Virginia Port Authority
Executive Summary
As Of December 31, 2004

General Observations

The Virginia Port Authority Deferred Compensation (457) Plan and Matching (401a) Plan currently offer 16 investment options. As of December 31, 2004, the Plans had 1 stable value fund, 2 fixed income funds, 6 domestic equity funds, 1 foreign equity fund, 1 global equity fund, and an array of 5 lifestyle funds. In the Deferred Compensation Plan, the heaviest allocations were to the Great West Guaranteed Fund (19.5% of assets), American Century Equity Growth (12.5%), and Great West Moderate Profile (12.0%). Allocations for the Matching Plan were heaviest for the Great West Moderate Profile (17.8% of Plan assets), MFS Capital Opportunities A (15.1%), and Great West Guaranteed Fund (13.1%). The majority of the Plans' core investment offerings have an expense ratio at or below their respective Morningstar category average.

The Plan's investment options experienced fairly strong absolute returns for the most recent quarter, which significantly improved the return comparisons for 2004 as a whole. Six of the Plan's eight equity and three of the Plan's five lifestyle fund options finished the year with double digit positive returns. The year's worst performer on an absolute return basis was the Great West Guaranteed Fixed Fund, which posted a 3.50% return that trailed the 4.34% median return for the Hueler Stable Value fund universe.

On a relative return basis, ten of the Plan's sixteen investment options outperformed their respective benchmarks for the most recent quarter, while eleven outperformed for 2004. The American Century Equity Growth and American Funds Growth Fund of America once again posted strong performance relative to their respective benchmarks for the year. Among the year's weakest relative performers were the Royce Low Priced Stock, AIM Small Cap Growth A, and American Funds Washington Mutual Investors. All three funds posted absolute returns in excess of 6.5% for the year, but each fell over 6% shy of the returns posted by their respective indices. For the 5-year period ending December 31, 2004, 8 of the Plan's 11 non-lifestyle fund options have outperformed their respective benchmarks.

Virginia Port Authority
Fund Evaluations Versus Standard Review Guidelines
As Of December 31, 2004

		People		Process			Performance			
Asset Class	Fund	Organizational Stability	Management Team Stability	Diversification	Quality	Consistency of Style	Benchmark Index	Peergroup	Risk	Cost
Money Market/Stable Value	Great West Guaranteed Fixed	v	v	E	v	v	v	E	v	v
Fixed Income	PIMCO Total Return A	v	v	v	v	C	v	v	v	v
Fixed Income: High Yield	MFS High Income A	E	C	v	v	v	E	E	v	v
U.S. Equities: Large Cap Value	American Funds Washington Mutual Inv. A	C	C	v	N/A	v	C	C	v	v
U.S. Equities: Large Cap Core	American Century Equity Growth Inv	v	v	v	N/A	v	v	v	v	v
U.S. Equities: Large Cap Core	MFS Capital Opportunities A	E	C	v	N/A	v	E	E	v	C
U.S. Equities: Large Cap Growth	American Funds Growth Fund of America A	C	C	v	N/A	v	v	v	v	v
U.S. Equities: Small Cap Value	Royce Low Priced Stock	v	v	v	N/A	C	C	C	v	C
U.S. Equities: Small Cap Growth	AIM Small Cap Growth A	E	E	v	N/A	v	v	v	v	v
Foreign Equities	American Funds Europacific Growth A	C	v	v	N/A	v	v	v	v	v
World Equities	Templeton World A	C	v	v	N/A	v	v	v	v	v
Lifestyle	Great West Profile Series	v	v	v	E	v	E	E	E	v

v Fund meeting guidelines
E Exception noted
C Comment noted

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Discussion of Exceptions

Great West Guaranteed Fixed Fund received an "E" in Diversification because the assets are invested in the Great West general account and are subject to the company's creditworthiness. This does not appear to be a significant issue, given the current quality of Great West, (A+ from AM Best, AA from Standard and Poor's, Aa3 from Moody's and AA from Fitch), but these ratings can be subject to swift changes. These ratings indicate that Great West offers excellent ability to pay its claims with respect to this Fund.

For the *PIMCO Total Return*, effective June 15, 2004, the upper limit on investments in non-U.S. Dollar denominated securities has changed from 20% to 30%. The rationale for this change to the fund's management guidelines is to allow greater flexibility in the investment strategy and portfolio management of the fund. This principally means being able to invest more in bond markets outside of the U.S. that may provide greater opportunities to enhance investment returns. These markets are also growing in terms of their overall size and liquidity, making them more attractive as well. The hedging policy for the fund remains unchanged, allowing for a maximum of 25% of the non-U.S. Dollar exposure to be un-hedged. In practice however, the maximum currency exposure for the Total Return Fund has been 3.5%. PIMCO has indicated that, moving forward, the magnitude of the currency exposure will continue to be very small. While AIC does not see a problem with PIMCO's decision to allow higher allocations to non-U.S. Dollar denominated bonds, we will monitor the fund closely to ensure that it does not stray too far from what are typically considered "core" fixed income securities.

In December of 2003, the SEC alleged that MFS made false and misleading statements in certain fund prospectuses concerning market timing. Legal issues have continued to plague MFS over the most recent twelve month period. In the first quarter of 2004, MFS paid $275 million in fines and penalties regarding internal practices of market timing and use of brokerage commissions on mutual fund transactions. Questions also remain concerning the firm's ability to attract and retain employees. While *MFS High Income A* was not one of the funds directly implicated in the legal issues, the firm-wide issues at MFS still bear watching. Scott Richards, former head of the high yield group at Liberty Funds, joined the fund's management team in May 2004. In addition, the fund has a history of underperformance relative to its benchmark and peer group. Given the fund's performance track record, PIMCO's ability to invest in below investment grade bonds, and the fund's poor utilization among Plan participants, we recommend the Committee consider termination of the MFS High Income Fund.

Discussion of Exceptions (Con't)

MFS Capital Opportunities A was also not one of the funds directly implicated in MFS' improper trading settlement. However, the fund's historical performance relative to its benchmark and peer group is dreadful. MFS has made strides in attempting to improve the fund, though. S. Irfan Ali and Kenneth J. Enright, who each manage other MFS equity fund offerings, took over Capital Opportunities in late October 2002 with the intention of combining Ali's growth style with Enright's value style to create a stable large cap blend fund. Katrina Mead and Alan T. Langster were both added to the fund's management team in July 2004. The fund slightly lagged the Russell 1000 Index in 2003, but outperformed the median and ranked in the top quartile of its peer group in 2004. The expense ratio for this fund is 1.25%. A fee analysis shows this to be 0.24% high than the Morningstar Average for large cap core funds. We continue to recommend a "Watch" rating for this fund.

The American Funds Washington Mutual, Growth Fund of America, and EuroPacific Growth each received a comment for Organizational Stability. On February 16, 2005, American Funds learned that the NASD has filed a complaint against American Funds Distributors. The complaint alleges that AFD violated one of the conditions in a rule permitting mutual fund managers to give consideration to fund sales when selecting firms to buy and sell securities for the funds' portfolios. American Funds argues that they have complied fully with the spirit and the letter of the rule, and announced their intention to request a hearing before an NASD panel to defend against these allegations. We will continue to monitor this situation closely to determine if any recommendations are warranted.

In June of 2004 Gregg E. Ireland left the *American Funds Washington Mutual Fund* team of investment counselors, though this move is internal, to *American Funds Growth Fund of America* where he will join Timothy P.Dunn (also from within American Funds) as counselors on the Growth Fund of America management team. Gregory D. Johnson replaced Ireland on the Washington Mutual team, also a move from within the organization. While the American Funds Washington Mutual Fund does meet its benchmark and peer group median return levels for a majority of rolling three-year periods under review, its recent performance may give reason for concern. The fund has substantially underperformed its benchmark for the past two years and ranks in the bottom quartile relative to its peer group over that same time frame. The final quarter of 2004 in particular has suffered as the fund was heavily overweight pharmaceuticals and underweight mid and smaller cap stocks relative to the fund's comparable index. These two items along with poor stock selection in the insurance sector led to very poor results for the quarter as well as the year in total. The fund, as a result will bear greater scrutiny in upcoming reviews.

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Discussion of Exceptions (Con't)

While the *Royce Low-Priced Stock Fund* maintains an excellent long-term track record, the fund has underperformed over the past few years. The fund typically holds a cash stake of roughly 10%, which has been a drag on performance in the small cap equity rally of the past two years. Furthermore, the fund does not follow a strict value style, which has hindered performance relative to its deep value peers recently. The expense ratio for this fund is 1.49%, which puts this fund at a higher cost than the Morningstar average for the small blend category.

AIM Small Cap Growth Fund is managed by AIM Investments, a unit of AMVESCAP, which saw its INVESCO Funds Group (IFG) unit become the subject of troubling inquiries regarding market timing of is funds in December of 2003. In April of 2004, AIM Chief Operating Officer Raymond Cunningham took a leave of absence following allegations that he permitted fund timing at INVESCO Funds Group. Cunningham had formerly been the head of INVESCO. Thomas Kolbe, formerly INVESCO's national sales manager, also took a leave of absence from AIM. Cunningham and Kolbe both left AIM permanently in July of 2004, and have since reached settlements with regulators for their alleged roles in the market timing scandal. On September 7, 2004, the SEC announced that both INVESCO Funds Group and AIM Investments had agreed to a $450 million settlement. In this settlement, regulators named AIM Investments in relation to allegations of improper market timing arrangements for the first time. AIM will pay $20 million to shareholders and $30 million in penalties as part of the settlement. The market timing activities alleged at AIM Investments do not, however, appear to have been as systemic as those which allegedly took place at IFG.

Juliet Ellis, Juan Hartsfield and the small core/growth team at AIM assumed management responsibilities for this fund in September of 2004, replacing Ryan Crane. The new management team will rely more heavily on valuation and earnings growth, placing less emphasis on momentum than did the prior team. While Ellis built a strong track record in her prior role as manager of the JP Morgan Dynamic Small Cap Fund, it remains to be seen whether this success will carry-over to a new firm and to a fund with a significantly larger asset base. As a result of the transition in portfolio management responsibilities, the AIM Small Cap Growth Fund remains on AIC's "Watch" list.

Improper trading allegations were raised against Franklin Templeton in the first quarter of 2004. Franklin Templeton settled brokerage charges in late 2004: it settled with the California Attorney General for $18 million in November and with the SEC for $20 million in December. While the Plans' fund, *Templeton World*, was not involved in the scandal at FT, this incident does somewhat impair the overall organizational attractiveness of FT. However, we are not currently recommending any action with respect to this fund.

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Discussion of Exceptions (Con't)

Great West Profile Series lifestyle funds are consistently more volatile than their respective custom benchmarks, and we believe the allocation to high yield fixed income in the Conservative and Moderately Conservative funds to be inappropriate. However, the high yield exposure has helped performance in 2003 and 2004. The Conservative and Moderately Conservative funds consistently trail well behind their custom benchmarks and rank in the bottom quartile of their peer group over historical three-year rolling periods. Great West made several changes to underlying funds in 2003, and performance was further improved in 2004. We recommend these funds remain on "Watch" status.