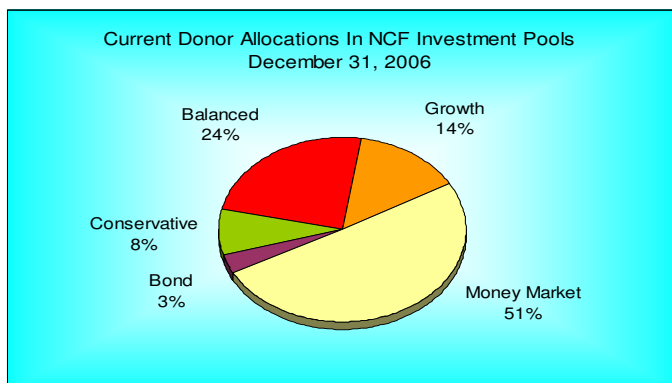


**National Christian Foundation Investment Pools**



National Christian Foundation maintains five different pooled investment options for its donors which range from a money market option to a growth portfolio which, in the aggregate, is allocated 80% to equities and 20% to fixed income and cash. The table to the left shows the overall percentage choices currently made by NCF donors.

**Global Markets Overview\***

The stock and bond markets advanced broadly in the fourth quarter, bringing 2006 to an impressive finish. The S&P 500 rose 6.7% in the fourth quarter and returned 15.8% in 2006, its strongest showing in three years. With a 1.2% return in Q4, the Merrill Lynch US Domestic Master Index (a US bond index) generated 4.4%, its best annual performance since 2002.

The fourth quarter equity performance captured the momentum of Q3, when investors were encouraged by declining oil prices and the Federal Reserve's decision to pause its two-year cycle of interest rate increases. Though inflation continued to rise, it did not appear to be a serious threat to the economy. The hurricane season passed quietly with mild temperatures in the Midwest. Supported by these trends and a strong job market, the consumer continued to spend, despite the predictions of many that a correction in the housing market—which appeared underway at the beginning of 2006—would lead to a spending collapse.

Small Cap companies outperformed Large Cap companies for the eighth year in a row. Value stocks outperformed Growth stocks for the seventh year in a row. To illustrate, the Russell 1000 Growth returned 9.09% relative to the Russell 1000 Value performance of 22.21% in 2006, a differential of over 13%. By sector, Telecommunication was the lead performer in 2006, rising 32.3%, followed by Energy and Utilities again. Health Care was among the lowest performing sectors, possibly hurt by disappointing results from clinical trials and fears that the new Democratic majority in Congress could put downward pressure on drug prices.

In 2006, the top performance was generated in the International sector. The MSCI EAFE Index rose 10.4% (in US dollar terms) in the fourth quarter and 26.3% in 2006. Europe performed well across markets. The UK FTSE was up 30.7% (all figures are in US dollar terms), Germany's DAX Index rose 36.0%, and the French CAC 40 Index climbed 34.5%. In Latin America, the Mexican Bolsa rose 45.6% and the Brazilian Bovespa rose 44.7%. In Asia, superior growth came from China's stock market, which soared more than 125% as the government tried to protect investors by adopting international accounting rules. Japan's Nikkei, on the other hand, was up just 6.3% as the country did not match expectations for economic growth.

**Fixed Income**

The bond markets posted modest returns in the fourth quarter as investors reacted to mixed signals in the economy. The Fed kept the Fed Fund rate stable at 5.25%, citing slowdown concerns, but appeared ready to raise rates to control inflation.

The result was a slight increase in Treasury Bond yields. The 2-year and 10-year Treasury Note yields increased by 0.09 and 0.06 to 4.80% and 4.70% respectively. The yield curve remained stubbornly and historically inverted, traditionally a sign of an impending economic slowdown. Investment grade corporate bonds were hurt by leveraged buy-out activity, while the High Yield sector benefited from stable corporate profits, low defaults, and growing investor appetite for risk in a relatively low interest rate environment.

The short end of the Treasury curve, which is the most protected from rising interest rates, fared the best as the Merrill Lynch 1-3 Year Treasury Index returned 4.0% compared to the Merrill Lynch 15+ Year Treasury Index return of 1.4%. The ML 1-5 Year US Corp. & Govt. 1-5 Yr Index returned 4.24% for the year.

\*From AIM Market Focus, Merrill Lynch GPC Investment Management & Guidance

**NCF Aggregate Investment Performance**

NCF's pooled investments, aided in part by significantly broader diversification than is found in the S&P500, performed well relative to benchmarks. The table shows aggregate NCF equity and fixed income performance across all pools.

Aggregate Returns*	Last Quarter	Year to Date	Two Years	Since Inception Annualized
<b>All Equities (Gross)</b>	<b>6.92%</b>	<b>16.14%</b>	<b>13.40%</b>	<b>15.24%</b>
S&P500	6.70%	15.80%	10.21%	13.09%
<b>All Fixed Income (Gross)</b>	<b>1.03%</b>	<b>4.26%</b>	<b>3.34%</b>	<b>3.25%</b>
ML Corp & Govt (1-5 Years)	1.01%	4.24%	2.83%	2.87%

*\*Dollar-weighted returns (IRR), gross of fees, across all pools. Inception for the current management strategies is July 27, 2004.*