BEAR STEARNS | ASSET MANAGEMENT

Multifactor 130/30 US Core Portfolio Review

December 31, 2007

We are pleased to have significantly outperformed the Portfolio's S&P 500[1] benchmark for both the fourth quarter and the 2007 calendar year. During the fourth quarter and for much of the year, investors favored stocks with strong growth and momentum characteristics. In this environment, companies showing share price appreciation, earnings growth, upward earnings estimate revisions, and positive earnings surprises generally outperformed. Our ability to identify this trend early and take advantage of it was key to our performance. In addition, our ability to short[2] specific stocks and/or areas of the market helped mitigate volatility within the Portfolio, reducing our overall risk.

Because the Portfolio has a maximum 5% over or underweight of any single sector relative to the benchmark, our performance is typically more influenced by stock selection than by sector allocations. For the fourth quarter, our decision to avoid companies within the financial services sector with exposure to the subprime mortgage market contributed significantly to our relative outperformance. Within the sector, we invested in asset management firms and companies that benefited from heightened equity market volatility. In addition, stock selection within the technology sector enabled the Portfolio's technology holdings to significantly outperform the technology segment of the benchmark.

Our decision to short the retail industry helped our returns due to a weak holiday shopping season. We also shorted a microcontroller semiconductor manufacturer that announced disappointing earnings due to its exposure to the struggling auto and housing markets. Our short position added to the Portfolio's performance as the stock price fell. We covered our short position, and decided to short the stock a second time after it rallied late in the quarter—a decision that also helped returns as the stock price once again declined sharply.

The Portfolio's strongest individual contributor to performance was a leading credit and debit card transaction processing service provider. The company's stock benefited from increasing transaction demand resulting from consumers' continuing bias towards using credit cards over cash. In addition, because the company does not take credit risk (credit risk is passed through to its banking partners) and because approximately half of its revenues are derived from international sources, it was relatively unaffected by U.S. credit market woes and concerns about the possibility of a U.S. recession. We continue to hold our shares with the expectation that the company's sound fundamentals and strong global presence will enable it to continue to grow its earnings.

Our overweighted position in a leading computer and hand-held device manufacturer was the Portfolio's second strongest contributing stock for the quarter. The company benefited from a decline in the cost of components used in its manufacturing process, as well as from very strong demand for its personal computers and new hand-held devices. We still hold the position as we believe positive momentum from the holiday season will drive earnings growth into 2008.

Finally, our third best contributing stock was a leading software manufacturer that announced strong third quarter earnings. Because the stock is considered to be somewhat defensive in nature, it experienced rising demand as the economic outlook became less certain. We continue to hold our shares as we expect the company's earnings strength to continue.

Detracting somewhat from these gains, our investment in a supplier of data networking products for the Internet was the Portfolio's weakest contributor to performance. The company's share price declined on expectations that slowing economic conditions will lead to a reduction in enterprise spending in 2008. We sold our shares in the company. We also eliminated our position in a leading telecommunications provider, our second weakest contributor. We sold our shares in the company when it announced its plans to acquire a satellite company—a move viewed negatively by investors.

Our investment in a manufacturer of diesel truck engines was our third weakest contributor. The company performed strongly during the first three quarters of 2007 as a result of rising ethanol-related agricultural demand and the company's increasing international exposure. Rising operating costs and weaker than expected earnings drove the stock price down during the fourth quarter, however. We sold our shares when the stock's valuation became somewhat expensive during the quarter, but purchased a smaller position in the company when its share price fell later in the quarter. We continue to hold the stock due to the company's sound fundamentals and because we believe its present difficulties are temporary.

As we head into 2008, we expect growth stocks to continue to outperform value stocks, and for stocks with strong momentum characteristics to drive market performance. Typical growth sectors such as healthcare, consumer staples and technology are likely to outperform other areas of the market, and volatility is likely to remain high until the extent of the economic slowdown becomes more certain. In this environment of heightened volatility, stock selection will most likely be a key determinant of performance. We expect our ability to identify the market's driving trends, mitigate downside risk through short selling, and capture excess returns through the identification of attractive investment opportunities will serve our investors well in the coming year.

1 The S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the US economy. Unlike the Funds, the S&P 500 Index is market-weighted and focuses on the large-cap segment of the market. Returns reflect the reinvestment of dividends and do not reflect the deduction of any expenses or fees. The index is unmanaged and does not reflect transaction costs or management fees and other expenses. Unlike the index, a portfolio is actively managed and may include substantially fewer securities than the number of securities comprising the index. Investors cannot purchase interests directly in an index.

2 The term "short" refers to the act of selling a borrowed security, commodity or currency with the expectation that the price of the asset will fall over time.

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Past performance is no guarantee of future results.