

## PRESIDENT'S LETTER

Dear Fellow Shareholders:

I am pleased to present our Twelfth Annual Report.

The 12-month period ended October 31, 2001 was an extremely difficult period for the financial markets. The real rate of growth in the United States came to a standstill – plummeting to virtually 0% by the end of August 2001. (As recently as June 2000 the real rate of growth was 6%.) Consumer confidence, however, remained strong and the prospects for an economic recovery, beginning as early as the end of the fourth quarter, appeared possible.

The horrific terrorist attacks on September 11 cut deeply into America. Economically, consumer confidence was shattered, whole industries were shut down, and the financial markets were closed. The nascent economic recovery was derailed. But just as it has done so often in the past, the American spirit prevails. America – and its economy – is recovering.

The economy will benefit from recent monetary and fiscal policies. The Federal Reserve Board has slashed short-term interest rates. Inflation remains dormant, energy costs have declined, and the Congress has enacted tax cuts and relief measures designed to stimulate the economy. Nonetheless, we do not anticipate a significant economic recovery until the second quarter of 2002.

Throughout the recent economic turmoil, the basic tools for crafting a prudent investment portfolio have remained constant – diversification, risk assessment, long-term focus, and patience. Each of the New Century Portfolios provides these tools for its shareholders.

Through the end of October 2001, the equity markets, and in particular the growth sector, declined. During the period, the NASDAQ lost more than 49%; the large-cap growth index lost more than 31%, the S&P 500 Index lost more than 24%, and the large-cap value index lost more than 18%. The Russell 2000 Index, which reflects the performance of stocks of smaller-capitalized domestic companies, lost almost 13%. The international equity markets, as measured by the EAFE Index, lost approximately 25%. Fixed income investments fared much better. The Lehman Aggregate Bond Index gained almost 15%.

During this period, the New Century Capital Portfolio declined 27.76%, the New Century Balanced Portfolio declined 11.28%, the New Century Aggressive Portfolio declined 26.30%, and the New Century International Portfolio declined 25.90%.

While each of the New Century Portfolios continues to diversify its portfolio among multiple market sectors, each Portfolio assumed a more-defensive stance over the year. The Capital and the Balanced Portfolios reduced positions in the growth sector and increased positions in the value sector. The Balanced Portfolio decreased its overall allocation to equities and increased its overall allocation to fixed income. The Aggressive Portfolio took relatively defensive positions in the energy, healthcare and the financial sectors. The International Portfolio was concentrated in Europe, Canada and Australia.

In response to recent market valuations, the Portfolios have started to assume a less-defensive position. The Capital and the Balanced Portfolios have increased their positions in the growth sector. The Balanced Portfolio is approaching its normal 60% allocation to the equity sector, is shortening the duration of its fixed income investments, and is also increasing its position in the high-yield sector. The Aggressive Portfolio added to its positions in the small and the mid-cap sectors and the technology sector. The International Portfolio decreased its European position, added a position in Emerging Markets and added to its positions in the Pacific Rim, and Mexico.

The Portfolios will maintain their diversification and risk management strategies. However, we will continue to monitor economic and market conditions and position the Portfolios to maximize risk-adjusted return. Although we cannot predict future market conditions, we are confident that the disciplined investment approach of the New Century Portfolios will provide a risk-adjusted performance consistent with each fund's objectives.

We thank you for selecting us to be part of your long-term investment strategy.

Sincerely,

Wayne M. Grzecki  
President