Morningstar Market Commentary

2nd Quarter 2005

Morningstar Market Barometer℠

2nd Quarter Return %

	Value	Core	Growth
Large Cap	1.87	–0.10	2.77
Mid Cap	5.66	3.79	4.25
Small Cap	5.12	3.75	4.48

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1 Year Return %

	Value	Core	Growth
Large Cap	13.11	6.86	–3.36
Mid Cap	21.15	13.34	14.47
Small Cap	16.11	13.98	3.34

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In 2005's second quarter, equity markets powered a bit higher with the Federal Reserve continuing interest rate hikes. Nevertheless, skittish investors continue fretting over rising energy prices and the mounting trade deficit. Equities are flat for the year, and the markets remain cautious regarding the strength of the economic recovery. Despite gaining 2.26% in the second quarter, the Morningstar US Market Index is almost flat for the year—it's up 0.15% year-to-date.

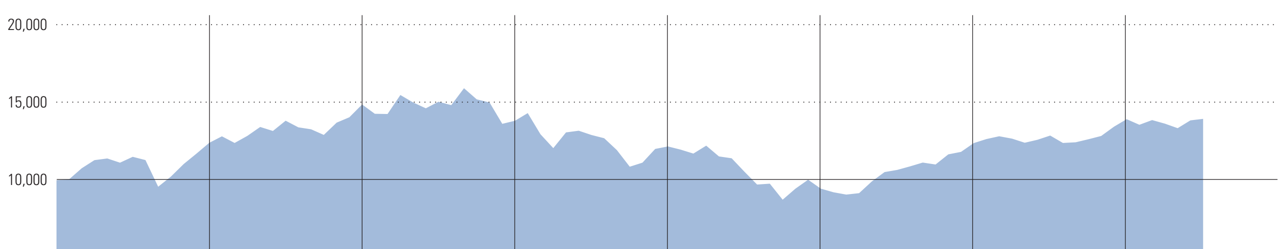
Equally flat is the yield curve, presenting Federal Reserve Chairman Alan Greenspan with a conundrum as longer-term rates stubbornly refused to be goosed by his raising of short-term rates. Bonds and bond funds continued to deliver steady returns, with the yield on the 10-year note hovering around 4% and an anticipated sell-off resulting from Greenspan's nine hikes seemingly nowhere in sight. Additionally, lower rates maintained residential real estate prices in even the most buoyant areas of the country.

Speaking of bonds, the quarter saw the debt of the nearly century-old auto maker General Motors downgraded to "junk" status by Standard & Poor's and Moody's. In addition to lowering earnings forecasts and suffering the debt downgrade, the stumbling industrial also endured the seemingly ageless raider Kirk Kerkorian taking a large stake in its shares. The firm's stock rose for the quarter in the wake of Kerkorian's bid and as management began negotiations with its union regarding crushing pension and healthcare obligations.

Another ageless wonder, Warren Buffett, began to put some of Berkshire Hathaway's $42 billion cash hard to work as he purchased U.S. utility PacifiCorp from Britain's Scottish Power for $5.1 billion through Berkshire's subsidiary MidAmerican Energy. The "Oracle of Omaha" appears ready to consider other energy- and utility-related deals, especially as the Senate nears passing an energy bill that will overturn the 1935 Public Utility Holding Act, which prohibits certain utility mergers. An announcement in April also indicated that Buffett acquired shares of brewer Anheuser-Busch.

Large-cap stocks continued to lag their small- and mid-cap brethren in the broad surge. While the Large Cap Index added 1.38%, the Mid Cap and Small Cap Indexes posted much stronger gains of 4.57% and 4.45% respectively. The Large Growth Index finally outpaced the Large Value Index after five years of underperformance. Chip makers Intel and Texas Instruments and healthcare stocks Pfizer and Genentech powered the large-growth group.

Morningstar US Market Index (Growth of $10,000)



	1998	1999	2000	2001	2002	2003	2004	2005-06
Total Returns	23.86	19.79	–7.02	–11.88	–22.16	30.73	12.35	0.15
Price/Earnings	33.46	37.99	31.78	30.73	24.97	26.74	23.72	22.09
Price/Book	8.15	10.45	7.54	5.39	4.13	4.49	4.22	4.08
Dividend Yield %	1.25	1.09	1.12	1.29	1.74	1.45	1.49	1.60
Earnings Growth (5 Yr)	15.87	18.80	18.15	15.22	13.19	12.76	12.55	12.54

Surveying the Sectors

Energy finally took a back seat as yield-hungry investors continued to bid up utilities, with the group posting a 9.38% gain to lead the way among Morningstar's 12 economic sectors. Exelon, Duke Energy, and FPL Group led the way for the sector. Smaller utilities such as Allegheny Energy surged as well, as some investors anticipated industry consolidation.

Morningstar Sectors: 2nd Quarter 2005 Return %

	QTD	1 Year	3 Year
Information	**0.90**	**–1.26**	**8.03**
Software	2.31	1.04	6.07
Hardware	1.66	–6.20	9.81
Media	–4.64	–0.67	6.04
Telecommunication	4.19	11.41	8.01
Service	**4.44**	**8.00**	**8.95**
Health Care	5.06	4.33	7.45
Consumer Services	3.44	12.21	9.19
Business Services	0.89	5.64	6.46
Financial Services	5.33	9.19	10.34
Manufacturing	**–0.02**	**15.66**	**12.02**
Consumer Goods	–0.63	2.61	6.82
Industrial Materials	–4.09	6.34	10.04
Energy	2.78	40.71	20.48
Utilities	9.38	35.51	14.55

Financial services rebounded as well, increasing 5.33% on hopes that Alan Greenspan was nearing the end of his rate hike campaign. Brokers Lehman Brothers and Goldman Sachs led the charge. Embattled insurer AIG began to improve, and rivals Chubb and St. Paul showed strength, the latter despite selling its stake in lucrative asset manager John Nuveen.

After recent periods in the doldrums, healthcare also enjoyed a rebound, surging 5.06%. The average masks a more mixed bag for the sector, however. Biotechs Genentech and Celgene, and managed care companies Universal Health Services and Cigna roared ahead, but equipment and device makers Zimmer, Stryker, Biomet, and Guidant lost ground in the wake of a Justice Department investigation into how the companies pay physicians as consultants. The device-makers have been under additional pressure from hospitals to lower their prices for access, causing investors to wonder whether the days of easy price increases are over for the sector.

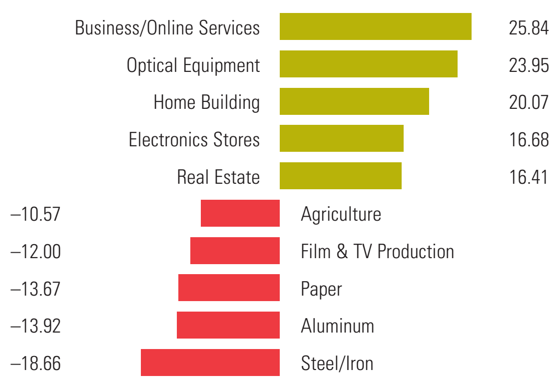
Declining sectors included industrial materials and media. Industrial materials had negative returns, as commodity-sensitive businesses suffered in light of a slowing global economic recovery. Steel companies such as NuCor and US Steel saw significant declines, las did copper miners Southern Peru Copper and Phelps Dodge. Additionally, media continued its descent as traditional radio, television, and newspaper outfits tried to meet the challenge from the Internet. Viacom fared poorly as did a group of large newspapers, including the *New York Times*, the *Washington Post*, and Dow Jones, publisher of the *Wall Street Journal* and *Barron's*.

Industry Performance

On an industry level, there has been a role reversal from last quarter. Business/online services topped the list this time, with companies such as Google turning in stellar results. However, the continued housing boom put title insurers, REITs, and home builders near the top of the industry lists as well, with First American, Gables Residential Trust, and Toll Brothers turning in exceptional performances in their respective industries.

Steel/iron, aluminum, land transport, employment, and paper landed at the bottom of the industry list, as investors anticipated a slowing economy.

Top and Bottom Five Industries: 2nd Quarter 2005 Return %

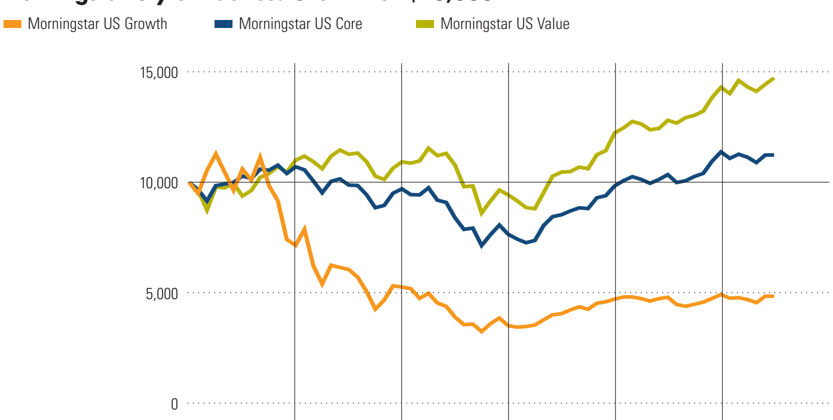


Style and Market Cap Indexes

Morningstar US Value Index +2.85%

Although larger oil companies and commodity-sensitive steel-makers cooled off, tobacco company Altria and fiber-optic cable company Corning picked up the slack. Also, despite the woes of Morgan Stanley, financials such as Bank of America and J.P. Morgan Chase have begun to show some signs of life in light of speculation that the Federal Reserve is close to the end of its rate hike campaign. Advertising outfit Interpublic Group was weak, as advertising spending remains uneven, despite the increased earnings of upstart companies such as Google. Regional Bell operating companies (RBOCs) Bell South and Verizon steadied after reforms to legislation eased competition over local phone service. Embattled computer and printer maker Hewlett-Packard also enjoyed a good quarter in the wake of CEO Carly Fiorina's departure; investors continue to push for the split-off of the more profitable printer unit from the rest of the company. The gains in the index were broader than the almost exclusively energy-based gains of last quarter.

Morningstar Style Indexes: Growth of $10,000



	2000	2001	2002	2003	2004	2005–06
Morningstar US Value						
Total Returns	10.06	–0.68	–13.68	29.75	16.85	2.97
Price/Earnings	20.19	21.85	20.53	18.58	16.79	15.72
Price/Book	4.15	3.00	2.17	2.83	2.57	2.42
Dividend Yield %	2.30	2.74	3.40	2.69	2.68	2.79
Earnings Growth (5yr)	11.52	10.21	9.08	8.48	8.77	8.32
Morningstar US Core						
Total Returns	7.10	–9.31	–21.18	28.63	15.62	–1.21
Price/Earnings	33.53	28.24	21.46	23.75	21.90	21.01
Price/Book	8.12	6.03	4.24	4.64	4.33	3.97
Dividend Yield %	0.86	1.04	1.59	1.27	1.30	1.45
Earnings Growth (5yr)	14.94	14.35	12.46	12.11	11.89	11.82
Morningstar US Growth						
Total Returns	–28.45	–26.32	–33.20	34.12	4.37	–1.5
Price/Earnings	44.60	47.43	32.89	38.45	33.50	29.98
Price/Book	10.56	6.92	5.61	5.93	5.96	5.91
Dividend Yield %	0.13	0.17	0.50	0.43	0.40	0.55
Earnings Growth (5yr)	28.12	21.75	17.52	17.26	17.74	17.47

Morningstar US Core Index +0.91

Most stocks in this index containing companies that exhibit both value and growth characteristics were as flat as the index itself. Wireless phone maker Motorola and data storage outfit EMC showed some life, making up for problems at consumer lender at MBNA. Financial component Citigroup also had a strong quarter. IBM experienced weakness in demand for both its larger computers and business services, but AIG's share price appears to have stabilized in the low- or mid-50s, as it tried to put accounting misstatements, questions about its reinsurance practices, and the forced departure of its three-decade CEO Maurice "Hank" Greenberg behind it. Walt Disney stumbled a bit, as more traditional media companies grappled to find their place at the advertising trough with upstarts such as Yahoo! and Google.

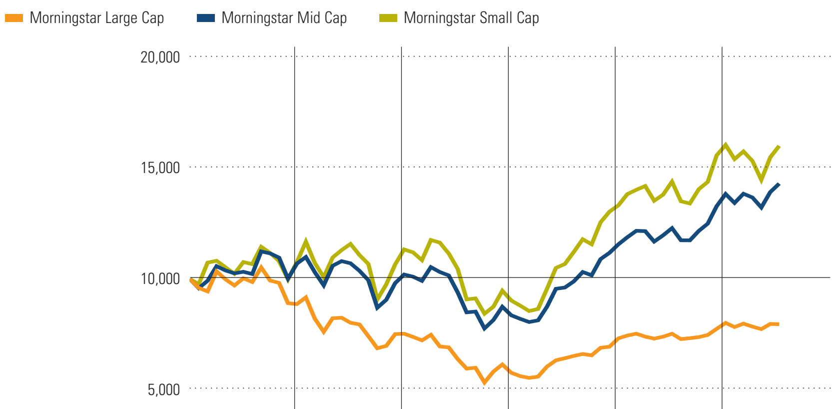
Morningstar US Growth Index +3.22%

Growth edged value for the quarter. Chip makers Intel and Texas Instruments, drug maker Pfizer, and networking outfit Cisco surged. Search engine Yahoo! also performed well as advertisers continued their move to the Web, despite uneven spending in general. Additionally, being mentioned with its red-hot competitor Google seemed to help Yahoo! more than to hurt it. Away from tech and healthcare, for-profit educational outfit Apollo enjoyed a strong quarter with increased online enrollments. Additionally, online broker Ameritrade began to rally in May before its more recent announcement that it would acquire the brokerage unit of TD Bank Financial Group sent its stock up even more. Since the start of the bear market in early 2000, this index has underperformed the value index for every calendar year except 2003. Things appear to be turning slowly now, with the recent rally broad based and including technology and healthcare names.

Morningstar Large Cap Index: +1.38%

After overtaking the small-cap index for the first quarter of 2005, the Large Cap index reverted to its pattern of the past five years or so, finishing behind both the small-cap and mid-cap indexes for the second quarter of the year. Nevertheless, many different sectors contributed to the index's overall gain. Energy stocks gave up some ground, but technology equipment and hardware makers such as Motorola and Cisco began to pick up the slack. Chip makers Intel and Texas Instruments were strong as well. Additionally, drug companies such as Pfizer showed some life, and financials began to perk up with hopes that the Federal Reserve's campaign to increase rates would soon end. Auto makers Ford and General Motors stabilized, especially with raider Kirk Kerkorian's bid for GM shares.

Morningstar Cap Indexes: Growth of $10,000



	2000	2001	2002	2003	2004	2005–06
Morningstar Large Cap						
Total Returns	–11.38	–15.10	–23.47	27.04	9.54	–0.73
Price/Earnings	33.75	32.03	25.14	26.93	23.22	21.41
Price/Book	8.49	5.98	4.56	4.76	4.39	4.21
Dividend Yield %	1.02	1.29	1.80	1.54	1.62	1.77
Earnings Growth (5yr)	18.16	14.78	12.81	12.46	12.35	12.05
Morningstar Mid Cap						
Total Returns	6.94	–4.63	–18.06	38.38	19.66	3.38
Price/Earnings	27.01	26.96	25.97	25.89	24.60	23.74
Price/Book	5.35	3.96	3.19	3.86	3.89	3.85
Dividend Yield %	1.40	1.33	1.59	1.27	1.23	1.26
Earnings Growth (5yr)	17.74	16.14	13.94	12.57	13.03	13.37
Morningstar Small Cap						
TTotal Returns	7.66	5.26	–20.36	47.70	20.44	–0.25
Price/Earnings	21.28	25.22	22.96	27.04	26.43	24.51
Price/Book	3.68	3.11	2.72	3.58	3.79	3.52
Dividend Yield %	1.35	1.18	1.56	1.09	0.97	1.05
Earnings Growth (5yr)	19.65	17.57	14.96	14.86	14.60	14.80

Morningstar Mid Cap Index: +4.57%

Morningstar Mid Value (+5.66%), Mid Core (+3.79%), and Mid Growth (+4.25%) Indexes were the leading categories for the second quarter, and Mid Value topped the charts for the second quarter in a row. A plethora of energy stocks such as Wisconsin Energy, Centerpoint Energy, and Xcel Energy continued to surge. Additionally, retailers May Department Stores and Federated Department Stores rallied. Finally, fiber-optic cable maker Corning continued to bounce back from the recent telecom downturn. Advertising outfit, Interpublic Group, however, struggled amid cautious corporate spending. Chicago Mercantile Exchange continued on its torrid pace of 2004 after stumbling briefly in the first quarter of 2005. The Merc benefits from increased attention to risk management benefits that financial futures provide and especially the heavy action in Eurodollar futures, the most actively traded futures contract in the world. Finally, homebuilders such as Lennar and KB Home roared ahead again as consumers continued taking advantage of low mortgage rates.

Morningstar Small Cap Index: +4.45%

It was nearly all energy and utilities for the small caps, as smaller companies in the energy sector picked up the slack for the behemoths like ExxonMobil and Chevron. The top holding of the Morningstar Small Cap Index, Joy Global, led the charge in small-cap land, as the mining equipment company benefited from increased interest in commodities such as coal, copper, iron ore, and oil sands. Michigan utility CMS Energy, which also has business interests in Latin America and the Middle East, also posted whopping gains. Continuing the energy theme, another top component of the index, Quicksilver Resources, a natural gas exploration company, also posted light-out performance for the quarter. Besides energy, Penn National Gaming maintained its strong performance from 2004, as its expansion from racetracks continues to be profitable. Finally, hospitals such as Lifepoint posted impressive gains, as investors favored this non-cyclical industry poised to benefit from an aging population.

Active vs. Passive, 2nd Qtr 2005

	Value	Core	Growth
Large Cap	42.38 / 1.87	88.2 / –0.10	43.45 / 2.77
Mid Cap	5.94 / 5.66	39.6 / 3.79	34.15 / 4.25
Small Cap	13.91 / 5.12	43.11 / 3.75	42.42 / 4.48

○ Percent of actively managed mutual funds outperforming their respective benchmark. Includes the oldest share class for all US diversified mutual funds with at least a one-year history. As of June 30, 2005, there were 2,402 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

● Index Returns (%) for 2nd Quarter, 2005

Fund Categories vs. the Benchmarks

Although it is supposed to be a "stock picker's" market, a time when active managers should outperform full or fairly-valued indexes, there was just one category—large core—in which most actively managed funds beat their bogy in the second quarter. This is the third time in the last four quarters in which managers beat their bogies in just one large- cap category. Funds in the large-growth group bested their benchmark in two of the previous three quarters. In the most recent period, a whopping 88% of the large-core managers beat their index; less than 45% of the funds in every other category outperformed their indexes. It was difficult to discern which sectors helped the index-besting funds. While many of them had more exposure to utilities and telecom, which clearly helped them, others did well without any utilities exposure at all.

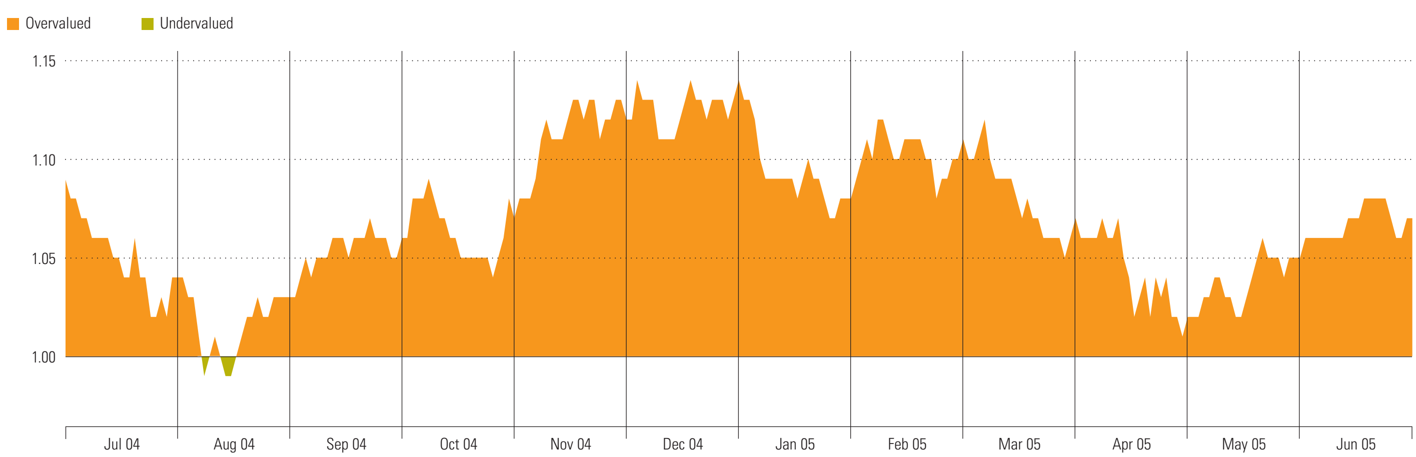
The small- and mid-value managers had the most difficult time outperforming their respective indexes. Only 14% of small-value and 6% of mid-value managers beat their indexes. In the case of the mid-value category, the discrepancy can be explained again (as it could in the first quarter of 2005) by the large energy stake in the index. Smaller energy companies, especially explorers and drillers, roared ahead as did traditional gas and electric utilities, most of which find their home in the mid-value index. Most funds did not have as much exposure to these industries as the index did.

Conclusion

Equity markets rebounded after stumbling in the first quarter. Uncertainty remains, though. Equity valuations look fair, if not rich. The Federal Reserve continues to hike interest rates, but longer-term debt and mortgage rates have failed to rise. And the price of oil remains high. Now may not seem the most compelling moment to invest. Morningstar currently gives five stars to just 65 of the nearly 1,500 stocks it covers. It is notable, however, that some "wide-moat," companies such as Colgate-Palmolive, Coca Cola, United Parcel Service, Dow Jones, and Biomet currently have five star ratings (which indicates they're undervalued according to Morningstar analysts). Good investments are rarely served up on a silver platter, but they're there for those willing to look.

John Coumarianos
Mutual Fund Analyst

Market Valuation



52-Week High	52-Week Low	All-Time High	All-Time Low	2nd Quarter Close
1.14 (12-29-04)	0.99 (08-13-04)	1.14 (12-29-04)	0.78 (10-09-02)	1.07 (06-31-05)

Market Valuation Chart

The graph shows the ratio of price to fair value for the median stock in the universe of stocks covered by Morningstar over time. A ratio above 1.00 indicates that the stock's price is higher than Morningstar's estimate of its fair value; a ratio below 1.00 indicates that the stock's price is lower than our estimate of its fair value. The further the price/fair value ratio rises above 1.00, the more the median stock is overvalued. The further it moves below 1.00, the more the median stock is undervalued.

Trailing Returns %

Index	Quarter	6-Month	1-Year	3-Year	5-Year	10-Year
Morningstar U.S. Market	2.26	0.15	8.31	9.68	–1.50	9.87
Large Cap	1.38	–0.73	5.76	7.62	–4.52	9.22
Mid Cap	4.57	3.38	16.35	15.03	6.74	11.12
Small Cap	4.45	–0.25	11.25	15.26	8.27	10.94
US Value	2.85	2.97	14.97	10.97	9.43	NA
US Core	0.91	–1.21	8.59	10.20	1.79	NA
US Growth	3.22	–1.50	0.98	7.51	–14.46	NA
Large Value	1.87	2.31	13.11	8.91	6.54	NA
Large Core	–0.10	–2.03	6.86	8.65	–1.79	NA
Large Growth	2.77	–2.82	–3.36	4.88	–17.31	NA
Mid Value	5.66	6.13	21.15	16.19	17.06	NA
Mid Core	3.79	1.32	13.34	14.20	12.69	NA
Mid Growth	4.25	2.68	14.47	14.29	–7.14	NA
Small Value	5.12	0.73	16.11	16.79	19.99	NA
Small Core	3.75	0.51	13.98	15.82	14.36	NA
Small Growth	4.48	–2.24	3.34	13.03	–7.12	NA

Morningstar Market Barometer 2nd Quarter Return %

		Value	Core	Growth
	US Market 2.26	2.85	0.91	3.22
Large Cap	1.38	1.87	–0.10	2.77
Mid Cap	4.57	5.66	3.79	4.25
Small Cap	4.45	5.12	3.75	4.48

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Morningstar Market Barometer Trailing 4 Quarters Return %

3rd Quarter 2004

1.62	–0.61	–7.37
2.17	–1.77	–3.51
1.73	–0.36	–8.65

4th Quarter 2004

8.79	9.74	7.36
11.74	13.89	15.54
13.32	13.82	15.73

1st Quarter 2005

0.43	–1.93	–5.44
0.44	–2.38	–1.51
–4.18	–3.13	–6.44

2nd Quarter 2005

1.87	–0.10	2.77
5.66	3.79	4.25
5.12	3.75	4.48

Biggest Positive Influence on Morningstar US Market Index

	Style	Contribution %	3 Month	1 Year	3 Year
Google Inc. Cl A		0.16	62.96	NA	NA
Intel Corp.		0.16	12.36	–4.86	13.13
Genentech Inc.		0.12	41.81	42.85	68.52
Pfizer Inc.		0.09	5.71	–17.44	–5.53
Corning Inc.		0.09	49.33	27.26	67.21
Motorola Inc.		0.08	22.24	0.93	9.12
Citigroup Inc.		0.07	3.85	3.03	8.98
Cisco Systems Inc.		0.06	6.65	–19.49	10.99
Bank of America Corp.		0.06	4.44	12.05	12.62
Microsoft Corp.		0.06	3.06	–1.44	1.25

Biggest Negative Influence on Morningstar US Market Index

	Style	Contribution %	3 Month	1 Year	3 Year
IBM Corp.		–0.18	–18.58	–14.99	1.91
General Electric Co.		–0.09	–3.30	9.60	8.44
Exxon Mobil Corp.		–0.09	–3.09	31.88	13.93
Tyco International Ltd.		–0.06	–13.31	–10.95	29.87
3M Co.		–0.06	–15.14	–17.94	7.55
E.I. DuPont de Nemours & Co.		–0.05	–15.34	0.02	2.08
Walt Disney Co.		–0.05	–12.36	–0.27	10.98
Johnson & Johnson		–0.04	–2.73	18.82	9.19
Qualcomm Inc.		–0.04	–9.66	–8.74	34.55
Wal-Mart Stores Inc.		–0.03	–3.51	–7.58	–3.43

Biggest Influence on 1 year performance is calculated by multiplying stock returns for the year with their respective weight in the Index as of the start of the year.