



XYZ Small Cap Value Portfolio

Second Quarter 2006

The XYZ Small Cap Value Portfolio has kept pace with the record of its benchmark, the Russell 2000 Value Index, in the latest quarter. The portfolio posted a negative result, down 2.74%, versus the index, which was down 2.70%. Unfavorable stock selection relative to the index was a major factor in this performance as asset allocation had a positive impact on the fund's return.

The Energy and Materials sectors provided the largest relative contributions to the performance of the portfolio. Energy, relative to the Russell 2000 Value Index, was overweight, while Materials was underweight. The portfolio has 8.97% average weight allocated to Energy and 4.76% was in Materials. Three securities from Energy and one from Materials were among the top ten contributors to the portfolio based on their allocation and total return. Among these were Holly Corp. (overweight and up), Overseas Shipholding Group Inc. (overweight and up), and Titanium Metals Corp. (overweight and up). Titanium Metals Corp. was the overall top contributing security. More than half of the securities in both sectors had positive returns.

Relative to their sectors, Financials and Health Care detracted the most from performance, underperforming the same sectors within the index. Health Care, relative to the benchmark, was overweight (5.48% versus 4.49% average weight), while Financials was underweight (28.69% versus 32.03%). Five securities from Financials and one from Health Care were among the bottom ten performers based on their allocation and total return. A lack of a position in Gold Banc Corp. Inc. (Financials) hurt relative performance. Positions in VIASYS Healthcare Inc. (overweight and down), Doral Financial Corp. (overweight and down) and Sunrise Senior Living Inc. (overweight and down) also had negative impacts on performance for these two sectors. Sunrise Senior Living Inc. was the overall bottom contributing security. More than half of the securities in both sectors had positive returns.