

# Dynamic European Small Cap Core Equity

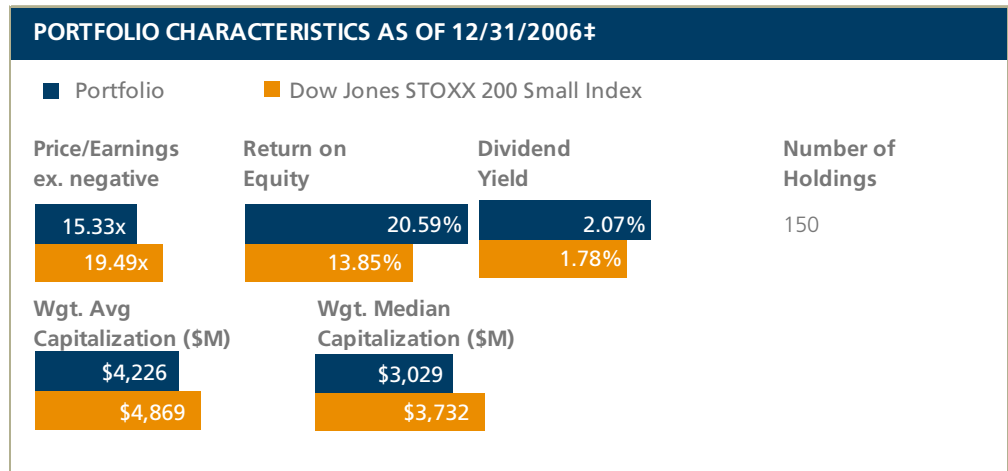
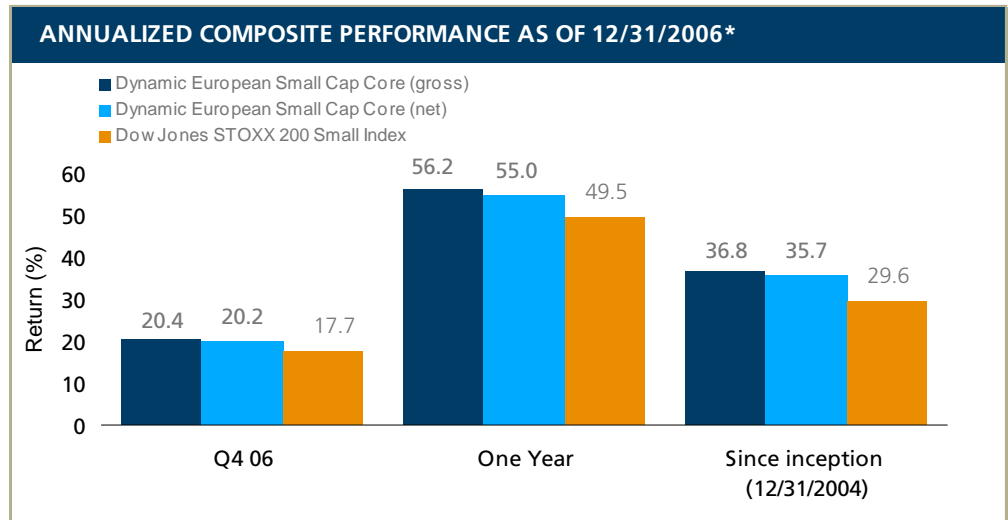
## INVESTMENT OBJECTIVES

PanAgora's Dynamic Small-Cap Equity Product Series utilizes our unique contextual approach and calendar timing to stock selection in a process that builds tailored alpha models that help provide more accurate signals of a stock's attractiveness. Our approach to small-cap equity management is highly adaptable and allows us to capitalize on potential opportunities in various equity markets and styles. This approach has generated consistently superior risk-adjusted returns.

## STRATEGY ADVANTAGES

We believe that the application of quantitative techniques to small-cap equity management offers investors several key advantages.

- » Disciplined application of quantitative techniques results in potentially more consistent exploitation of market inefficiencies.
- » Quantitative techniques allow portfolio managers to evaluate the broad universe of small-cap securities.
- » A broader universe grants more diversification opportunities, which potentially yields more consistent outperformance.

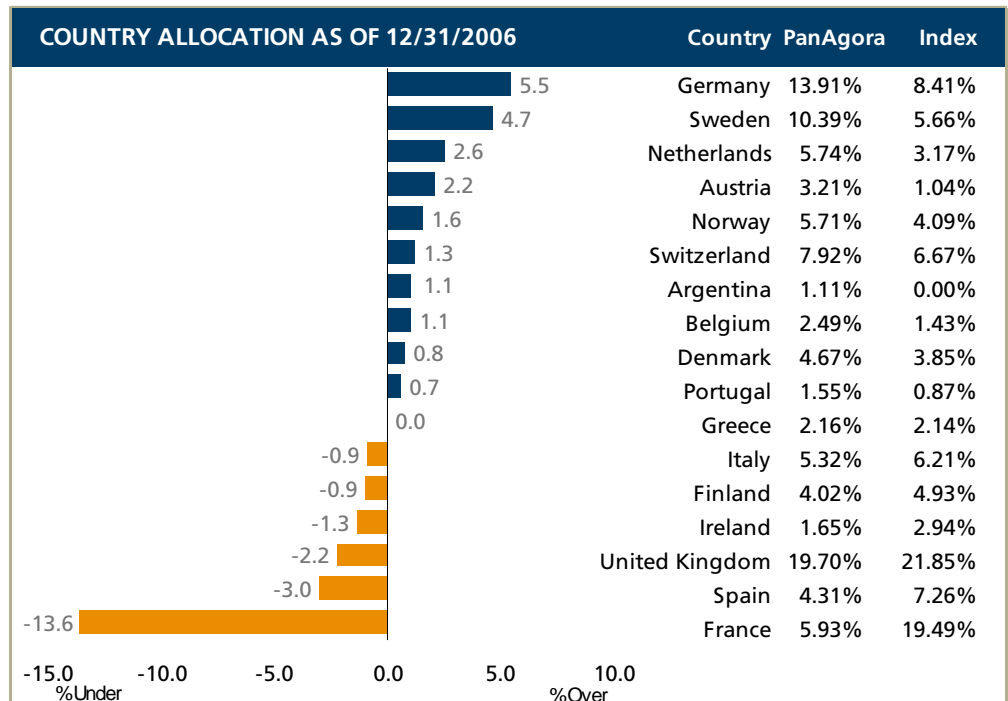
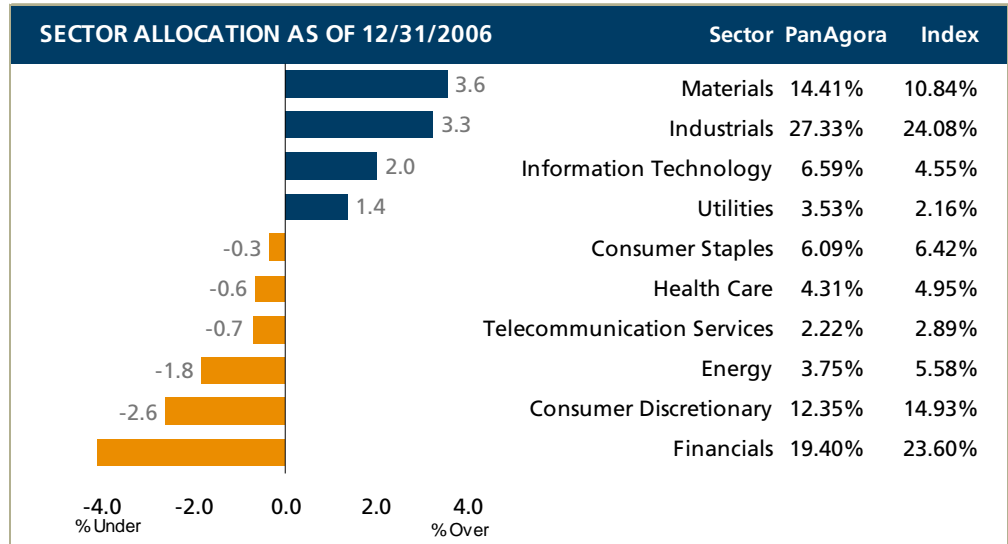


\* Annualized for periods greater than one year. Past performance is no guarantee of future results.

† The holdings and characteristics are from a representative portfolio and are being shown for illustrative purposes only. Each account is managed individually. Actual account characteristics and holdings may differ due to individual account restrictions and limitations. The inclusion of holdings information in this presentation should not be interpreted as recommendations to buy or sell. Holdings are subject to change. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities mentioned in this profile.

The performance notes are an integral part of this presentation.

TOP 10 OVERWEIGHT POSITIONS AS OF 12/31/2006	Active Weight
SALZGITTER	1.93%
LANXESS	1.68%
QUILMES INDUSTRIAL B ADR	1.11%
JM AB	1.02%
FLSMIDTH & CO B	1.00%
HUBER SUHNER R	0.96%
VOESTALPINE	0.94%
TANDBERG	0.93%
MICRO FOCUS	0.92%
ANDRITZ	0.92%



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**For institutional accounts in the United States**

PanAgora advisory services offered through The Putnam Advisory Company, LLC. Securities offered through Putnam Retail Management, LP.

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**INVESTMENT PHILOSOPHY**

We believe that small-cap equity markets are inefficient and that a disciplined application of quantitative techniques and fundamental insights can result in a more consistent exploitation of these inefficiencies.

Our investment approach is further shaped by our beliefs regarding valuation, fundamentals, and market sentiment: 1) Valuation: We purchase stocks that are reasonably priced versus our estimation of the issuers' long-term business worth which provides us with more opportunities for price appreciation. 2) Fundamentals: By evaluating issuer fundamentals such as earnings quality, operating efficiency, and management effectiveness, we seek to purchase shares of companies that are in profitable lines of business and are well run. 3) Market sentiment: While valuation and fundamentals are the heart of our investment philosophy, we believe we can add incremental returns by timing trades effectively.

**INVESTMENT PROCESS**

We follow a bottom up approach to investing. Our small-cap equity strategies use multi-factor models to evaluate and integrate multiple potential sources of excess return (alpha). These models allow us to develop return expectations for nearly 3000 securities. Optimization techniques are used to build portfolios that seek to maximize alpha for a given level of risk.

**STOCK SELECTION**

We do not believe in a one-size-fits-all approach to stock selection, so we have developed a unique contextual alpha model that dynamically selects factor weightings that best predict the potential excess return of each stock based on its risk characteristics. Each stock, therefore, has a unique set of optimal factor weights that are conditioned on the risk characteristics of that security. In addition, we apply our own calendar timing alpha model, which allows us to take advantage of changes in investors' risk preferences during the year.

Using our model, we generate a return forecast for each stock in our universe, which includes securities in our benchmark and other out-of-benchmark securities that fall within the US\$100 million to US\$3 billion market-cap range. There are no other screens on the universe because we believe that a large breadth of securities enhances the optimization results.

**PORTFOLIO CONSTRUCTION**

We build portfolios using a risk model to optimize various combinations of securities that emerge from our stock selection process. We believe this approach allows us to maximize the exposure to our alpha while maintaining reasonable levels of risk.

**ABOUT PANAGORA**

Established in 1989, PanAgora is dedicated to providing quantitative solutions designed to adapt to changing market environments.

- » Over \$22 billion in assets under management\*
- » Sound investment infrastructure that blends the best of fundamental insights with systematic methods
- » Focused attention on risk management
- » Cutting edge research capabilities integrated within investment teams
- » Broad product line across regions, risk levels, and asset classes

**PERFORMANCE DISCLOSURE**
**Dynamic European Small Cap Core Composite**

Composite: Dynamic European Small Cap Core (As of 12/31/2006)

Benchmark: Dow Jones Stoxx 200 Small Cap Index

Date	Gross of Fees Return (%)	Net of Fees Return (%)	Annual Index Return (%) *	High Return (%)**	Low Return (%)**	Composite Assets (\$ Millions)	Percent of Firm Assets (%)	Number of Accounts	Percent of Composite which are Non-fee paying accounts	Total Firm Assets*** (\$ Millions)	Assets Under Management**** (\$ Millions)
12/31/2006	56.22%	54.95%	49.49%	N/A	N/A	\$2.59	0.01%	<5	100%	\$20,285	\$22,616
12/31/2005	19.75%	18.76%	12.39%	N/A	N/A	\$2.42	0.02%	<5	100%	\$15,411	\$16,941

\* Annual Index Returns were not examined by the Independent Accountant.

\*\* High / Low Returns have not been provided for composites with less than two accounts in the composite for the entire year.

\*\*\* "Total Firm Assets" exclude the Firm's Total Overlay Assets.

\*\*\*\* "Assets Under Management" include both Total Firm and Total Overlay Assets.

**Firm Overview**

PanAgora Asset Management, Inc. (the "Firm") has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). A complete listing and description of all composites is available upon request.

For the purposes of compliance with GIPS, the Firm is defined as a broad based investment management organization that provides investment services to institutions through separately managed accounts, pooled funds and mutual funds. The Firm is an independent investment advisor registered under the Investment Advisers Act of 1940 specializing in quantitative investment strategies. For determination of firm-wide compliance with GIPS, the Firm has currently defined assets under management as all assets that are managed by the Firm. Total Firm Assets are defined as all assets managed by the Firm that do not include overlay assets.

**Composition of Composite**

The accounts within the Dynamic European Small Cap Core Composite seek to outperform the Dow Jones Stoxx 200 Index at moderate levels of relative risk. The Dynamic Equity process utilizes a bottom-up approach that integrates fundamental and quantitative techniques with risk management tools. The approach focuses on adding value through stock specific risk, while limiting systematic risk exposures that may detract from performance. Tracking error of this product is between 3% and 6%. The creation date for the Composite was January 1, 2005. This composite is comprised of all discretionary institutional accounts managed by the Firm in this investment style. There is a minimum of \$2 million in assets for inclusion in this Composite.

New portfolios are added to a composite at the beginning of first complete month after the portfolio is started. Terminated portfolios are included through the final full month of management. Composites may include portfolios with certain existing investment restrictions that the Firm believes do not materially impact the investment strategy.

**Calculation of Composite**

A composite's monthly return is computed by asset weighting the portfolio returns within the composite, using the beginning of period market values. The quarterly return of a composite is computed by geometrically linking the returns of each month within the calendar quarter. The annual return of a composite is computed by geometrically linking the returns of each quarter within the calendar year.

Investments held by all portfolios are valued on a trade-date basis using accrual accounting. Individual portfolio returns are calculated on a time-weighted basis using the Modified Deitz methodology. Performance is expressed in U.S. dollars. Additional information regarding policies for calculating and reporting returns is available upon request.

Returns are net of foreign withholding taxes on dividends, interest, and capital gains. The benchmark returns assume dividends are

reinvested monthly and are presented net after withholding taxes assuming the most conservative tax perspective, that of a Luxembourg holding company.

**Index Disclosure**

The benchmark for this composite is the Dow Jones Stoxx 200 Small Cap Index ("DJ Stoxx"), a fixed component index designed to provide a representation of small capitalization companies in Europe. However, unlike the composite shown, the DJ Stoxx Index does not reflect transaction costs or incur fees.

**Gross and Net of Fees Disclosure**

Gross of Fee returns are net of transaction costs but do not include the deduction of management fees and other expenses that may be incurred in managing an investment account. A portfolio's return will be reduced by management and other fees. The impact of management fees can be material. Investment returns are reduced by advisory fees as in the following example: Over a five year period, if a \$100 portfolio had an annual return of 10%, it would grow to \$161.05. The net compounded effect of an 85 basis point annual investment management fee (without custody charges) would total \$6.13 and result in a portfolio value of \$154.92.

Net of Fee Return results are calculated as the Gross of Fee Returns minus a model fee equal to the highest standard Separate Account Management Fee that a client invested in this strategy would have paid during the performance period as described in Part II of the Firm's Form ADV for information on management fees.

**Fee Schedule**

The standard fee schedule, which is based on the market value of an account's assets under management and stated on an annual basis is stated below. Separate account management fees are for investment management services only. Custodial fees, which are not charged to an account, are not included in the Net of Fee Returns.

**Separate Account and Commingled Fund Management**

Initial \$50 million	0.85 of 1%
Next \$50 million	0.75 of 1%
Over \$100 million	0.65 of 1%

The minimum annual fee is \$100,000.

**Past Performance is not a guarantee of future performance. No assurance can be given as to future performance.**