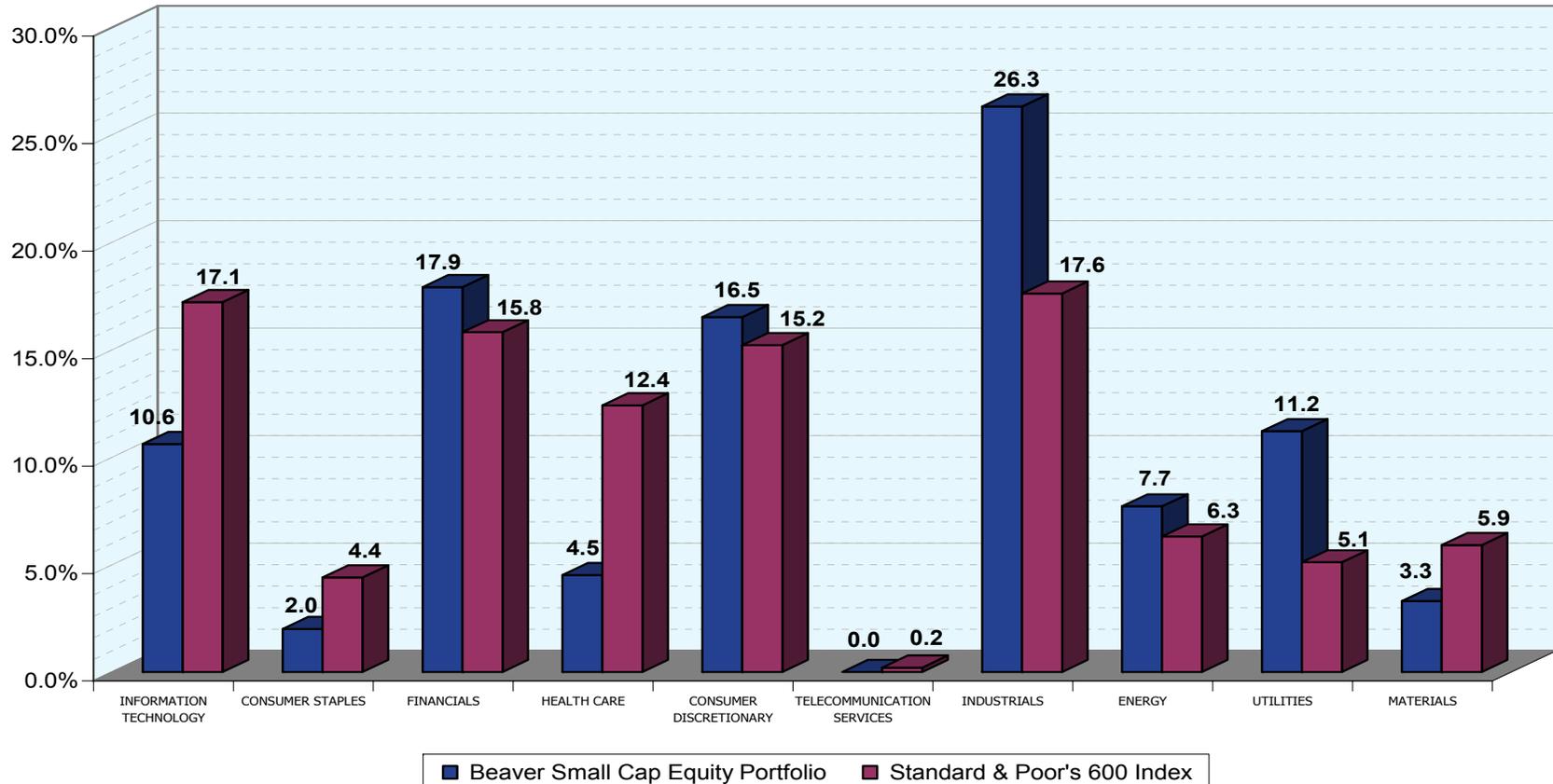
Top Ten Equity Holdings

	percentage		percentage
1. Exxon Mobil Corp.	3.0	6. Integy Energy Gp. Inc.	1.2
2. General Electric Co.	2.5	7. Bank of America Corp.	1.2
3. Microsoft Corp.	1.7	8. ChevronTexaco Corp.	1.2
4. Citigroup - New	1.6	9. Cisco Systems, Inc.	1.2
5. Pfizer, Inc.	1.3	10. JP Morgan Chase	1.2



PORTFOLIO STATISTICS

Beaver County Retirement System – Small Cap Portfolio Industry Sector Diversification as of March 31, 2007



Top Ten Equity Holdings

	percentage		percentage
1. Atmos Energy Corp.	1.7	6. Varian Semiconductor	1.4
2. Northwest Nat. Gas	1.7	7. Belden CDT	1.4
3. IDEX Corp.	1.7	8. Trustco Bank Corp. NY	1.3
4. United Stationers Inc.	1.7	9. Acuity Brands Inc.	1.3
5. Southern Union Co.	1.4	10. Manitowoc Comp Inc.	1.3

BEAVER COUNTY RETIREMENT SYSTEM PORTFOLIO APPRAISAL

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
COMMON STOCK								
INFORMATION TECHNOLOGY								
2,665	Benchmark Electronics	21.37	56,957.40	20.66	55,058.90	0.1	0.00	0.0
1,415	Black Box Corporation	49.09	69,466.66	36.54	51,704.10	0.1	84.90	0.2
4,265	Brooks Automation Inc	12.14	51,775.39	17.15	73,144.75	0.1	0.00	0.0
1,045	Cerner Corp.	49.28	51,497.60	54.45	56,900.25	0.1	0.00	0.0
22,545	Cisco Systems, Inc.	13.71	309,038.85	25.53	575,573.85	0.7	0.00	0.0
1,145	Cymer Inc.	24.90	28,515.90	41.55	47,574.75	0.1	0.00	0.0
10,335	Dell Inc.	32.42	335,110.95	23.21	239,875.35	0.3	0.00	0.0
5,005	Exar Corp	13.15	65,838.35	13.24	66,266.20	0.1	0.00	0.0
730	Google Inc Cl-B	403.82	294,788.60	458.16	334,456.80	0.4	0.00	0.0
10,540	Hewlett Packard Co.	20.07	211,488.89	40.14	423,075.60	0.5	3,372.80	0.8
1,440	Hyperion Solutions	29.32	42,220.80	51.83	74,635.20	0.1	0.00	0.0
5,540	Int'l Bus Machines	62.12	344,123.80	94.26	522,200.40	0.7	6,648.00	1.3
1,520	Investment Tech Grp.	43.47	66,072.10	39.20	59,584.00	0.1	0.00	0.0
8,095	Linear Tech Corp.	30.98	250,783.10	31.59	255,721.05	0.3	1,295.20	0.5
2,345	Microsemi Corp.	21.36	50,089.20	20.81	48,799.45	0.1	0.00	0.0
29,790	Microsoft Corporation	24.34	725,075.32	27.87	830,247.30	1.1	11,916.00	1.4
8,015	Molex Inc.	28.63	229,451.81	28.20	226,023.00	0.3	2,404.50	1.1
11,740	Motorola, Inc.	11.46	134,545.31	17.67	207,445.80	0.3	2,348.00	1.1
17,525	Oracle Systems Corp.	13.34	233,715.12	18.13	317,728.25	0.4	0.00	0.0
6,510	Qualcomm Inc.	35.88	233,567.22	42.66	277,716.60	0.4	3,124.80	1.1
7,745	Texas Instruments	24.33	188,466.55	30.10	233,124.50	0.3	1,239.20	0.5
7,670	Thermo Electron Corp.	27.86	213,686.20	46.75	358,572.50	0.5	0.00	0.0
1,490	Varian Semiconductor	19.13	28,506.56	53.38	79,536.20	0.1	0.00	0.0
			4,214,781.69		5,414,964.80	6.9	32,433.40	0.6
CONSUMER STAPLES								
5,385	Alberto-Culver - Cl B	37.32	200,949.61	22.88	123,208.80	0.2	2,800.20	2.3
6,425	Altria Group Inc.	34.35	220,712.00	87.81	564,179.25	0.7	22,102.00	3.9
13,940	Autonation Inc.	20.05	279,497.00	21.24	296,085.60	0.4	0.00	0.0
6,285	Campbell Soup Co.	36.82	231,425.64	38.95	244,800.75	0.3	5,028.00	2.1
5,705	Coca Cola Co.	47.35	270,139.97	48.00	273,840.00	0.3	4,107.60	1.5
4,755	Kellogg Company	48.63	231,248.49	51.43	244,549.65	0.3	5,534.82	2.3
4,350	Pepsico Inc.	36.96	160,796.00	63.56	276,486.00	0.4	5,220.00	1.9
8,515	Proctor & Gamble	51.32	437,000.64	63.16	537,807.40	0.7	11,921.00	2.2
5,385	Sally Beauty Co.	6.03	32,490.14	9.19	49,488.15	0.1	0.00	0.0



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
745	Texas Industries Inc.	68.48	51,017.60	75.53	56,269.85	0.1	55.87	0.1
1,125	Tractor Supply Co.	55.25	62,159.90	51.50	57,937.50	0.1	0.00	0.0
7,545	Wal-Mart Stores	48.30	364,444.58	46.95	354,237.75	0.5	2,112.60	0.6
			2,828,593.97		3,422,902.05	4.4	64,693.39	1.9

FINANCIALS

2,300	Ambac Financial Gp.	81.32	187,041.29	86.39	198,697.00	0.3	1,656.00	0.8
4,570	American Express Co.	31.22	142,663.78	56.40	257,748.00	0.3	2,742.00	1.1
8,136	American Int'l Grp, Inc.	50.76	412,944.32	67.22	546,901.92	0.7	5,369.76	1.0
11,573	Bank of America Corp.	28.71	332,205.33	51.02	590,454.46	0.8	25,923.52	4.4
1,915	Chittenden Corp.	26.95	51,608.29	30.19	57,813.85	0.1	1,532.00	2.6
8,550	Cincinnati Financial	41.56	355,344.90	42.40	362,520.00	0.5	7,182.00	2.0
15,270	Citigroup - New	33.73	514,995.14	51.34	783,961.83	1.0	8,551.20	1.1
6,320	Compass Bancshares	49.20	310,967.75	68.80	434,816.00	0.6	2,212.00	0.5
1,757	Delphi Fin Gp-A	34.64	60,853.93	40.23	70,684.11	0.1	562.24	0.8
4,395	Dime Comm. Banc.	15.16	66,628.20	13.23	58,145.85	0.1	0.00	0.0
6,600	Equifax Inc.	32.14	212,094.96	36.45	240,570.00	0.3	0.00	0.0
8,525	Federated Inv - CI B	31.62	269,564.18	36.72	313,038.00	0.4	6,138.00	2.0
2,570	Financial Fed. Corp.	27.82	71,505.88	26.32	67,642.40	0.1	257.00	0.4
3,785	First Commonwealth	13.17	49,848.45	11.75	44,473.75	0.1	643.45	1.4
5,960	First Horizon	41.23	245,708.00	41.53	247,518.80	0.3	2,562.80	1.0
1,705	First Midwest Bancorp	35.39	60,339.95	36.75	62,658.75	0.1	289.85	0.5
2,242	Glacier Bancorp	19.55	43,823.63	24.04	53,897.68	0.1	1,524.56	2.8
1,185	Global Payments Inc.	45.37	53,759.85	34.06	40,361.10	0.1	47.40	0.1
2,590	Goldman Sachs Grp.	71.66	185,606.90	206.63	535,171.70	0.7	310.80	0.1
15,400	Huntington Bancshares	24.35	374,914.40	21.85	336,490.00	0.4	3,311.00	1.0
2,835	ITT Hartford Grp, Inc.	81.50	231,052.50	95.58	270,969.30	0.3	2,835.00	1.0
2,320	Independent Bank Corp/Mi	24.13	55,981.60	20.37	47,258.40	0.1	464.00	1.0
11,545	JP Morgan Chase	30.66	353,954.76	48.38	558,547.10	0.7	15,701.20	2.8
845	Kilroy Realty	64.75	54,713.75	73.75	62,318.75	0.1	418.27	0.7
3,620	Lehman Bros. Holdings	60.19	217,887.80	70.07	253,653.40	0.3	1,737.60	0.7
2,240	Lexington Corp PPTYs	21.54	48,238.85	21.13	47,331.20	0.1	806.40	1.7
1,755	M&T Bank	117.06	205,440.30	115.83	203,281.65	0.3	4,212.00	2.1
1,620	MAF Bancorp Inc.	43.47	70,425.30	41.34	66,970.80	0.1	243.00	0.4
4,900	MBIA Inc.	61.18	299,794.70	65.49	320,901.00	0.4	2,940.00	0.9
3,235	MGIC Investment	59.15	191,350.25	58.92	190,606.20	0.2	323.50	0.2
5,145	Merrill Lynch & Co.	49.06	252,404.82	81.67	420,192.15	0.5	3,292.80	0.8
4,795	Morgan Stanley	41.58	199,367.53	78.76	377,654.20	0.5	1,294.65	0.3



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
4,675	Northern Trust Corp.	49.58	231,786.50	60.14	281,154.50	0.4	794.75	0.3
1,045	Proassurance Corp	46.50	48,592.50	51.15	53,451.75	0.1	0.00	0.0
1,620	Sterling Finl Corp/Sp	33.89	54,901.80	31.19	50,527.80	0.1	121.50	0.2
2,655	Susquehanna Bancsh	23.07	61,250.05	23.19	61,569.45	0.1	531.00	0.9
8,220	Torchmark Corp.	53.05	436,071.00	65.59	539,149.80	0.7	4,274.40	0.8
8,115	Trustco Bank Corp. NY	11.22	91,025.40	9.58	77,741.70	0.1	1,217.25	1.6
4,212	Wachovia Corp.	43.22	182,036.39	55.05	231,870.60	0.3	9,434.88	4.1
1,675	Whitney Hldg Corp.	35.83	60,019.50	30.58	51,221.50	0.1	452.25	0.9
1,405	Zenith Natl Ins Cp	41.97	58,964.51	47.27	66,414.35	0.1	1,967.00	3.0
2,760	Zions Bancorporation	78.21	215,859.60	84.52	233,275.20	0.3	993.60	0.4
			7,623,538.55		9,769,626.00	12.4	124,870.64	1.3
HEALTH CARE								
4,995	Abbott Laboratories	39.49	197,239.17	55.80	278,721.00	0.4	4,195.80	1.5
3,595	Amgen Inc.	51.89	186,562.27	55.88	200,888.60	0.3	0.00	0.0
8,365	Bristol Myers Squibb	24.77	207,166.96	27.76	232,212.40	0.3	9,201.50	4.0
1,055	Hologic Inc.	44.62	47,074.10	57.64	60,810.20	0.1	0.00	0.0
8,190	IMS Health Inc.	26.90	220,311.00	29.66	242,915.40	0.3	655.20	0.3
670	Idexx Labratories Inc.	48.20	32,293.76	87.63	58,712.10	0.1	0.00	0.0
6,760	Johnson & Johnson	45.99	310,864.71	60.26	407,357.60	0.5	10,140.00	2.5
3,775	Lilly (ELI) Co.	63.73	240,595.57	53.71	202,755.25	0.3	4,228.00	2.1
6,900	Merck & Co. Inc.	49.85	343,967.30	44.17	304,773.00	0.4	9,384.00	3.1
3,200	Millipore Corp.	62.30	199,360.00	72.47	231,904.00	0.3	1,408.00	0.6
1,305	Pediatrics Medical Grp Inc.	48.76	63,635.45	57.06	74,463.30	0.1	0.00	0.0
24,210	Pfizer Inc.	32.77	793,267.50	25.26	611,544.60	0.8	10,652.40	1.7
1,575	Respironics Inc.	28.77	45,315.90	41.99	66,134.25	0.1	0.00	0.0
4,460	UnitedHealth Group	32.76	146,098.05	52.97	236,246.20	0.3	66.90	0.0
2,560	WellPoint Health	68.16	174,489.60	81.10	207,616.00	0.3	0.00	0.0
5,300	Wyeth	39.06	207,002.37	50.03	265,159.00	0.3	5,512.00	2.1
			3,415,243.72		3,682,212.90	4.7	55,443.80	1.5
CONSUMER DISCRETIONARY								
2,765	Black and Decker Corp.	73.70	203,768.89	81.62	225,679.30	0.3	1,327.20	0.6
1,095	Colonial Properties Tr.	47.38	51,886.25	45.67	50,008.65	0.1	722.70	1.4
10,822	Comcast Corp.-Cl A	18.43	199,416.57	25.95	280,843.87	0.4	0.00	0.0
7,805	Disney Walt Co.	22.12	172,650.11	34.43	268,726.15	0.3	1,639.05	0.6
5,630	Dow Jones & Co.	37.33	210,167.90	34.47	194,066.10	0.2	5,630.00	2.9
5,745	EW Scripps Co.	41.70	239,550.99	44.68	256,686.60	0.3	2,757.60	1.1



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,010	Entertainment Prop Inc	39.47	39,861.36	60.25	60,852.50	0.1	568.12	0.9
370	Essex Property Trust	127.85	47,303.21	129.48	47,907.60	0.1	284.90	0.6
7,665	Genuine Parts Co.	44.05	337,612.15	49.00	375,585.00	0.5	8,738.10	2.3
905	Group 1 Automotive	28.02	25,358.10	39.77	35,991.85	0.0	506.80	1.4
13,200	Hasbro Inc.	17.81	235,031.28	28.62	377,784.00	0.5	1,584.00	0.4
9,055	Hilton Hotels	25.61	231,875.92	35.96	325,617.80	0.4	724.40	0.2
8,615	Home Depot Inc.	27.24	234,713.22	36.74	316,515.10	0.4	1,378.40	0.4
447	IDEARC Inc.	28.14	12,580.07	35.10	15,689.70	0.0	0.00	0.0
8,290	Jones Apparel Gp Inc	28.11	233,012.00	30.73	254,751.70	0.3	0.00	0.0
1,635	Kellwood Co	30.67	50,151.34	29.33	47,954.55	0.1	261.60	0.5
9,950	Liz Claiborne, Inc.	38.94	387,419.50	42.85	426,357.50	0.5	4,477.50	1.1
6,630	Marriot International	36.33	240,867.90	48.96	324,604.80	0.4	1,657.50	0.5
6,275	McDonalds Corp.	22.05	138,369.69	45.05	282,688.75	0.4	6,275.00	2.2
7,150	Meredith Corp.	49.73	355,557.39	57.39	410,338.50	0.5	2,431.00	0.6
10,805	N Y Times - Class A	22.80	246,374.53	23.51	254,025.55	0.3	7,563.50	3.0
105	NVR Inc.	824.55	86,577.75	665.00	69,825.00	0.1	0.00	0.0
910	Panera Bread Co-A	64.57	58,761.60	59.06	53,744.60	0.1	0.00	0.0
1,275	Phillips-Van Heusen	31.79	40,532.25	58.80	74,970.00	0.1	0.00	0.0
1,305	SCP Pool Corp.	19.94	26,020.10	35.80	46,719.00	0.1	548.10	1.2
6,860	Snap-On Inc.	34.84	239,002.40	48.10	329,966.00	0.4	6,585.60	2.0
3,195	Steak n Shake	18.09	57,790.67	16.77	53,580.15	0.1	0.00	0.0
1,610	THQ Inc.	31.09	50,054.90	34.19	55,045.90	0.1	0.00	0.0
3,655	The Finish Line CL-A	14.92	54,532.60	12.60	46,053.00	0.1	91.37	0.2
1,545	The Men's Wearhouse	32.50	50,206.32	47.05	72,692.25	0.1	0.00	0.0
15,940	Time Warner Inc.	14.24	227,010.40	19.72	314,336.80	0.4	3,506.80	1.1
1,375	Toro Co.	46.04	63,306.25	51.24	70,455.00	0.1	165.00	0.2
2,220	Trimble Nav. Ltd	22.82	50,668.11	26.84	59,584.80	0.1	0.00	0.0
3,460	V.F. Corp.	61.47	212,702.40	82.62	285,865.20	0.4	7,612.00	2.7
1,680	Viad Corp.	37.55	63,084.00	38.60	64,848.00	0.1	151.20	0.2
895	Watsco, Inc.	56.07	50,184.53	51.07	45,707.65	0.1	895.00	2.0
			5,223,962.65		6,476,068.92	8.2	68,082.45	1.1
TELECOMMUNICATION SERVICES								
11,550	AT&T	32.97	380,761.02	39.43	455,416.50	0.6	3,724.87	0.8
5,375	Centurytel	36.26	194,920.61	45.19	242,896.25	0.3	335.94	0.1
10,495	Sprint Nextel Corp	19.24	201,921.70	18.96	198,985.20	0.3	9,655.40	4.9
8,940	Verizon Comm.	37.23	332,855.53	37.92	339,004.80	0.4	13,767.60	4.1
			1,110,458.87		1,236,302.75	1.6	27,483.81	2.2



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
INDUSTRIALS								
1,420	Acuity Brands Inc.	40.38	57,332.67	54.44	77,304.80	0.1	213.00	0.3
1,975	Albany Intl Corp.	35.39	69,900.30	35.94	70,981.50	0.1	790.00	1.1
1,060	Aptargroup Inc.	51.63	54,727.80	66.93	70,945.80	0.1	932.80	1.3
1,875	Baldor Electric Co.	35.56	66,667.69	37.74	70,762.50	0.1	1,275.00	1.8
1,480	Belden CDT	30.87	45,688.93	53.59	79,313.20	0.1	0.00	0.0
3,820	Boeing Co.	40.63	155,195.20	88.91	339,636.20	0.4	2,597.60	0.8
1,890	Briggs and Stratton	33.25	62,847.54	30.85	58,306.50	0.1	2,343.60	4.0
3,275	Caterpillar Inc.	69.15	226,466.25	67.03	219,523.25	0.3	3,930.00	1.8
5,550	Cintas Corp.	35.82	198,801.00	36.10	200,355.00	0.3	1,942.50	1.0
1,415	Clarcor Inc.	34.18	48,361.73	31.80	44,997.00	0.1	410.35	0.9
4,710	Eaton Corp.	42.41	199,729.10	83.56	393,567.60	0.5	7,347.60	1.9
3,990	GenCorp Inc.	16.37	65,325.72	13.84	55,221.60	0.1	0.00	0.0
33,415	General Electric Co.	27.89	932,070.19	35.36	1,181,554.40	1.5	21,385.60	1.8
2,220	Global Imaging Sys.	17.47	38,794.50	19.50	43,290.00	0.1	0.00	0.0
2,840	Grainger (W.W.) Inc.	61.35	174,234.00	77.24	219,361.60	0.3	3,294.40	1.5
1,945	IDEX Corp.	32.24	62,703.35	50.88	98,961.60	0.1	1,167.00	1.2
1,730	Kansas City Southern	26.08	45,125.67	35.58	61,553.40	0.1	0.00	0.0
1,550	Kaydon Corp.	40.20	62,310.62	42.56	65,968.00	0.1	186.00	0.3
2,945	Labor Ready, Inc.	22.80	67,145.35	18.99	55,925.55	0.1	0.00	0.0
1,820	Lennox Intl Inc.	29.23	53,204.24	35.70	64,974.00	0.1	172.90	0.3
1,210	Manitowoc Comp Inc.	16.51	19,983.15	63.53	76,871.30	0.1	169.40	0.2
7,875	Masco Corp.	27.03	212,877.79	27.40	215,775.00	0.3	4,095.00	1.9
10,910	Navistar Int'l Corp.	21.00	229,065.27	45.75	499,132.50	0.6	0.00	0.0
3,305	Parker Hannifin	71.25	235,472.00	86.31	285,254.55	0.4	3,437.20	1.2
12,675	Perkinelmer	20.47	259,509.22	24.22	306,988.50	0.4	887.25	0.3
9,455	Pitney Bowes, Inc.	42.76	404,271.80	45.39	429,162.45	0.5	10,967.80	2.6
1,200	Regal Beloit	50.55	60,660.96	46.38	55,656.00	0.1	672.00	1.2
6,005	Robert Half Intl	35.37	212,373.43	37.01	222,245.05	0.3	480.40	0.2
1,450	Skyline Corp.	41.29	59,872.53	33.74	48,923.00	0.1	1,044.00	2.1
1,760	Standex International	30.51	53,694.43	28.51	50,177.60	0.1	0.00	0.0
8,545	Tyco Int'l Limited	21.83	186,566.90	31.55	269,594.75	0.3	427.25	0.2
1,770	URS Corp.	42.06	74,454.17	42.59	75,384.30	0.1	0.00	0.0
1,605	United Stationers Inc.	30.80	49,441.52	59.92	96,171.60	0.1	0.00	0.0
4,755	United Tech Corp.	31.50	149,773.50	65.00	309,075.00	0.4	5,040.30	1.6
2,520	Veeco Inst. Inc.	22.66	57,098.85	19.50	49,140.00	0.1	0.00	0.0
1,830	Waste Connections Inc.	27.53	50,383.80	29.94	54,790.20	0.1	0.00	0.0
1,245	Watson Wyatt WW Cl-A	35.09	43,687.05	48.65	60,569.25	0.1	93.37	0.2
1,185	Watts Water Tech Cl-A	42.61	50,490.84	38.03	45,065.55	0.1	106.65	0.2
			5,096,309.07		6,622,480.10	8.4	75,408.97	1.1

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
ENERGY								
3,655	Ashland Inc.	65.38	238,949.65	65.60	239,768.00	0.3	4,020.50	1.7
1,135	Cabot Oil & Gas	56.28	63,877.80	67.32	76,408.20	0.1	0.00	0.0
7,790	ChevronTexaco Corp.	39.19	305,268.55	73.96	576,148.40	0.7	16,203.20	2.8
1,515	Cimarex Energy Co.	43.75	66,284.40	37.02	56,085.30	0.1	0.00	0.0
5,735	ConocoPhillips	24.57	140,923.45	68.35	391,987.25	0.5	2,064.60	0.5
18,935	Exxon Mobil Corp.	35.34	669,182.14	75.45	1,428,645.75	1.8	33,325.60	2.3
1,760	Helix Energy	29.90	52,632.80	37.29	65,630.40	0.1	0.00	0.0
1,585	Kirby Corp.	36.57	57,964.93	34.98	55,443.30	0.1	0.00	0.0
2,495	Marathon Oil	85.85	214,195.75	98.83	246,580.85	0.3	3,992.00	1.6
7,850	Nabors Industries	31.46	246,980.25	29.67	232,909.50	0.3	0.00	0.0
14,190	Nisource Inc.	24.11	342,149.70	24.44	346,803.60	0.4	3,263.70	0.9
4,340	Occidental Pete	49.87	216,435.80	49.31	214,005.40	0.3	3,819.20	1.8
775	Penn Virginia Corp.	72.81	56,430.77	73.40	56,885.00	0.1	87.19	0.2
6,960	Rowan Cos.	30.86	214,763.50	32.47	225,991.20	0.3	2,784.00	1.2
4,220	Schlumberger LTD	25.73	108,587.60	69.10	291,602.00	0.4	2,110.00	0.7
760	Seacor Smit Inc.	78.66	59,781.60	98.40	74,784.00	0.1	0.00	0.0
1,615	St. Mary Land & Exp.	36.45	58,868.20	36.68	59,238.20	0.1	80.75	0.1
			3,113,276.88		4,638,916.35	5.9	71,750.74	1.5
UTILITIES								
7,390	Ameren Corporation	53.61	396,175.94	50.30	371,717.00	0.5	18,770.60	5.0
3,205	Atmos Energy Corp.	27.54	88,255.70	31.28	100,252.40	0.1	945.47	0.9
2,375	Avista Corp.	27.29	64,808.05	24.23	57,546.25	0.1	344.37	0.6
1,340	CH Energy Group Inc.	47.81	64,065.40	48.69	65,244.60	0.1	723.60	1.1
2,645	Cleco Corp	19.25	50,906.46	25.83	68,320.35	0.1	595.12	0.9
4,980	DTE Energy Company	41.62	207,249.17	47.90	238,542.00	0.3	10,258.80	4.3
1,455	Energen Corp.	24.39	35,492.30	50.89	74,044.95	0.1	261.90	0.4
10,741	Integry Energy Gp. Inc.	53.48	574,378.26	55.51	596,232.91	0.8	633.72	0.1
6,210	Keyspan Corporation	40.00	248,400.00	41.15	255,541.50	0.3	11,053.80	4.3
1,700	Laclede Grp Inc.	33.42	56,812.20	31.08	52,836.00	0.1	569.50	1.1
9,050	NICOR Inc.	41.52	375,752.94	48.42	438,201.00	0.6	15,928.00	3.6
2,175	Northwest Nat Gas	33.88	73,684.43	45.67	99,332.25	0.1	685.12	0.7
9,140	Pinnacle West	43.52	397,753.40	48.25	441,005.00	0.6	4,341.50	1.0
2,640	Southern Union Co.	27.75	73,254.19	30.39	80,229.60	0.1	0.00	0.0
1,895	UGI Corp.	27.27	51,677.79	26.71	50,615.45	0.1	1,335.97	2.6
			2,758,666.24		2,989,661.26	3.8	66,447.49	2.2
MATERIALS								
5,045	BASF AG	76.49	385,915.26	112.42	567,158.90	0.7	10,087.38	1.8



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
15,745	Bemis Company	28.02	441,244.00	33.39	525,725.55	0.7	15,745.00	3.0
560	Carpenter Tech.	107.77	60,352.30	120.76	67,625.60	0.1	504.00	0.7
6,225	Ecolab Inc.	31.76	197,706.00	43.00	267,675.00	0.3	3,237.00	1.2
2,635	Griffon Corp.	26.88	70,829.95	24.75	65,216.25	0.1	0.00	0.0
9,240	Int'l Flavors and Frag.	36.12	333,745.49	47.22	436,312.80	0.6	5,544.00	1.3
1,615	Macdermid, Inc.	27.61	44,590.15	34.87	56,315.05	0.1	0.00	0.0
9,185	Plum Creek Timber	35.58	326,812.30	39.42	362,072.70	0.5	5,235.45	1.4
5,850	Rohm and Haas	46.59	272,573.14	51.72	302,562.00	0.4	7,722.00	2.6
13,030	Sealed Air	24.75	322,527.03	31.60	411,748.00	0.5	1,954.50	0.5
8,780	Sigma-Aldrich	29.57	259,666.05	41.52	364,545.60	0.5	2,897.40	0.8
3,850	Vulcan Materials Co.	67.27	258,980.70	116.48	448,448.00	0.6	3,465.00	0.8
			<u>2,974,942.37</u>		<u>3,875,405.45</u>	<u>4.9</u>	<u>56,391.73</u>	<u>1.5</u>
	COMMON STOCK Total		38,359,774.01		48,128,540.58	61.3	643,006.43	1.3

U.S. TREASURY NOTES/BONDS

500,000	U.S. Treasury Note 6.125% Due 08-15-07	105.59	527,968.75	100.37	501,875.00	0.6	30,625.00	6.1
500,000	U.S. Treasury Note 4.750% Due 11-15-08	101.00	505,000.00	100.06	500,312.50	0.6	23,750.00	4.7
500,000	U.S. Treasury Note 2.625% Due 03-15-09	99.31	496,562.50	96.37	481,875.00	0.6	13,125.00	2.7
500,000	U.S. Treasury Note 5.000% Due 02-15-11	108.56	542,812.50	101.72	508,593.75	0.6	25,000.00	4.9
500,000	U.S. Treasury Note 5.000% Due 08-15-11	113.59	567,968.75	101.94	509,687.50	0.6	25,000.00	4.9
200,000	U.S. Treasury Note 4.875% Due 02-15-12	99.57	199,140.63	101.56	203,125.00	0.3	9,750.00	4.8
500,000	U.S. Treasury Note 4.250% Due 08-15-13	100.03	500,156.25	98.28	491,406.25	0.6	21,250.00	4.3
500,000	U.S. Treasury Note 4.000% Due 02-15-14	101.44	507,187.50	96.47	482,343.75	0.6	20,000.00	4.1
500,000	U.S. Treasury Note 4.500% Due 11-15-15	100.12	500,625.00	98.97	494,843.75	0.6	22,500.00	4.5
1,000,000	U.S. Treasury Note 4.500% Due 02-15-16	95.47	954,726.56	99.00	990,000.00	1.3	45,000.00	4.5
500,000	U.S. Treasury Bond 8.750% Due 05-15-17	135.03	675,156.25	132.19	660,937.50	0.8	43,750.00	6.6
	Accrued Interest				55,851.04	0.1		
	U.S. TREASURY NOTES/BONDS Total		<u>5,977,304.69</u>		<u>5,880,851.04</u>	<u>7.5</u>	<u>279,750.00</u>	<u>4.8</u>



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
GOVERNMENT AGENCIES								
500,000	Fed Home Loan Bank 5.805% Due 03-23-09	100.00	500,000.00	101.72	508,593.75	0.6	29,025.00	5.7
500,000	Fed Home Loan Mtg 7.000% Due 03-15-10	99.00	494,997.50	105.97	529,843.75	0.7	35,000.00	6.6
500,000	Tenn Valley Authority 6.000% Due 03-15-13	101.58	507,880.00	105.51	527,562.03	0.7	30,000.00	5.7
500,000	Fed Natl Mtg Assoc 5.500% Due 12-30-14	99.56	497,812.50	99.31	496,562.50	0.6	27,500.00	5.5
500,000	Fed Natl Mtg Assoc 5.000% Due 06-26-15	95.50	477,500.00	97.69	488,437.50	0.6	25,000.00	5.1
300,000	Fed Natl Mtg Assoc 6.250% Due 05-15-29	115.35	346,045.50	112.69	338,062.50	0.4	18,750.00	5.5
	Accrued Interest				24,050.31	0.0		
	GOVERNMENT AGENCIES Total		2,824,235.50		2,913,112.34	3.7	165,275.00	5.7
MORTGAGE BACKED SECURITIES								
FNMA/FHLMC								
175,466	FGCI #E97963 5.000% Due 07-01-18	101.78	178,591.78	98.87	173,488.78	0.2	8,773.31	5.1
359,706	FGCI #G18008 4.500% Due 09-01-19	100.31	360,830.37	96.94	348,695.68	0.4	16,186.78	4.6
534,721	FGCI #G11900 5.500% Due 02-01-21	98.91	528,872.97	100.25	536,036.90	0.7	29,409.68	5.5
929,850	FGCI #G12335 5.000% Due 05-01-21	98.59	916,773.52	98.66	917,408.14	1.2	46,492.48	5.1
747,016	FNCL #886599 5.500% Due 08-01-21	99.52	743,398.07	100.25	748,913.85	1.0	41,085.90	5.5
360,099	FNCL #799556 5.000% Due 11-01-34	99.64	358,805.38	96.79	348,536.69	0.4	18,004.97	5.2
905,410	FNCL# 832869 5.000% Due 09-01-35	96.80	876,408.60	96.71	875,649.18	1.1	45,270.50	5.2
185,131	FNCL #805625 5.500% Due 12-01-35	98.47	182,296.44	99.06	183,383.62	0.2	10,182.22	5.6
537,186	FNCL #852028 6.000% Due 01-01-36	99.16	532,653.68	100.81	541,542.77	0.7	32,231.17	6.0
919,339	FNCL #868450 5.500% Due 04-01-36	99.22	912,156.84	98.96	909,750.47	1.2	50,563.65	5.6
	Accrued Interest				10,711.09	0.0		
			5,590,787.64		5,594,117.19	7.1	298,200.68	5.3



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
GNMA								
251,650	GNJO #605142 4.500% Due 03-15-19	100.75	253,537.87	97.39	245,074.86	0.3	11,324.27	4.6
222,645	GNSF #594139 5.000% Due 10-15-33 Accrued Interest	100.09	222,854.17	97.46	217,001.38	0.3	11,132.27	5.1
					1,871.38	0.0		
			476,392.04		463,947.62	0.6	22,456.54	4.9
	MORTGAGE BACKED SECURITIES Total		6,067,179.68		6,058,064.81	7.7	320,657.22	5.3
COMMERCIAL MORTGAGE BACKED SECURITIES								
750,000	GS Mortgage Sec 5.396% Due 08-10-38	101.28	759,609.38	100.91	756,796.87	1.0	40,470.00	5.3
500,000	Merrill Lynch Mtg Tr 5.499% Due 01-12-44 Accrued Interest	96.99	484,941.41	100.59	502,968.75	0.6	27,497.19	5.5
					3,811.99	0.0		
	COMMERCIAL MORTGAGE BACKED SECURITIES Total		1,244,550.79		1,263,577.62	1.6	67,967.19	5.4
CORPORATE BONDS								
UTILITY BONDS								
1,000,000	Georgia Power 5.125% Due 11-15-12	97.28	972,810.00	99.69	996,860.05	1.3	51,250.00	5.1
300,000	Natl Rural Utilities 7.200% Due 10-01-15	119.23	357,705.00	111.41	334,230.61	0.4	21,600.00	6.5
500,000	South Carolina E&G 5.300% Due 05-15-33 Accrued Interest	105.04	525,222.50	93.04	465,216.52	0.6	26,500.00	5.7
					40,172.22	0.1		
			1,855,737.50		1,836,479.40	2.3	99,350.00	5.5
FINANCIAL BONDS								
500,000	Countrywide Home 4.250% Due 12-19-07	101.83	509,155.00	99.12	495,623.47	0.6	21,250.00	4.3
650,000	Goldman Sachs 4.125% Due 01-15-08	98.12	637,807.30	99.16	644,554.31	0.8	26,812.50	4.2
500,000	Gen. Elec. Cap. Corp. 3.125% Due 04-01-09	98.04	490,215.00	96.45	482,262.50	0.6	15,625.00	3.2
650,000	Int'l Lease Finance 4.875% Due 09-01-10	97.18	631,699.25	99.25	645,106.75	0.8	31,687.50	4.9

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
500,000	National City Bank 6.250% Due 03-15-11	100.00	500,000.00	103.72	518,591.00	0.7	31,250.00	6.0
500,000	Household Finance 6.375% Due 11-15-12	115.58	577,912.50	104.95	524,746.02	0.7	31,875.00	6.1
500,000	Progressive Corp. 7.000% Due 10-01-13	94.84	474,220.00	109.06	545,279.01	0.7	35,000.00	6.4
700,000	Bear Stearns Co. 5.700% Due 11-15-14	98.58	690,032.00	100.88	706,193.57	0.9	39,900.00	5.7
500,000	Lehman Bros. Holdings 5.500% Due 04-04-16	98.90	494,485.00	99.44	497,177.96	0.6	27,500.00	5.5
	Accrued Interest				80,596.60	0.1		
			5,005,526.05		5,140,131.19	6.5	260,900.00	5.2
INDUSTRIAL BONDS								
500,000	Kraft Foods Inc. 5.250% Due 06-01-07	107.93	539,652.50	99.94	499,710.01	0.6	26,250.00	5.3
500,000	Whitman Corp 6.375% Due 05-01-09	112.74	563,715.00	102.27	511,330.49	0.7	31,875.00	6.2
500,000	Avon Products 5.125% Due 01-15-11	97.96	489,820.00	99.82	499,095.00	0.6	25,625.00	5.1
375,000	Estee Lauder Cos Inc. 6.000% Due 01-15-12	110.31	413,658.75	103.77	389,124.36	0.5	22,500.00	5.8
500,000	Wal-Mart Stores 7.250% Due 06-01-13	105.58	527,925.00	110.18	550,876.46	0.7	36,250.00	6.6
500,000	Deere & Company 6.950% Due 04-25-14	107.33	536,670.00	109.58	547,922.52	0.7	34,750.00	6.3
450,000	Boston Scientific 5.450% Due 06-15-14	104.40	469,820.70	96.13	432,600.33	0.6	24,525.00	5.7
300,000	First Data Corp. 4.950% Due 06-15-15	93.65	280,942.50	94.06	282,180.00	0.4	14,850.00	5.3
500,000	Cisco Systems 5.500% Due 02-22-16	97.28	486,385.00	100.69	503,459.01	0.6	27,500.00	5.5
500,000	Anheuser Busch 5.050% Due 10-15-16	100.18	500,918.63	96.91	484,553.53	0.6	25,250.00	5.2
450,000	Coca-Cola Enter 7.125% Due 08-01-17	118.68	534,051.00	112.58	506,597.85	0.6	32,062.50	6.3
500,000	IBM Corp. 7.000% Due 10-30-25	112.65	563,240.00	113.90	569,496.54	0.7	35,000.00	6.1
	Accrued Interest				105,475.69	0.1		
			5,906,799.08		5,882,421.80	7.5	336,437.50	5.8
CORPORATE BONDS Total			12,768,062.63		12,859,032.38	16.4	696,687.50	5.5



<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Total Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Pct. Assets</u>	<u>Annual Income</u>	<u>Cur. Yield</u>
CASH & EQUIVALENTS								
	Dividend Accrual		62,718.36		62,718.36	0.1	0.00	0.0
	Inventor MMF		1,364,984.66		1,364,984.66	1.7	42,314.52	3.1
	Investor MMF		8,841.47		8,841.47	0.0	274.09	3.1
	MMF Interest Accrual		5,109.26		5,109.26	0.0	178.82	3.5
	CASH & EQUIVALENTS Total		1,441,653.75		1,441,653.75	1.8	42,767.43	3.0
TOTAL PORTFOLIO			68,682,761.05		78,544,832.51	100.0	2,216,110.78	2.8



Pension Funds May Feel Little Sub-Prime Strain

Conservative Picks, Diversity Should Keep Any Contagion at Bay

By Daisy Maxey, Wall Street Journal

Pension funds may be sideswiped by woes in subprime mortgages and the broader housing market, but they aren't likely to be totaled from the crash.

The funds, hungry for high yield in a low-interest-rate environment, have bought up some of the high-yield, high-risk securities backed by such mortgages, and some have clearly lost money as the subprime market has deteriorated. Some pension managers worry: Is this contagious?

But many experts believe that pension plans are generally so well-diversified and conservatively positioned that it isn't likely they will suffer substantial losses, unless the subprime storm begins to take a heavier toll on the broader market.

"This is a large pool of assets that are professionally managed in highly diversified portfolios, and they're in it for the long term," said Keith Brainard, research director for the National Association of State Retirement Administrators, representing retirement systems with combined assets of more than \$2 trillion. "Short-term events tend not to result in shifts in asset allocations." If public pension funds, which have about \$3 trillion in assets, "started reacting to every market event, it would be untenable," he said.

Julia Coronado, senior U.S. economist at Barclays Capital Inc. in New York, said the same holds true for private pension funds, which have about \$2.3 trillion in assets.

Pension funds may be exposed to the risks of the subprime-lending market, where loans are made to risky borrowers, in several ways. Subprime mortgages have been turned into asset-backed securities and sophisticated bonds called collateralized debt obligations, some of which were sold to pension funds. The funds also may have exposure to such securities through other alternative investments, such as hedge funds.

In addition, as lenders have tightened credit, the subprime woes have bled into other areas, which could affect pension holdings. Sales of new U.S. homes declined for the second consecutive month in February, and the supply of unsold homes continued to rise. Any contagion of the subprime issues means that pension funds' investments in real estate or home builders could be affected.

Strong Protection

But the conservative stance of most pension funds leaves them well-insulated, Ms. Coronado said. Most have the majority of their assets – generally just under two-thirds – invested in indexed or actively managed domestic or international equity funds, which aren't "out on the edge of risk-taking," she said.

To the extent that the overall market experiences a downturn from builders' stocks, that will feed through to pensions' portfolios, Ms. Coronado said. She noted, however, that's "a pretty small portion" of the equity market, and that even with the volatility experienced so far this year, the broad equity indexes are basically flat through the first quarter. The end result could be lower returns this year, but pension funds had "phenomenal" returns last year, she said.

Some public pension funds may have a tactical asset allocation of 5% to 15% of their assets targeted to more fast-moving market events, Mr. Brainard said, and may be responding to events in the subprime market with that allocation. However, that is a relatively small portion of a very large pool of assets, he said.

On average, public pension funds have about 30% of their assets in fixed-income securities, and a portion of that is likely to be in high-yield bonds, he said. In addition, Mr. Brainard noted, public pension funds may have some exposure through hedge funds. But he said their total exposure to the subprime market is relatively minimal.

Limited Exposure

As for private-sector defined-benefit plans, the Federal Reserve Flow of Funds report shows that in 2006, all mortgages accounted for \$4.1 billion of their \$2.3 trillion in investments, or less, according to the Employee Benefits Research Institute. That's less than 1%.

Pension funds' allocations to real estate through real-estate investment trusts, direct real-estate holdings or asset-backed securities also tend to be fairly small relative to the overall portfolio, said Ms. Coronado. Private pension funds hold about 1.5% of their portfolios on average in real estate, which is mostly in equities, she said. In addition, their assets in asset-backed securities tend to be the safer government-backed securities rather than the risky tranches of CDOs, she said.

Public pension funds may have a heftier exposure to real estate. The largest state pensions have on average about 4.5% of their portfolios invested in real-estate equity. The \$235 billion California Public Employees' Retirement Fund, the nation's largest public pension, invests most of its assets in equity-index funds, according to Clark McKinley, a spokesman for the California Public Employees Retirement System; its real-estate allocation is about 8%. While Calpers "could see a hit from the fallout overall, it wouldn't be something that would really threaten the fund overall," Ms. Coronado said. "It would, maybe, drag on returns to some extent."

A Little Tweaking

As of June 30, Calpers held shares of troubled subprime lenders New Century Financial Corp. and Fremont General Corp. valued at nearly \$3 million and more than \$13 million, respectively, a fraction portion of the overall portfolio. Those shares were held in the index fund, and the fund's external managers "may do some tweaking of their index funds here and there," Mr. McKinley said.

The pension fund also has about \$2.5 billion in bonds backed by subprime loans. However, those are in pools of bonds issued by various entities, and all are triple-A rated, the safest to hold, Mr. McKinley said. "The mortgage companies could go bankrupt

and our bond assets still would be protected."

Chief Investment Officer Russell Read told Calpers' governing board March 14 that the fund hadn't been materially affected but said there were concerns about contagion.

"The PERF [Public Employees Retirement Fund] has not been affected directly by New Century, nor has it been affected materially in the problems in the subprime lending market in general," Mr. Read said. "Although we are concerned about possible contagion effects upon markets such as the high-yield bond market, all in all we do not believe that overall stock market conditions and bond market conditions are perilous. In fact, we would view any significant future corrections in these markets as a buying opportunity."

About 15% of the fund's real-estate portfolio is related to housing, but the weakness in that market is "not particularly problematic" for the fund, Mr. Read said on March 14. He anticipates that the lackluster housing markets will continue throughout much of the year, he said.

"Without any further correction in global stock markets, we have positioned the portfolio in a relatively neutral posture over the coming months," Mr. Read told the governing board. "We anticipate international bonds, real estate and private equity will be the leaders over next few months."

The New York State Teachers' Retirement System, which had \$99 billion under management at the end of last year, held more than two million shares of New Century valued at about \$64 million at that time. John Cardillo, a spokesman for NYSTRS, said in an email that the shares were part of its indexed fund holdings and represented less than 1% of the system's total portfolio. NYSTRS doesn't comment on individual holdings or companies involved in litigation, he said.

Peter Hapgood, founder of Public Pensions Inc., a Southbridge, Mass., public pensions consulting firm, said pensions are unlikely to suffer greatly. "They all have a piece of it, and they might get dinged like anybody else, but that is all in their risk profile."

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