

AGENDA AND NOTICE OF MEETING

STATE OF WISCONSIN DEFERRED COMPENSATION BOARD INVESTMENT COMMITTEE MEETING

Tuesday, September 11, 2007
1:00 p.m.

Department of Employee Trust Funds
801 West Badger Road, Conference Room GB
Madison, Wisconsin

The documents for this meeting are available on-line at:

http://etf.wi.gov/boards/agendas_dc.htm

To request a printed copy of any of the above items, please contact the Board Liaison, Sharon Walk, at 608-267-2417.

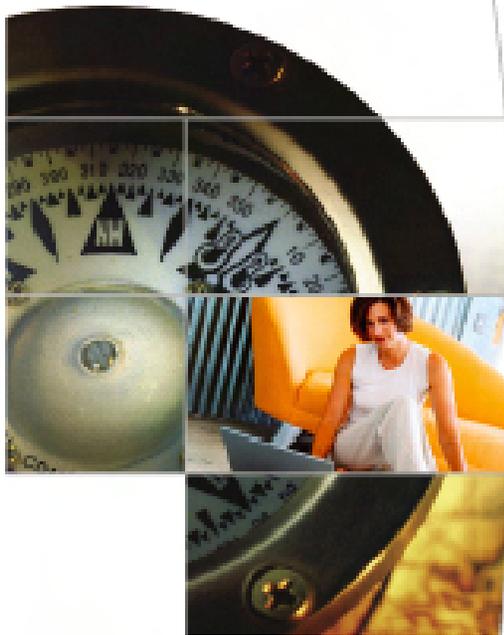
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|-----------|--|
| 1:00 p.m. | 1. Review of Investment Option Performance with Staff of Advised Assets Group (AAG) |
| 1:30 p.m. | 2. Review and Update of Specific Fund Benchmarking with Staff of AAG <ul style="list-style-type: none">➤ Dimensional Fund Advisors➤ American Funds EuroPacific Growth |
| 1:45 p.m. | 3. Discussion of Changes Relating to Barclays |
| 1:50 p.m. | 4. Review of Fixed Funds Options with Staff of AAG |
| 2:00 p.m. | 5. Discussion of Reality Investing Service Offered by Great-West Retirement Services |
| 2:10 p.m. | 6. Miscellaneous <ul style="list-style-type: none">➤ Future Agenda Items |
| 2:15 p.m. | 7. Adjournment |

Times shown are estimates only.

The meeting location is handicap accessible. If you need other special accommodations due to a disability, please contact Sharon Walk, Department of Employee Trust Funds, PO Box 7931, Madison, WI 53707-7931. Telephone number: (608) 267-2417; Wisconsin Relay Service: 7-1-1; or e-mail: sharon.walk@etf.state.wi.us

**Wisconsin Deferred
Compensation Plan
Fund Performance Review**

June 30, 2007



AdvisedAssetsGroup

Put Our Power Behind You™



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Section

I. Executive Summary

- Plan Compliance Report Card
- Rolling 3 year Quartile Rankings
- Assets Summary
- Expense Ratio Summary
- Weighted Average Return

II. Fund Highlights and Observations

III. Performance Benchmarking

- Risk, Style Drift and Portfolio Construction

IV. Lifecycle Options

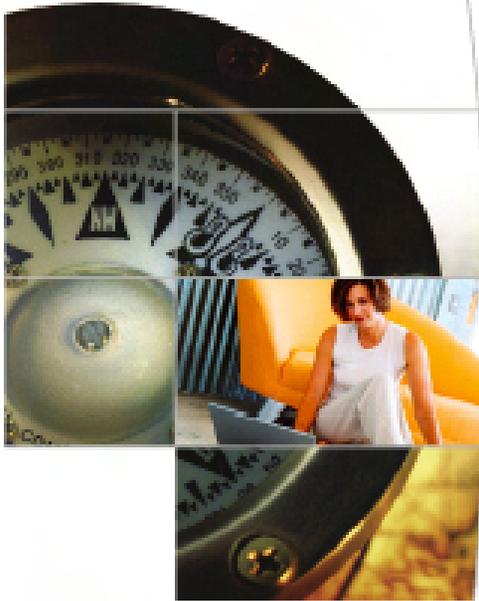
V. Economic Overview

- Morningstar Pages

VI. Investment Policy Statement and Benchmarks

Appendix: Glossary of Terms

Executive Summary



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= Options which have trailed their respective benchmarks over a five year period.

Name	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret Annlzd 10 Yr	Total Net Assets \$M	Expense Ratio
American Funds EuroPacific Gr R5	27.61	23.74	18.72	11.03	114,156.40	0.53
MSCI AC World Ex USA NR USD	29.62	24.52	19.45	--	--	--
MSCI EAFE Free NR USD	27.00	22.24	17.73	7.63	--	--
Lipper International Funds Cat: Foreign Large Blend	27.02	21.76	16.61	7.97	--	--
	26.76	21.74	16.02	7.15	3,873.59	1.53
Barclay's EAFE Equity Index Fund W	27.11	22.08	17.44	--	--	0.10
MSCI EAFE Ndtr_D	27.00	22.24	17.73	7.66	--	--
DFA U.S. Micro Cap	15.98	13.09	15.89	13.15	4,938.24	0.53
Russell 2000	16.43	13.45	13.88	9.06	--	--
Russell Micro Cap TR	14.21	10.79	14.64	--	--	--
Cat: Small Blend	17.02	14.19	13.86	10.82	823.62	1.44
Barclay's Russell 2000 Index Fd	16.28	13.35	13.76	--	--	0.05
Russell 2000	16.43	13.45	13.88	9.06	--	--
T. Rowe Price Mid-Cap Growth	21.46	15.77	15.25	12.53	17,200.81	0.80
Lipper Mid Cap Growth	18.81	13.20	12.39	8.18	--	--
Russell Midcap Growth	19.73	14.48	15.45	8.66	--	--
Standard & Poor's Midcap 400	18.51	15.15	14.17	13.37	--	--
Cat: Mid Growth	19.00	13.26	12.61	8.65	968.92	1.52
Barclay's Mid Cap Equity Index Fund W	18.53	15.27	14.25	--	--	0.04
Standard & Poor's Midcap 400	18.51	15.15	14.17	13.37	--	--
Calvert Social Investment Equity I	14.61	8.79	8.41	8.40	1,304.57	0.68
Standard & Poor's 500	20.59	11.68	10.71	7.13	--	--
Calvert Social Index	18.08	8.74	9.30	--	90.32	0.21
Lipper MultiCap Core	19.27	12.12	11.03	8.14	--	--
Morningstar Socially Resp Large Cap Index	17.67	9.97	9.26	6.41	505.53	1.23
Fidelity Contrafund	16.98	15.26	13.67	10.79	72,621.28	0.90
Standard & Poor's 500	20.59	11.68	10.71	7.13	--	--
Lipper Growth Fund Average	16.37	8.15	7.71	4.89	--	--
Cat: Large Growth	17.17	9.27	8.96	5.47	3,428.57	1.40

DATA SOURCE:
Morningstar 6/30/2007

Note: BGI Index
Funds are reported
net of fees

Grey bars indicate fund benchmarks; white indicates current funds

 = Options which have trailed their respective benchmarks over a five year period.

Name	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret Annlzd 10 Yr	Total Net Assets \$M	Expense Ratio
Vanguard Inst Index Plus Info	20.57	11.69	10.75	7.20	68,859.20	0.02
Standard & Poor's 500	20.59	11.68	10.71	7.13	--	--
Vanguard Wellington Adm	17.78	12.33	10.71	9.21	48,598.77	0.17
Lipper Balanced Fund	14.50	9.04	8.29	6.40	--	--
Cat: Moderate Allocation	14.94	9.61	8.93	6.70	3,777.66	1.40
65% S&P Barra Value/35% Lehman Agg	16.14	11.67	10.21	7.86	--	--
Vanguard Long-Term Investment-Grade Adm	7.43	5.39	6.28	6.91	5,832.04	0.12
Lehman Brothers LT Corp A or Better	7.64	5.44	6.62	6.71	--	--
Cat: Long-Term Bond	7.31	4.81	6.89	6.48	693.59	0.86
Barclay's US Debt Index	6.15	4.00	4.48	--	--	0.05
Lehman Brothers Aggregate Bond	6.12	3.98	4.48	6.02	--	--
Federated U.S. Govt: 2-5 Yr Instl	4.98	2.55	3.07	4.94	631.64	0.60
Merrill Lynch 3-5 Year Treasury	5.37	2.80	3.54	5.49	--	--
Lipper Short-Inter U.S.	4.68	2.83	3.00	4.78	--	--
Cat: Short Government	4.77	2.68	2.61	4.38	398.47	0.94
Vanguard Adm Money Market	5.03	3.63	2.61	3.66	18,033.21	0.13
iMoneyNet Average Treasury MM	4.36	2.95	2.00	3.08	--	--

Note: BGI Index Funds are reported net of fees

Grey bars indicate fund benchmarks; white indicates current funds

DATA SOURCE: Morningstar
6/30/2007

Rolling 3 Year Quartile Rankings

<u>Name</u>	<u>2007</u> <u>Q2</u>	<u>2007</u> <u>Q1</u>	<u>2006</u> <u>Q4</u>	<u>2006</u> <u>Q3</u>	<u>2006</u> <u>Q2</u>	<u>2006</u> <u>Q1</u>	<u>2005</u> <u>Q4</u>	<u>2005</u> <u>Q3</u>	<u>2005</u> <u>Q2</u>	<u>2005</u> <u>Q1</u>	<u>2004</u> <u>Q4</u>	<u>2004</u> <u>Q3</u>
American Funds EuroPacific Gr R5	81	75	88	86								
Calvert Social Investment Equity I	46	59	59	60								
DFA U.S. Micro Cap	39	44	48	55								
Federated U.S. Govt: 2-5 Yr Instl	39	91	40	34								
Fidelity Contrafund	96	99	98	99								
T. Rowe Price Mid-Cap Growth	78	82	77	83								
Vanguard Institutional Index Instl PI	54	62	74	67								
Vanguard Long-Term Inv Grade Adm	67	68	80	72								
Vanguard Wellington Adm	90	89	91	91								

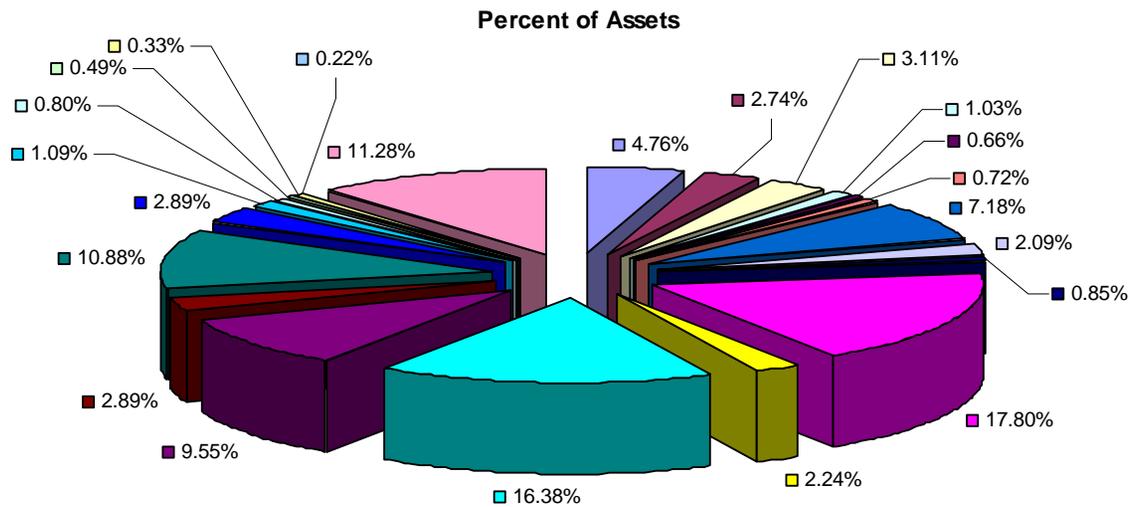
76-100	1st Quartile
51-75	2nd Quartile
26-50	3rd Quartile
1-25	4th Quartile

DATA SOURCE: Morningstar
6/30/2007

Plan Asset Summary

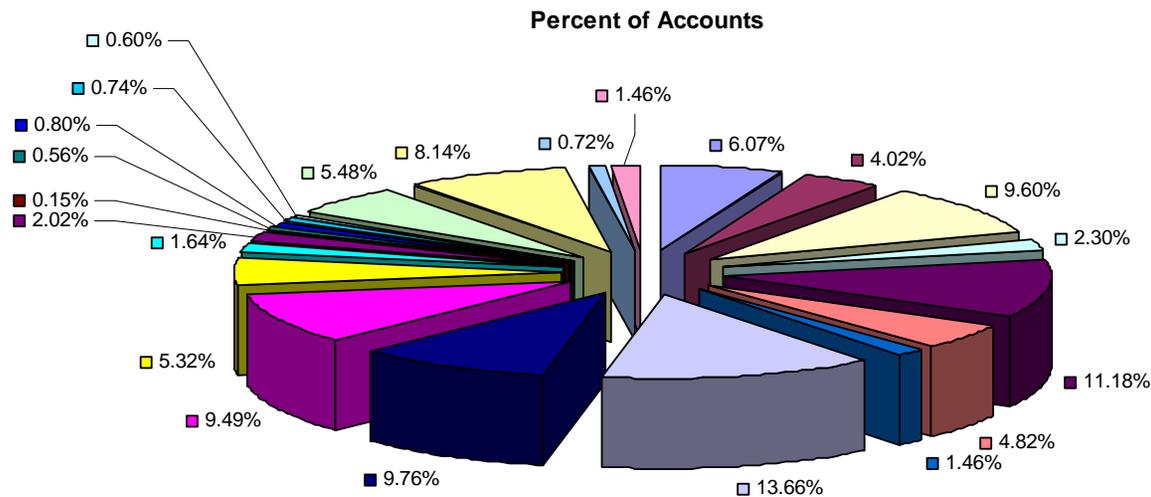
	Plan Inception Date	Fund Net Assets	WDC Assets in Fund	WDC as a Percentage of Fund Assets	Fund as a Percentage of WDC Assets	Number of Participants	Percentage of WDC Participants Utilizing Fund
American Funds EuroPacific Gr R5	01/28/2005	\$114,156,397,906	\$105,104,963.63	0.09%	4.76%	11,565	25.81%
Barclay's EAFE Equity Index Fund W	02/01/2001	N/A	\$60,589,363.71	N/A	2.74%	7,659	17.09%
DFA U.S. Micro Cap	02/01/1997	\$4,938,244,079	\$158,539,059.47	3.21%	7.18%	18,275	40.78%
Barclay's Russell 2000 Index Fd	02/20/2004	N/A	\$22,771,080.97	N/A	1.03%	4,385	9.78%
T. Rowe Price Mid-Cap Growth	02/01/1998	\$17,200,814,748	\$210,951,554.75	1.23%	9.55%	21,293	47.51%
Barclay's Mid Cap Equity Index Fund W	02/01/2001	N/A	\$68,701,596.12	N/A	3.11%	9,176	20.48%
Calvert Social Investment Equity I	04/18/2003	\$1,304,570,439	\$15,991,455.36	1.23%	0.72%	2,789	6.22%
Fidelity Contrafund	01/31/1994	\$72,621,284,636	\$393,146,211.89	0.54%	17.80%	26,007	58.03%
Vanguard Inst Index Plus Info	09/09/1990	\$68,859,203,614	\$240,450,143.61	0.35%	10.88%	18,584	41.47%
Vanguard Wellington Adm	10/26/2001	\$48,598,768,790	\$249,253,623.42	0.51%	11.28%	18,064	40.31%
Vanguard Long-Term Investment-Grade Adm	10/26/2001	\$5,832,035,746	\$63,941,338.41	1.10%	2.89%	10,128	22.60%
Barclay's US Debt Index	02/01/2001	N/A	\$14,517,453.54	N/A	0.66%	3,119	6.96%
Federated U.S. Govt: 2-5 Yr Instl	02/03/1992	\$631,638,578	\$18,714,253.90	2.96%	0.85%	3,848	8.59%
Vanguard Target Ret Income	07/29/2005	\$1,196,603,710	\$4,866,968.97	0.41%	0.22%	279	0.62%
Vanguard Target Ret 2015	07/29/2005	\$6,026,659,674	\$24,168,398.79	0.40%	1.09%	1064	2.37%
Vanguard Target Ret 2025	07/29/2005	\$6,124,930,307	\$17,637,075.17	0.29%	0.80%	1526	3.41%
Vanguard Target Ret 2035	07/29/2005	\$4,124,995,770	\$10,921,395.52	0.26%	0.49%	1407	3.14%
Vanguard Target Ret 2045	07/29/2005	\$2,003,581,277	\$7,187,619.57	0.36%	0.33%	1133	2.53%
Vanguard Adm Money Market	10/01/1993	\$18,033,213,260	\$63,952,705.27	0.35%	2.89%	10,442	23.30%
Stable Value Fund	09/01/1996	N/A	\$361,949,295.35	N/A	16.38%	15,504	34.60%
Schwab PCRA	02/17/2000	N/A	\$49,538,434.77	N/A	2.24%	1378	3.07%
FDIC Option	12/31/1996	N/A	\$46,202,616.39	N/A	2.09%	2,783	6.21%

Total WDC Assets (as of 6/30/2007): \$2,209,096,608.58



American Funds EuroPacific Gr R5 - 4.76%	Barclay's EAFE Equity Index Fund W - 2.74%	Barclay's Mid Cap Equity Index Fund W - 3.11%
Barclay's Russell 2000 Index Fd - 1.03%	Barclay's US Debt Index - 0.66%	Calvert Social Investment Equity I - 0.72%
DFA U.S. Micro Cap - 7.18%	FDIC Option - 2.09%	Federated U.S. Govt: 2-5 Yr Instl - 0.85%
Fidelity Contrafund - 17.80%	Schwab PCRA - 2.24%	Stable Value Fund - 16.38%
T. Rowe Price Mid-Cap Growth - 9.55%	Vanguard Adm Money Market - 2.89%	Vanguard Inst Index Plus Info - 10.88%
Vanguard Long-Term Investment-Grade Adm - 2.89%	Vanguard Target Ret 2015 - 1.09%	Vanguard Target Ret 2025 - 0.80%
Vanguard Target Ret 2035 - 0.49%	Vanguard Target Ret 2045 - 0.33%	Vanguard Target Ret Income - 0.22%
Vanguard Wellington Adm - 11.28%		

Total Number of WDC Participant Accounts (as of 6/30/2007): 190,408



American Funds EuroPacific Gr R5 - 6.07%	Barclay's EAFE Equity Index Fund W - 4.02%	DFA U.S. Micro Cap - 9.60%
Barclay's Russell 2000 Index Fd - 2.30%	T. Row e Price Mid-Cap Growth - 11.18%	Barclay's Mid Cap Equity Index Fund W - 4.82%
Calvert Social Investment Equity I - 1.46%	Fidelity Contrafund - 13.66%	Vanguard Inst Index Plus Info - 9.76%
Vanguard Wellington Adm - 9.49%	Vanguard Long-Term Investment-Grade Adm - 5.32%	Barclay's US Debt Index - 1.64%
Federated U.S. Govt: 2-5 Yr Instl - 2.02%	Vanguard Target Ret Income - 0.15%	Vanguard Target Ret 2015 - 0.56%
Vanguard Target Ret 2025 - 0.80%	Vanguard Target Ret 2035 - 0.74%	Vanguard Target Ret 2045 - 0.60%
Vanguard Adm Money Market - 5.48%	Stable Value Fund - 8.14%	Schwab PCRA - 0.72%
FDIC Option - 1.46%		

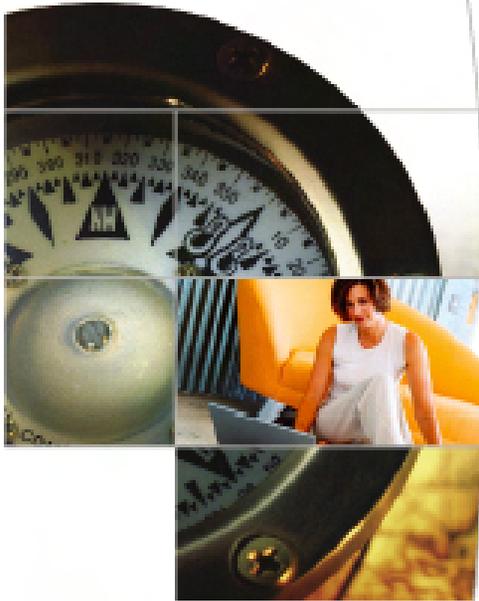
Fund Expense v. Category

Name	Expense Ratio
American Funds EuroPacific Gr R5	0.53
Cat: Foreign Large Blend	1.53
Barclay's EAFE Equity Index Fund W	0.10
Morningstar Foreign Large Blend Index	0.81
DFA U.S. Micro Cap	0.53
Cat: Small Blend	1.44
Barclay's Russell 2000 Index Fd	0.05
Morningstar Small Cap Blend Index	0.85
T. Rowe Price Mid-Cap Growth	0.80
Cat: Mid Growth	1.52
Barclay's Mid Cap Equity Index Fund W	0.04
Morningstar Mid Cap Blend Index	0.78
Calvert Social Investment Equity I	0.68
Morningstar Socially Resp Large Cap Index	1.23

Name	Expense Ratio
Fidelity Contrafund	0.90
Cat: Large Growth	1.40
Vanguard Inst Index Plus Info	0.02
Morningstar Large Cap Blend Index	0.60
Vanguard Wellington Adm	0.17
Cat: Moderate Allocation	1.40
Vanguard Long-Term Investment-Grade Adm	0.12
Cat: Long-Term Bond	0.86
Barclay's US Debt Index	0.05
Morningstar Intermediate Bond Index	0.43
Federated U.S. Govt: 2-5 Yr Instl	0.60
Cat: Short Government	0.94
Vanguard Adm Money Market	0.13
Average US Money Market Fund	0.65

- The weighted average return for WDC participants as of 6/30/2007 was 15.63%
- Much of this can be attributed to a 17.80% weighting in the Fidelity Contrafund which returned about 17%
- Other contributing factors were:
 - 7.5% exposure to international investments which had an average return of 27.36%
 - An 11% weighting to the Vanguard Index which returned 20.57%
 - An 16.38% weighting to the Wisconsin Stable Value Fund which returned 5.16%
- Note: Participant weighted average return excludes the self directed brokerage accounts

Fund Highlights and Observations



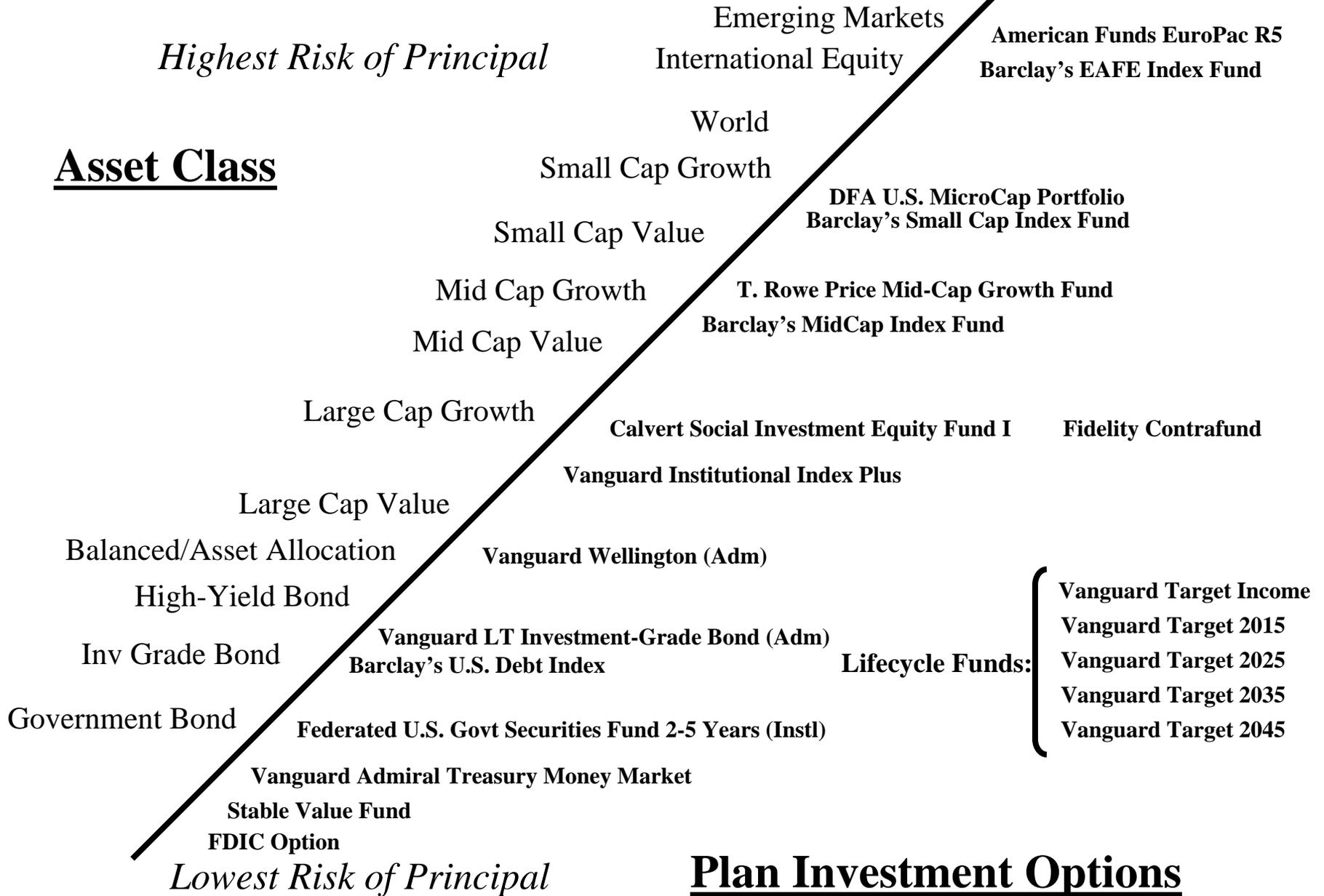
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Wisconsin Plan Options

Highest Risk of Principal

Asset Class

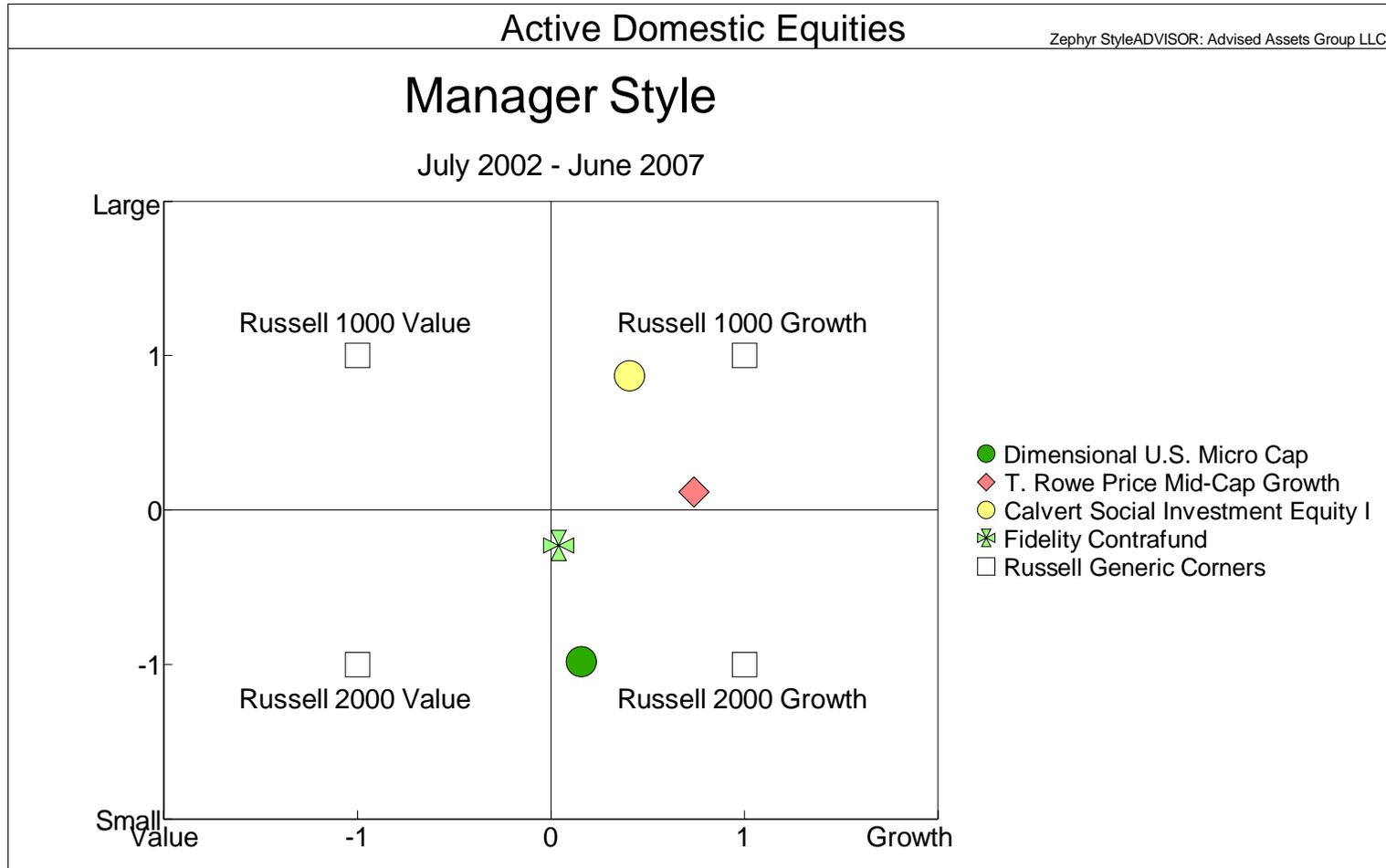


- Lifecycle Funds:**
- Vanguard Target Income
 - Vanguard Target 2015
 - Vanguard Target 2025
 - Vanguard Target 2035
 - Vanguard Target 2045

Plan Investment Options

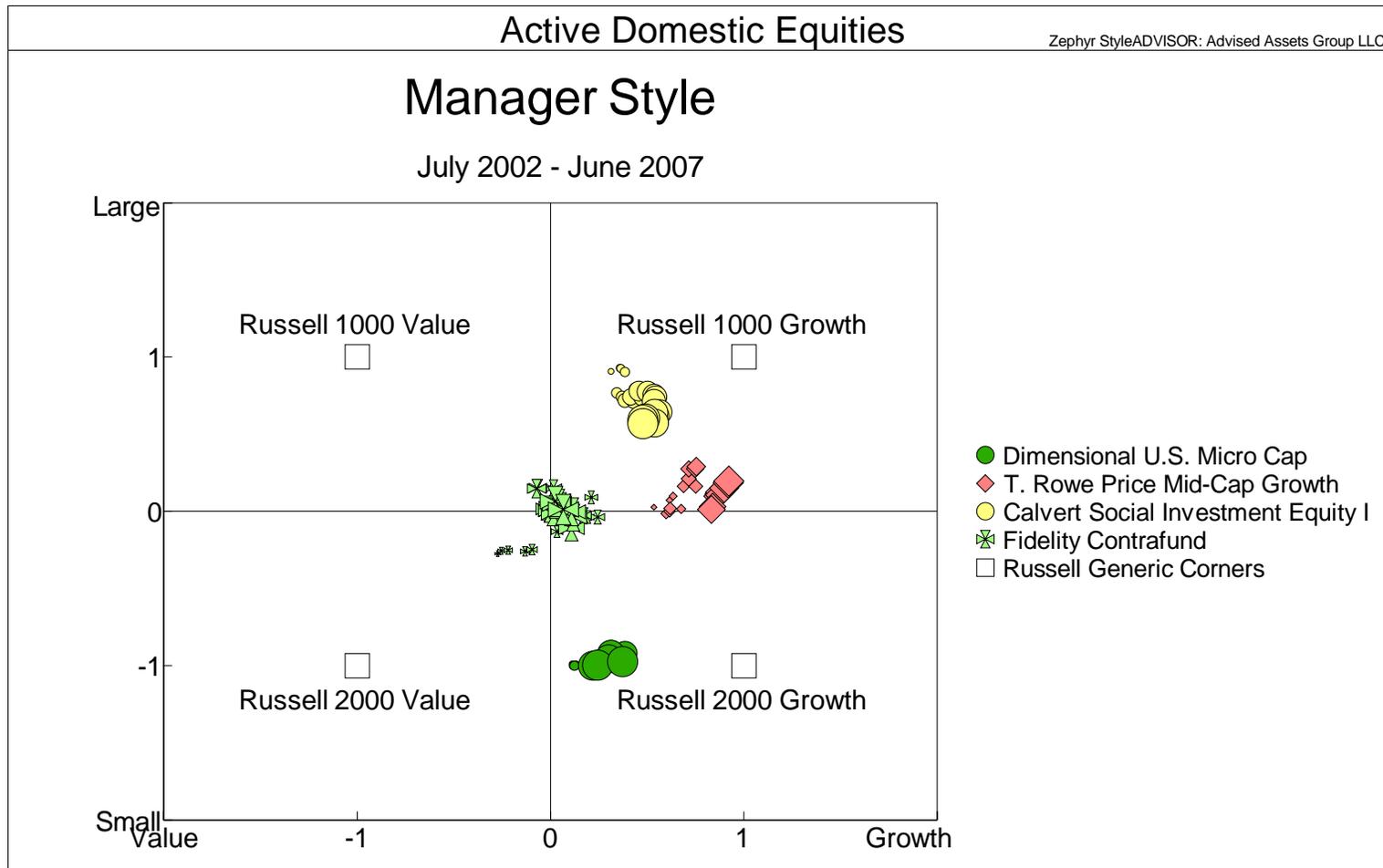
Manager Style

Manager Style Graph: Each quadrant of the graph represents one of the four major domestic equity components of the market. From top left working clockwise the quadrants include Large Value, Large Growth, Small Growth and Small Value.



Manager Style Drift

Manager Style Graph: Each quadrant of the graph represents one of the four major domestic equity components of the market. From top left working clockwise the quadrants include Large Value, Large Growth, Small Growth and Small Value.



- **American Funds EuroPac R5** continues to beat the majority of its benchmarks over all time periods while keeping volatility and expenses lower than the average foreign large blend fund. American Funds manages this fund using a multi-manager structure that combines both growth and value investing styles, some exposure to emerging markets, and low turnover.
- **Barclay's EAFE Equity Index Fund** tracked within 11 bps (net of fees) over the 1yr period. Note the 11 bps is positive tracking error.
- **DFA U.S. Microcap** invests in the smallest 4% of U.S. exchange listed stocks with an average market cap of just under \$290 million. The fund contains between 2,500 and 3,000 holdings giving it an index approach to investing. This fund carries a higher standard deviation than the Morningstar Category average over 5 years, but has rewarded its shareholders by generating a higher return than the category over that same time period.
- **Barclay's Russell 2000 Index Fund** tracked within 15 bps (net of fees) with the index over 1 year.

- **T. Rowe Price Mid Cap Growth** outperforms most of its benchmarks over all time periods. The fund trailed only the Russell Mid Cap Growth over 5 years and S&P Midcap 400 over 10 years. This fund's attention to valuation, contrarian investment style, and the manager's willingness to look for opportunity outside of traditional growth areas have kept this fund near the top of the mid cap growth space. The manager's attention to valuation has also helped to limit its downside risk.
- **Barclay's Mid-Cap Equity Index** tracks within 26 bps (net of fees) of the index over 1 year.
- **Calvert Social Investment Equity** trails all of its benchmarks over 5 years. Poor stock selection in tech, healthcare, and consumer staples contributed to the funds most recent underperformance. While its underweight in energy and utilities (due to social and environmental screens) held the fund back relative to its peers over the longer time periods. This concentrated socially conscious fund looks for companies with solid balance sheets and solid profit margins.
- **Fidelity Contrafund** performs very well against its benchmarks over the 3, 5 and 10 year periods. Over 1 year the fund trails all but one of its benchmarks. The fund's large asset base does bear some watching. However, the manager here tries to invest for the long term in order to minimize turn over and keep the size of the fund from affecting performance.

- **Vanguard Instl Index Plus Fund** tracks within 2 bps (net of fees) over 1 year.
- **Vanguard Wellington** outperforms its benchmarks over 1, 3, 5 and 10 years. This fund practices a value oriented, long-term investing style. The low expense ratio is also a plus for this fund. Manager bets in energy and telecom have helped this fund produce top quartile returns. At close to \$49 billion this fund is the third largest fund in the moderate allocation space per Morningstar.
- **Vanguard Long-Term Bond** slightly trails (61 bps at most) its benchmarks over 5 years, and has mixed returns over 1 and 3 years. The fund has struggled against rising interest rates over the past few years, as its interest rate risk has cut into returns. With a longer duration than most of its peers this fund will be more sensitive to interest rates. The fund's focus on investing in high quality bonds, rated A3 or better by Moody's, reduces credit risk, and a low expense ratio gives it an advantage over its peer group.
- **Barclay's US Debt Index** has tracks within 3 bps (net of fees) over 1 year.

- **Federated U.S. Government: 2-5 Year Institutional** has mixed results against its benchmarks over the 1, 3, and 5 year periods. This fund carries a higher duration than most of its peers, so the rising interest rate environment was particularly hard on this fund's actual and relative returns. Since short term interest rates have leveled off this fund's performance has improved.
- **Vanguard Admiral Treasury Money Market Fund** posted a 5.03% return over the 1 year period. It also beat its benchmark over all time periods.
- **FDIC Bank Option** return for the quarter ending 6/30/2007 was 4.90%. The blended rate for this fund consisting of the 3 month and 12 month LIBOR is calculated each quarter.
- **Wisconsin Stable Value Fund** has strong performance over the 1, 3, and 5 year periods returning 5.16%, 5.08%, and 5.15% respectively. The fund outperforms the 5 yr constant maturity treasury yield in all time periods.

American Funds-

NASD

On August 30, 2006 American Funds was fined \$5 million for directed-brokerage abuses. This is the first regulatory penalty dealt to the fund complex. The ruling from an NASD panel, punishes American Funds for allegedly improper sales agreements it had with brokers from 2001 to 2003. American Funds has stated publicly that they disagree with the panel's findings and intend to appeal the decision.

California Attorney General

In March 2005, the California Attorney General filed a complaint in state court against American Funds Distributors (AFD) and Capital Research and Management Company (CRMC), the investment adviser to American Funds. The complaint relates to the sufficiency of disclosure of additional payments AFD made to broker-dealer firms in recognition of the cost and efforts involved in educating financial advisers about American Funds. On November 22, 2005, the Superior Court of California in the County of Los Angeles dismissed the California Attorney General's complaint. On February 7, 2006, the California Attorney General filed a notice that he will appeal the Court's decision. On January 26, 2007, a California State Court of Appeals panel ruled against the dismissal of the case overturning the Superior Court's earlier decision to dismiss the case. American Funds points out that the decision of the panel focuses strictly on the legality of the California Attorney General pursuing suit against American Funds.

Private Party Litigation

American Funds is currently involved in a class action suit that alleges the fees charged to shareholders are excessive. American Funds believes the case has no merit, and are in the process of defending themselves.

Fidelity-

Trader's Receipt of Travel, Entertainment, Gifts, and Gratuity

On July 20, 2005, the Independent Trustees of the Fidelity Funds ("Funds") authorized an independent review with the objective of developing an authoritative, independent assessment of whether, and to what extent, the Funds may have been impacted as a result of the acceptance by some traders employed on Fidelity's equity trading desk of travel, entertainment, gifts and gratuities ("TEGG") in violation of Fidelity policies. The Honorable John S. Martin, Jr. was engaged to conduct the review. At the end of his review, Judge Martin concluded that it was not possible to prove statistically that traders' receipt of TEGG did or did not result in excessive execution costs for the Funds. Judge Martin also concluded that certain traders had misdirected order flow among the brokerage firms on Fidelity's approved list. Judge Martin then relied on elements of the statistical analysis as well as other considerations to recommend that Fidelity pay the affected Funds \$40.7 million, plus interest and expenses of the investigation.

The Independent Trustees believe that Judge Martin's inquiry has provided thorough, exhaustive and technically sound. To this end, the Independent Trustees believe that, in spite of the absence of proof that the Funds experienced diminished execution quality as a result of traders' receipt of improper TEGG, the conduct at issue was serious, is worthy of redress and, as Judge Martin concluded, any uncertainty should be resolved in favor of the Funds. The Independent Trustees further note that inadequate supervision and other shortcomings exposed the Funds to the potential risks of adverse publicity, loss of credibility with their principal regulators, and loss of Fund shareholders. Drawing on Judge Martin's exhaustive investigation, as well as their own inquiry and deliberations concerning this matter, the Independent Trustees believe that it would be appropriate for Fidelity to pay to the affected Funds \$42 million, plus interest and expenses.

In reaching these conclusions, the Independent Trustees considered Fidelity's remedial efforts in response to the TEGG matter, and positive actions with respect to brokerage practices generally, including new management in the trading room and other personnel actions, a heightened emphasis on a culture of compliance surrounding the equity trading desk, and the development and implementation of new and more stringent firm-wide TEGG policies.

Source: www.fidelity.com

Wisconsin Deferred Compensation Program

For Plan Sponsor Use Only

Performance Benchmarking of Active Options



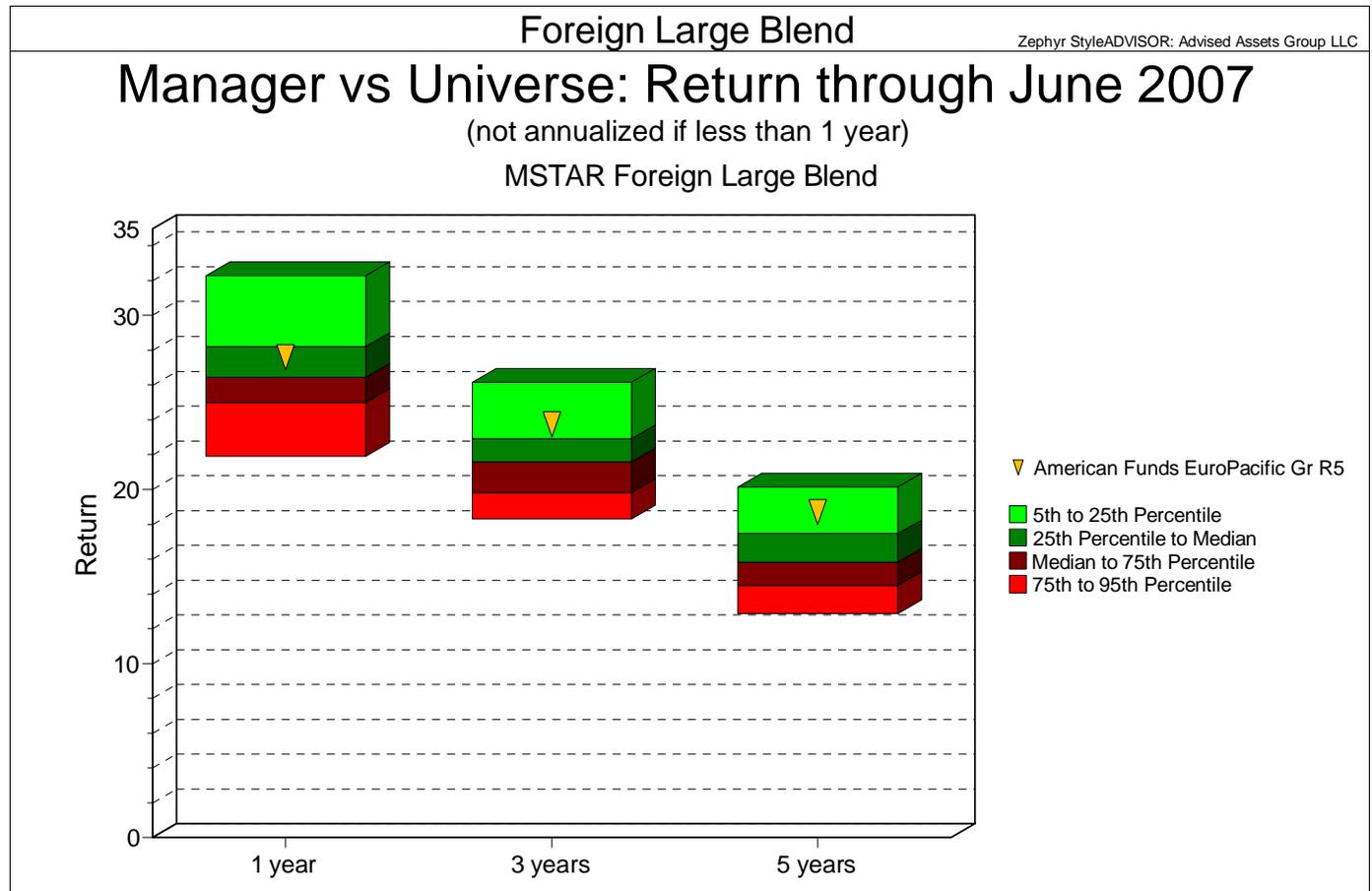
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Performance Benchmarking

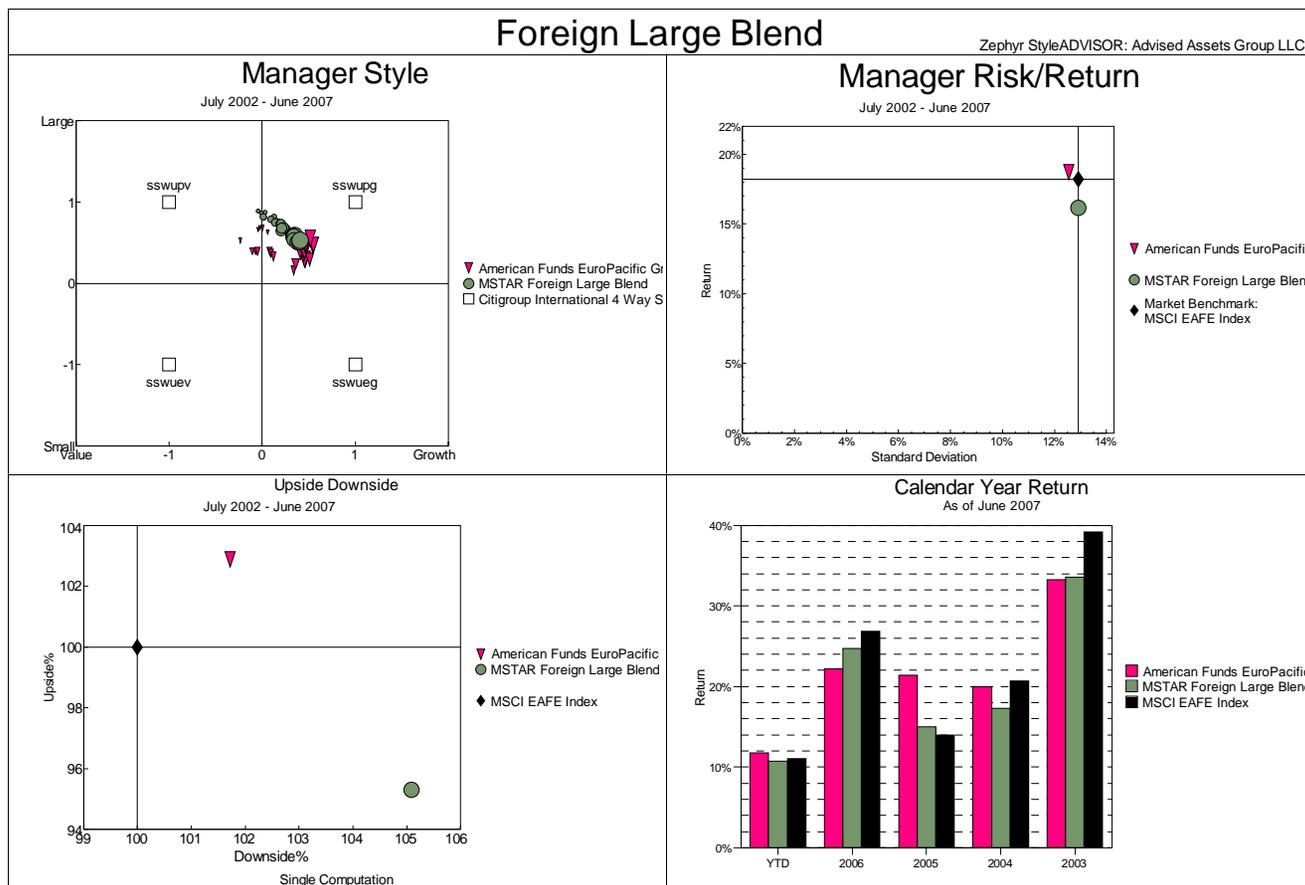
American Funds EuroPacific Growth Fund seeks long-term growth of capital. The fund normally invests at least 65% of assets in equity securities of issuers domiciled in Europe or the Pacific Basin. It may invest up to 20% of assets in securities issued in developing countries. Various factors will be considered when determining whether a country is part of Europe; a country will be considered part of the Pacific Basin if any of its borders touches the Pacific Basin. Note that the A shares are shown to the right for historical purposes. The plan uses the R5 Share class.

DATA SOURCE:
Morningstar
6/30/2007



	Tot Ret Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)
American Funds EuroPacific Gr R5	27.61	23.74	18.72	18	12	22.17	21.39	19.98	33.24	--
Cat: Foreign Large Blend	26.76	21.74	16.02	--	--	24.68	14.92	17.35	33.77	-16.89

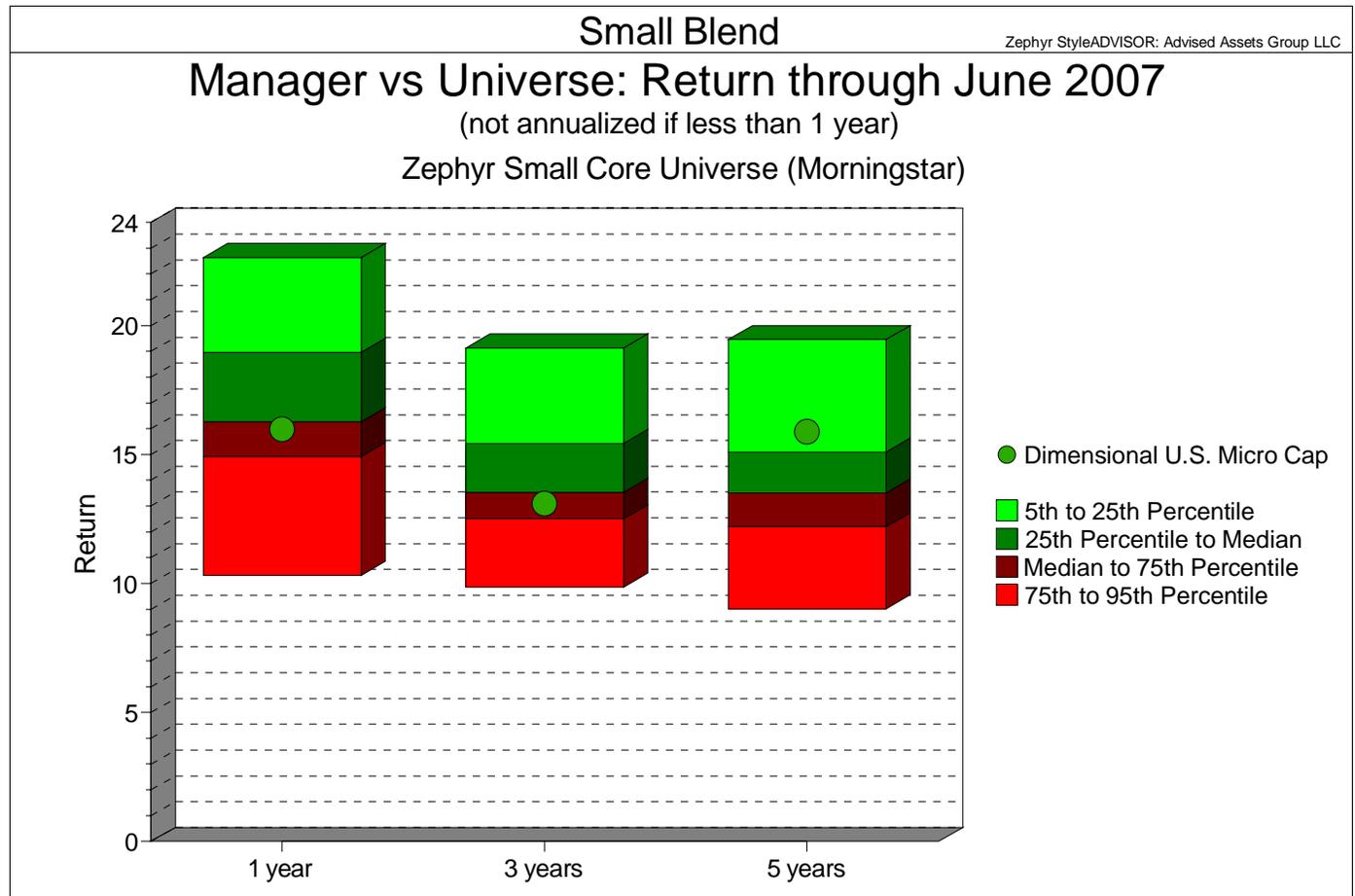
Risk Analysis



Name	Morningstar		Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets \$M	% Cash	% Assets			Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Rating Overall					in Top 10					
American Funds EuroPacific Gr R5	4	4	9.60	12.55	114,156.40	6.38	411	15.97	27.00	23	0.53	
Cat: Foreign Large Blend	3	3	10.02	13.27	3,873.59	4.31	271.9586	27.16	72.34	5	1.53	

Performance Benchmarking

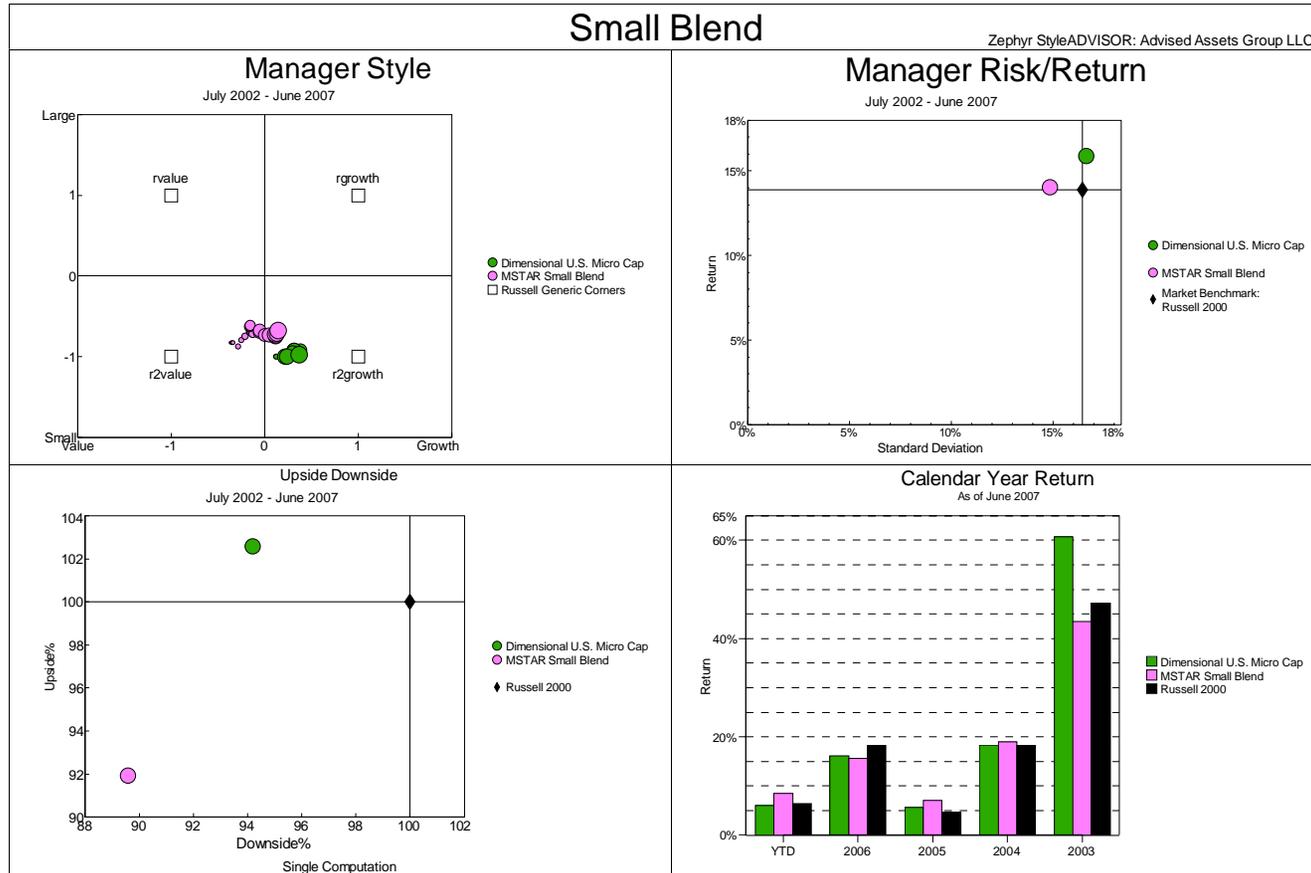
DFA U.S. Microcap seeks long-term capital appreciation. The fund invests in a diverse group of small companies with readily marketable securities. These companies may be traded on the NYSE, the AMEX, or over-the-counter market, but their market capitalizations must be comparable with those in the smallest quartile of the NYSE. The portfolio is re-balanced at least semiannually.



DATA SOURCE:
Morningstar
6/30/2007

	Tot Ret Tot Ret 1 Yr	Tot Ret Annld 3 Yr	Tot Ret Annld 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)
DFA U.S. Micro Cap	15.98	13.09	15.89	60	20	16.16	5.69	18.39	60.72	-13.27
Cat: Small Blend	17.02	14.19	13.86	--	--	15.44	7.03	18.99	43.62	-16.48

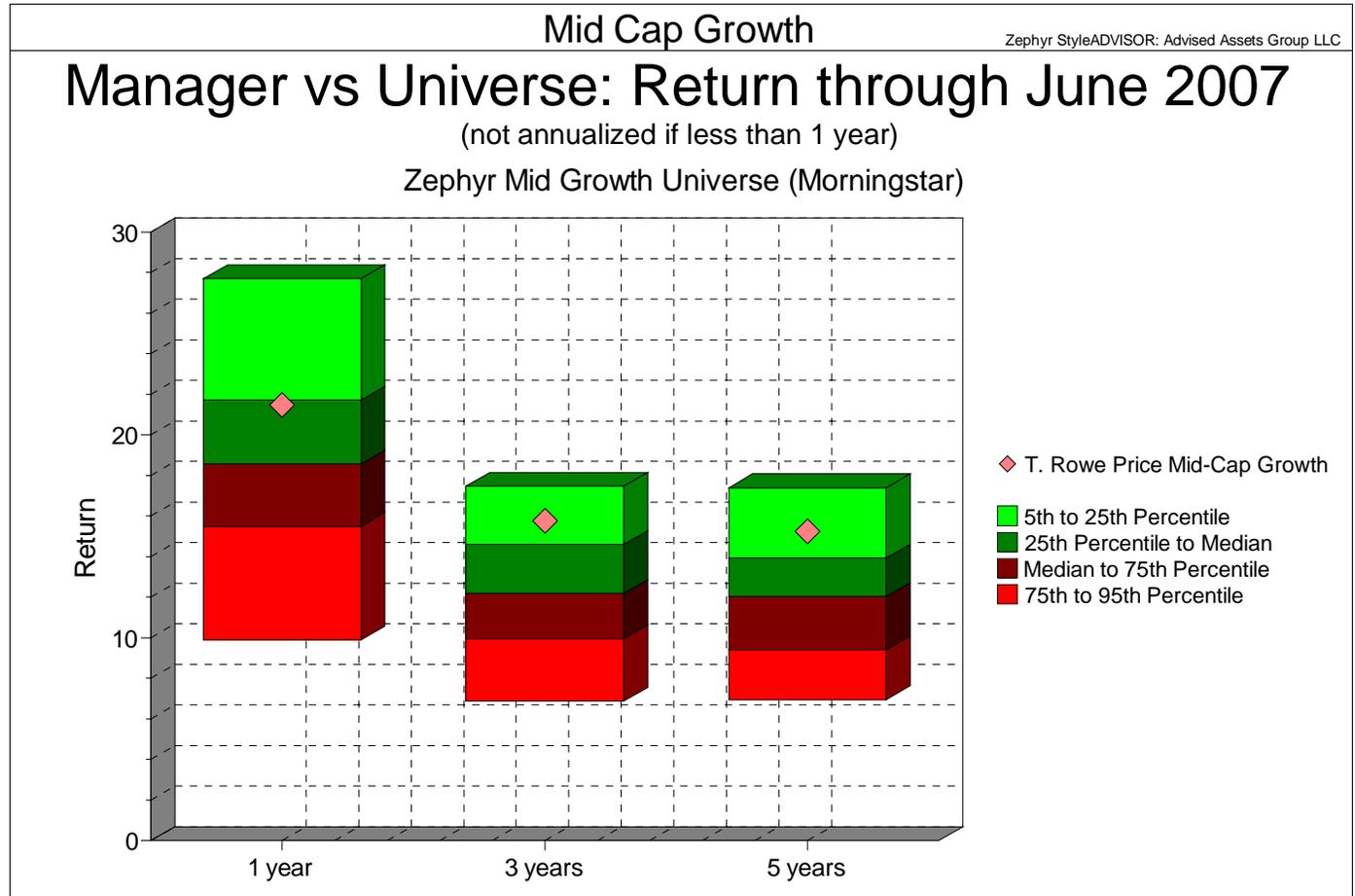
Risk Analysis



Name	Morningstar		% Assets							
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets \$M	% Cash	Total # of Holdings	in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
DFA U.S. Micro Cap	3	13.96	16.63	4,938.24	0.61	1	100	24.00	13	0.53
Cat: Small Blend	3	12.77	15.50	823.62	5.19	375.2553	20.86	86.40	6	1.44

Performance Benchmarking

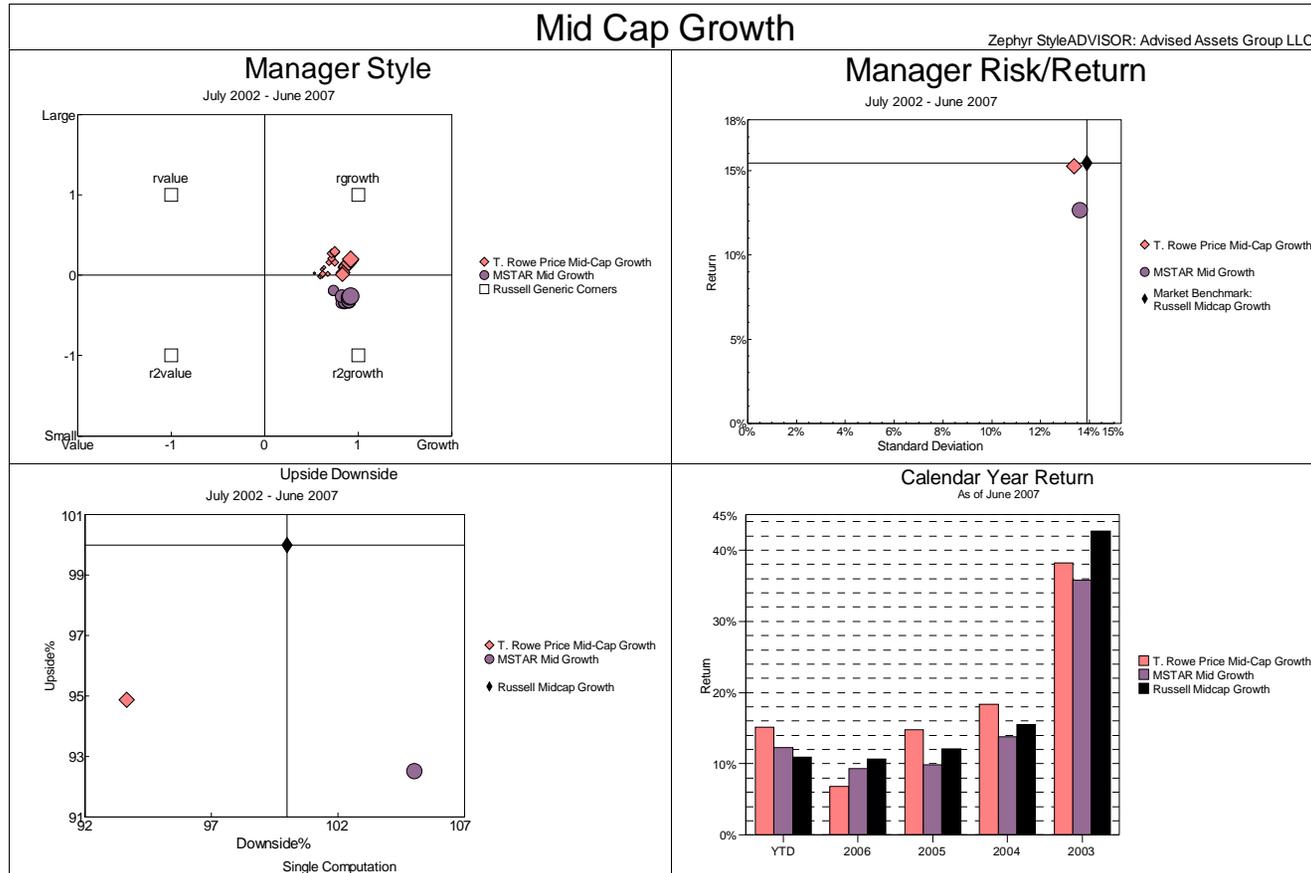
T. Rowe Price Mid Cap Growth Fund seeks long-term capital appreciation. The fund normally invests at least 80% of assets in mid-cap common stocks with above-average growth potential. The advisor seeks companies that offer proven products or services, have an above-average historical record of earnings growth, have the potential for sustaining growth, operate in industries experiencing increasing demand, or are reasonably valued.



DATA SOURCE:
Morningstar
6/30/2007

	Tot Ret Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)
T. Rowe Price Mid-Cap Growth	21.46	15.77	15.25	22	18	6.79	14.82	18.39	38.21	-21.22
Cat: Mid-Cap Growth	19.00	13.26	12.61	--	--	9.28	9.88	13.90	36.04	-25.44

Risk Analysis

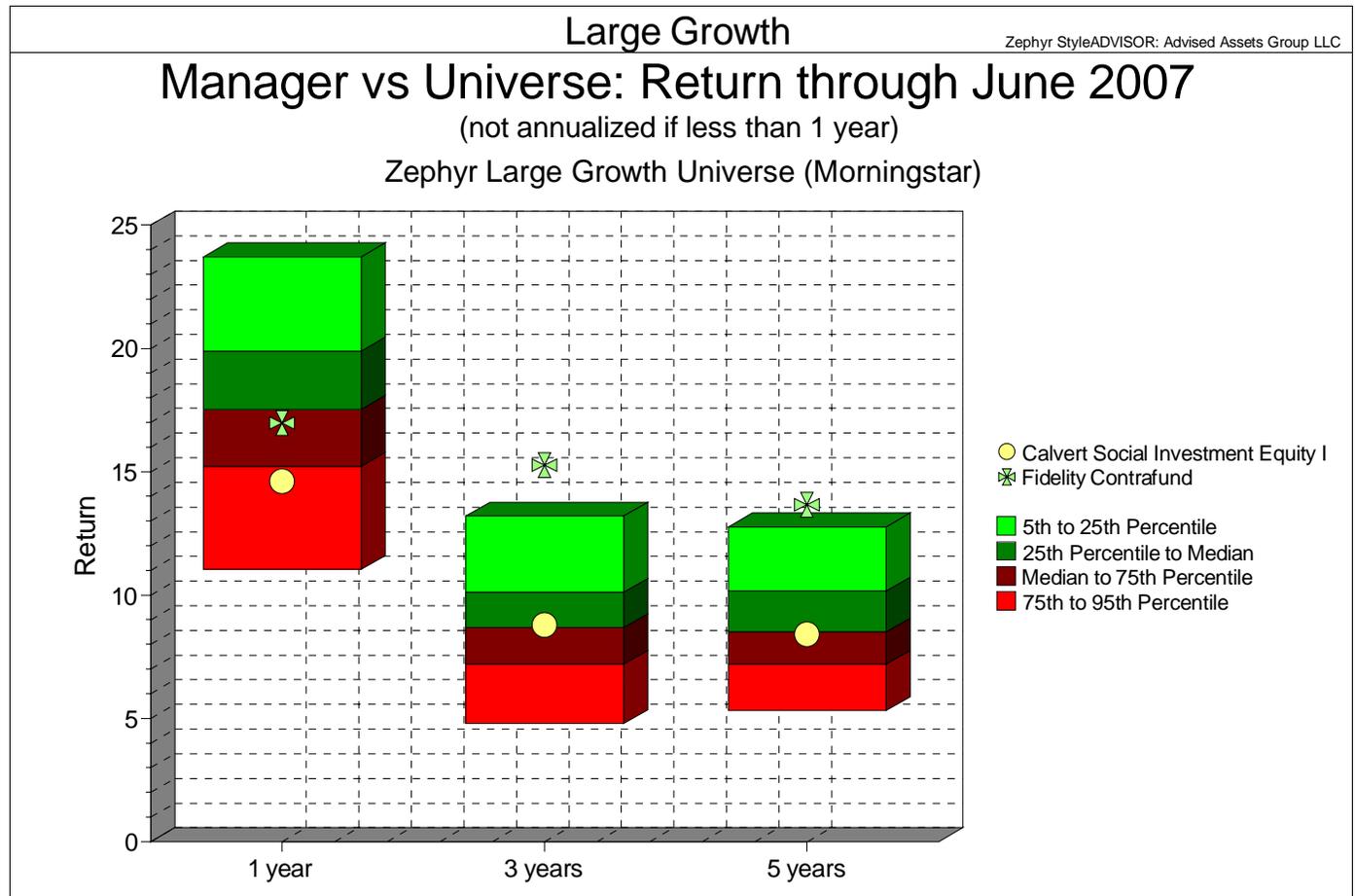


Name	Morningstar			% Assets						
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets \$M	% Cash	Total # of Holdings	in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
T. Rowe Price Mid-Cap Growth	4	10.81	13.38	17,200.81	5.86	153	19.63	34.00	15	0.80
Cat: Mid-Cap Growth	3	12.59	14.43	968.92	2.78	101.9981	27.35	117.36	5	1.52

Performance Benchmarking

Calvert Social Investment Fund seeks growth of capital. The fund invests with the philosophy that long-term rewards to investors come from those organizations whose products, services, and methods enhance the human condition and the traditional American values of individual initiative, equality of opportunity, and cooperative effort.

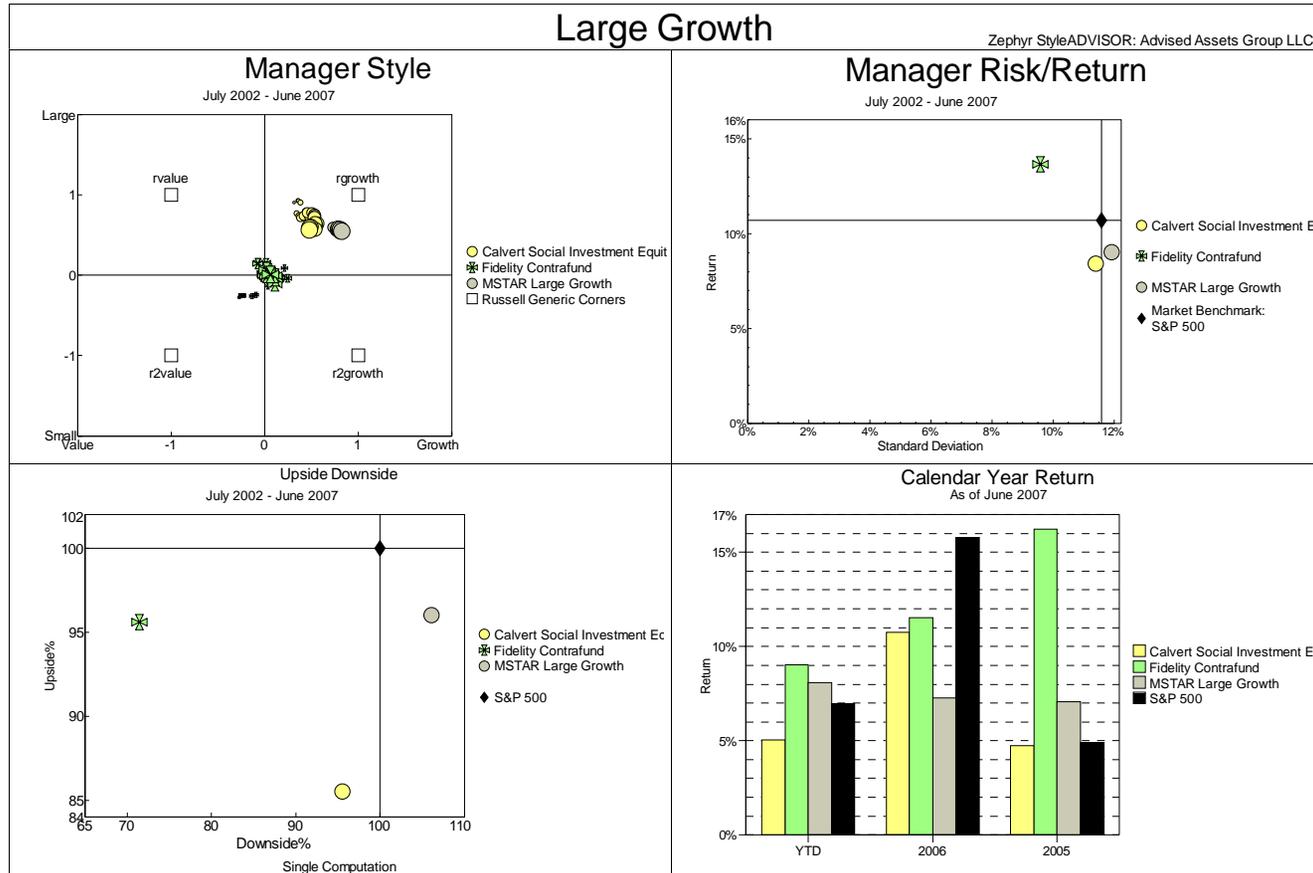
Fidelity Contrafund seeks capital appreciation. The fund invests primarily in the common stocks of companies believed to be undervalued. The types of companies in which the fund may invest include companies experiencing positive fundamental change such as new management team or product launch or companies that are undervalued in relation to securities of other companies in the same industry.



DATA SOURCE: Morningstar 6/30/2007

	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank 3 Yr	Tot Ret % Rank 5 Yr	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)
Calvert Social Investment Equity I	14.61	8.79	8.41	52	52	10.77	4.74	7.33	23.00	-14.52
Fidelity Contrafund	16.98	15.26	13.67	4	5	11.54	16.23	15.07	27.96	-9.63
Cat: Large Growth	17.17	9.27	8.96	--	--	7.25	7.01	8.36	29.32	-26.70

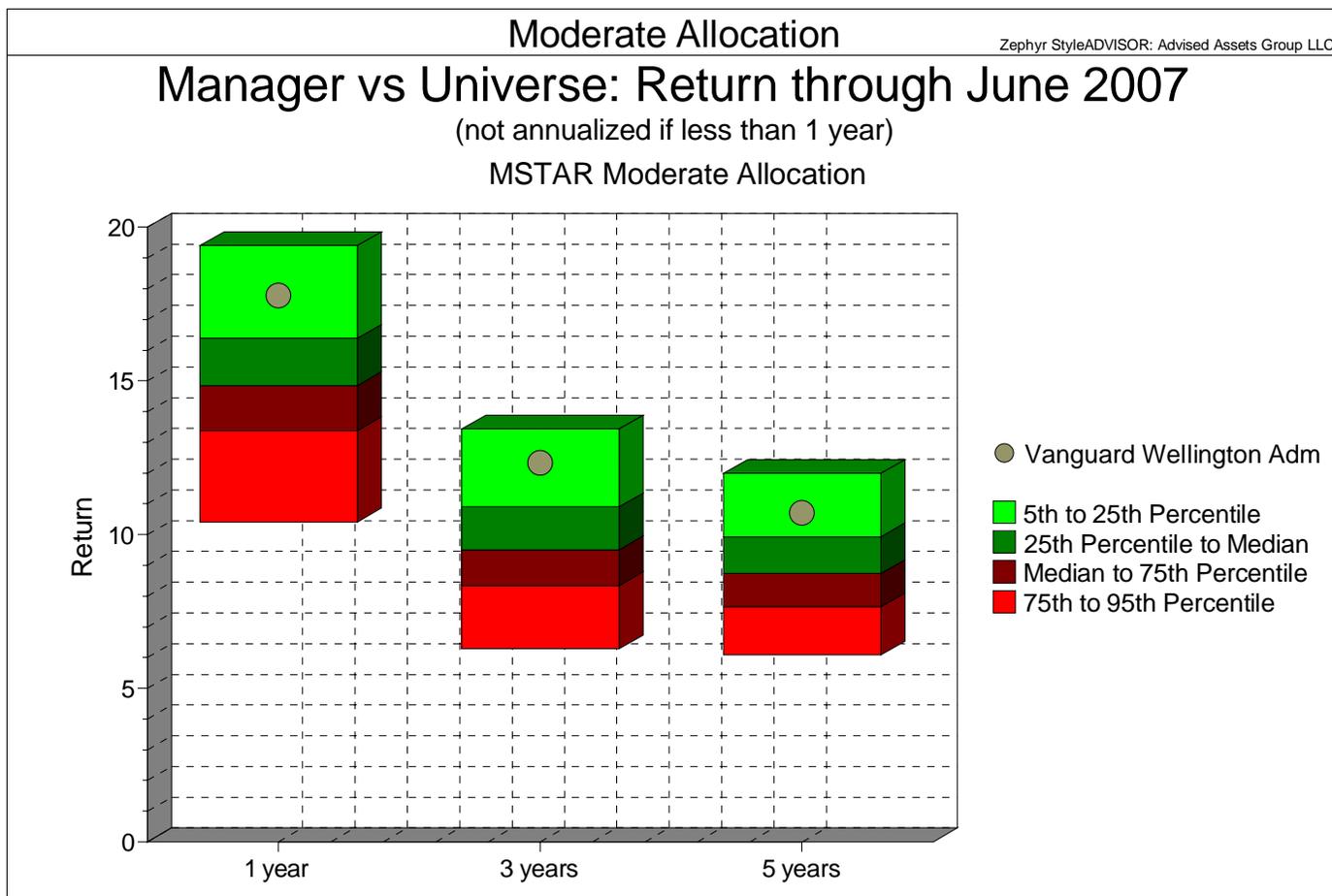
Risk Analysis



Name	Morningstar		%							
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets \$M	% Cash	Total # of Holdings	Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
Calvert Social Investment Equity I	3	7.50	11.40	1,304.57	0.08	69	31.32	35.00	9	0.68
Fidelity Contrafund	5	9.20	9.60	72,621.28	6.79	431	28.61	76.00	17	0.90
Cat: Large Growth	3	10.14	12.68	3,422.00	2.71	113.946	33.66	97.33	6	1.40

Performance Benchmarking

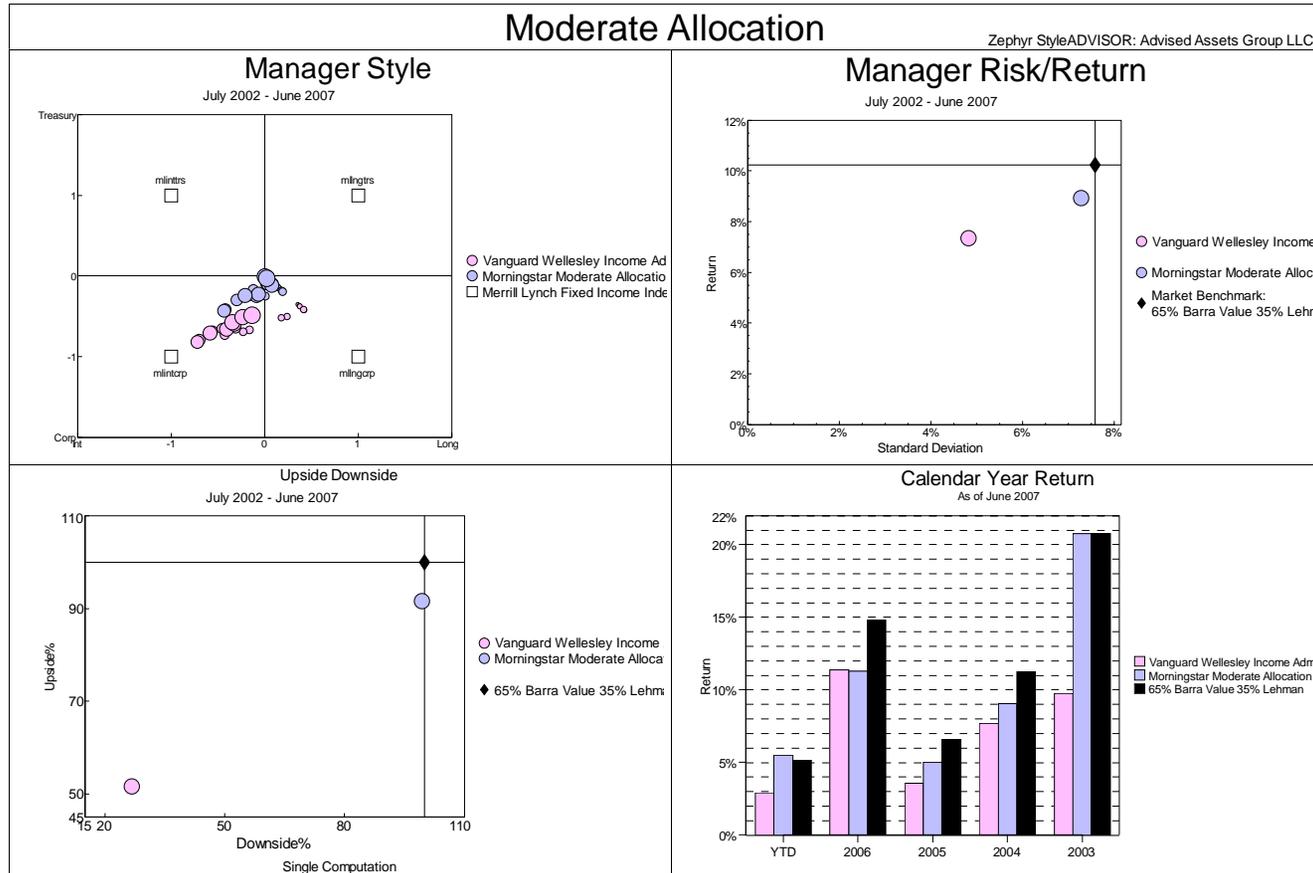
Vanguard Wellington seeks moderate long-term capital growth and current income. The fund invests at least 60-70% of assets in dividend-paying value stocks, and to a lesser extent, non-dividend paying stocks of established medium-size and large-size companies. It may also invest 30-40% of assets in the following securities: high quality intermediate, long-term corporate, and U.S. government bonds with an average maturity of 5 to 15 years.



DATA SOURCE:
Morningstar
6/30/2007

	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)
Vanguard Wellington Adm	17.78	12.33	10.71	10	15	15.07	6.99	11.34	20.90	-6.81
Cat: Moderate Allocation	14.94	9.61	8.93	--	--	11.32	4.96	9.06	20.93	-11.97

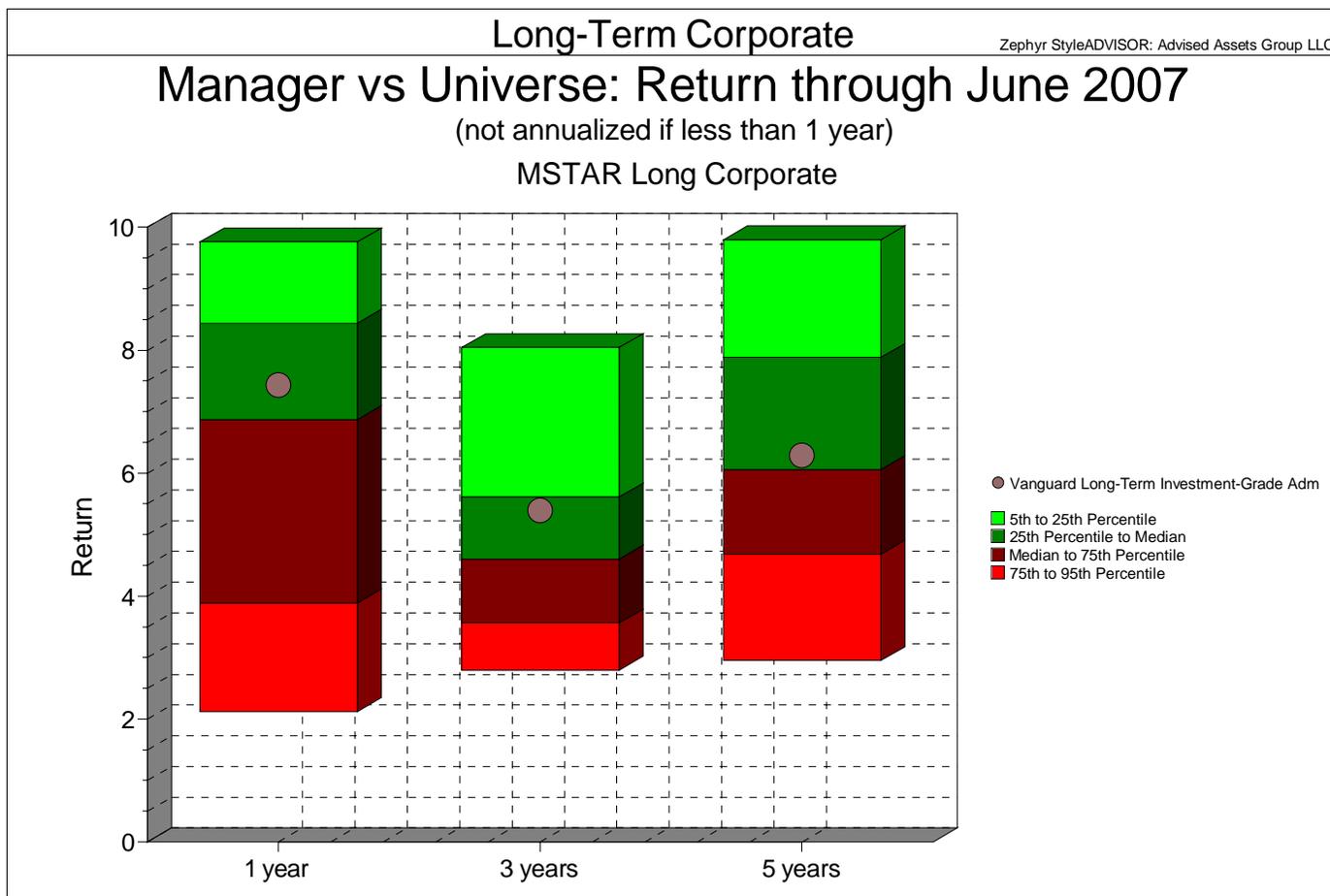
Risk Analysis



Name	Morningstar		Std Dev		Total Net Assets \$M	% Cash	Assets			Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total # of Holdings			% in Top 10	Turnover Ratio			
Vanguard Wellington Adm	4	4.85	7.67	48,598.77	3.37	2520	16.58	25.00	5	0.17	
Cat: Moderate Allocation	3	5.45	7.66	3,777.66	8.62	397.8826	50.70	66.21	6	1.40	

Performance Benchmarking

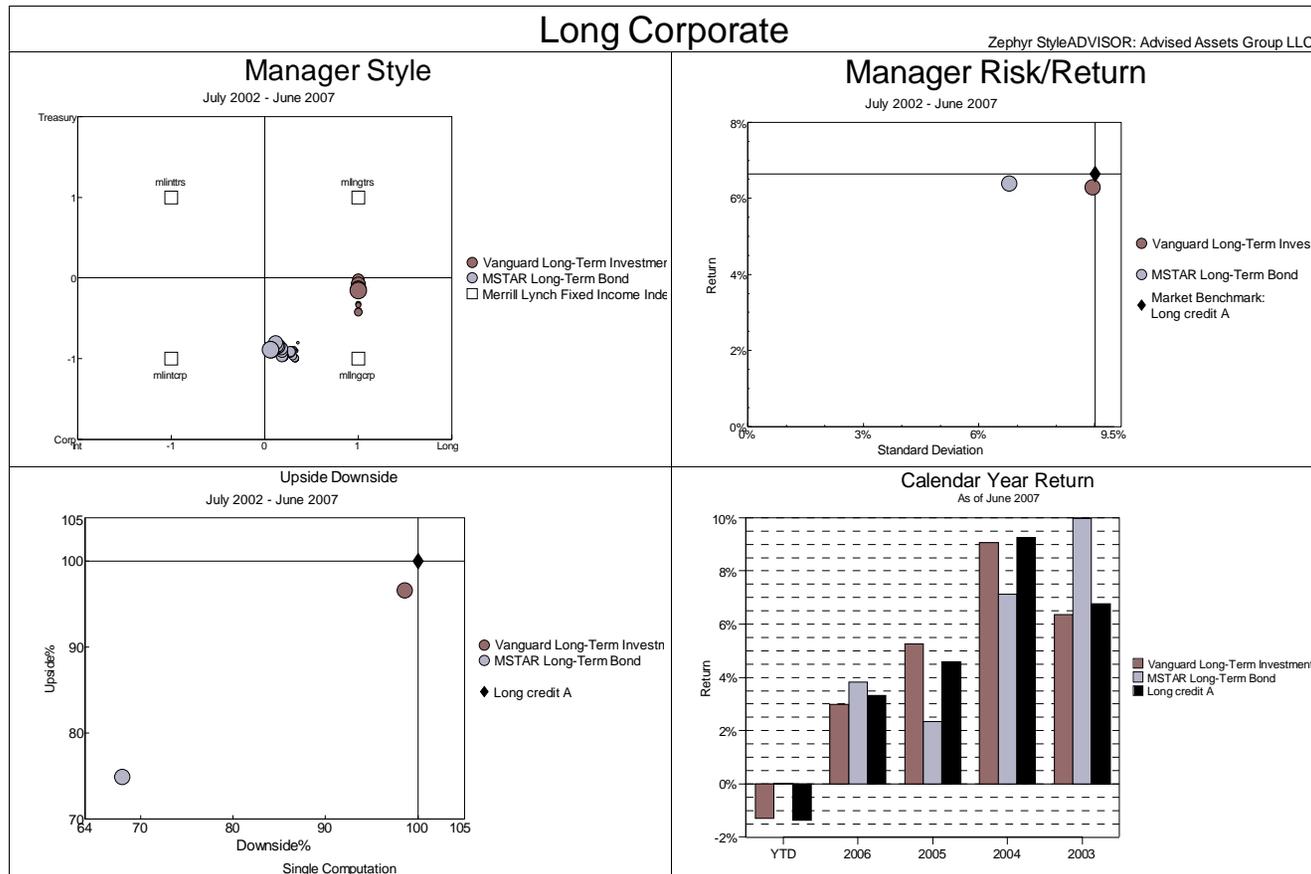
Vanguard Long-Term Investment-Grade Bond Fund seeks current income consistent with maintenance of principal and liquidity. The fund typically invests at least 80% of assets in high-quality corporate bonds; it invests at least 80% of assets in a combination of U.S. government securities and investment-grade corporate bonds. The average weighted maturity generally ranges from 15 to 25 years.



DATA SOURCE:
Morningstar
6/30/2007

	Tot Ret Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)
Vanguard Long-Term Investment-Grade Adm	7.43	5.39	6.28	28	65	2.99	5.27	9.06	6.36	13.32
Cat: Long-Term Bond	7.31	4.81	6.89	--	--	4.00	2.41	7.52	10.32	11.75

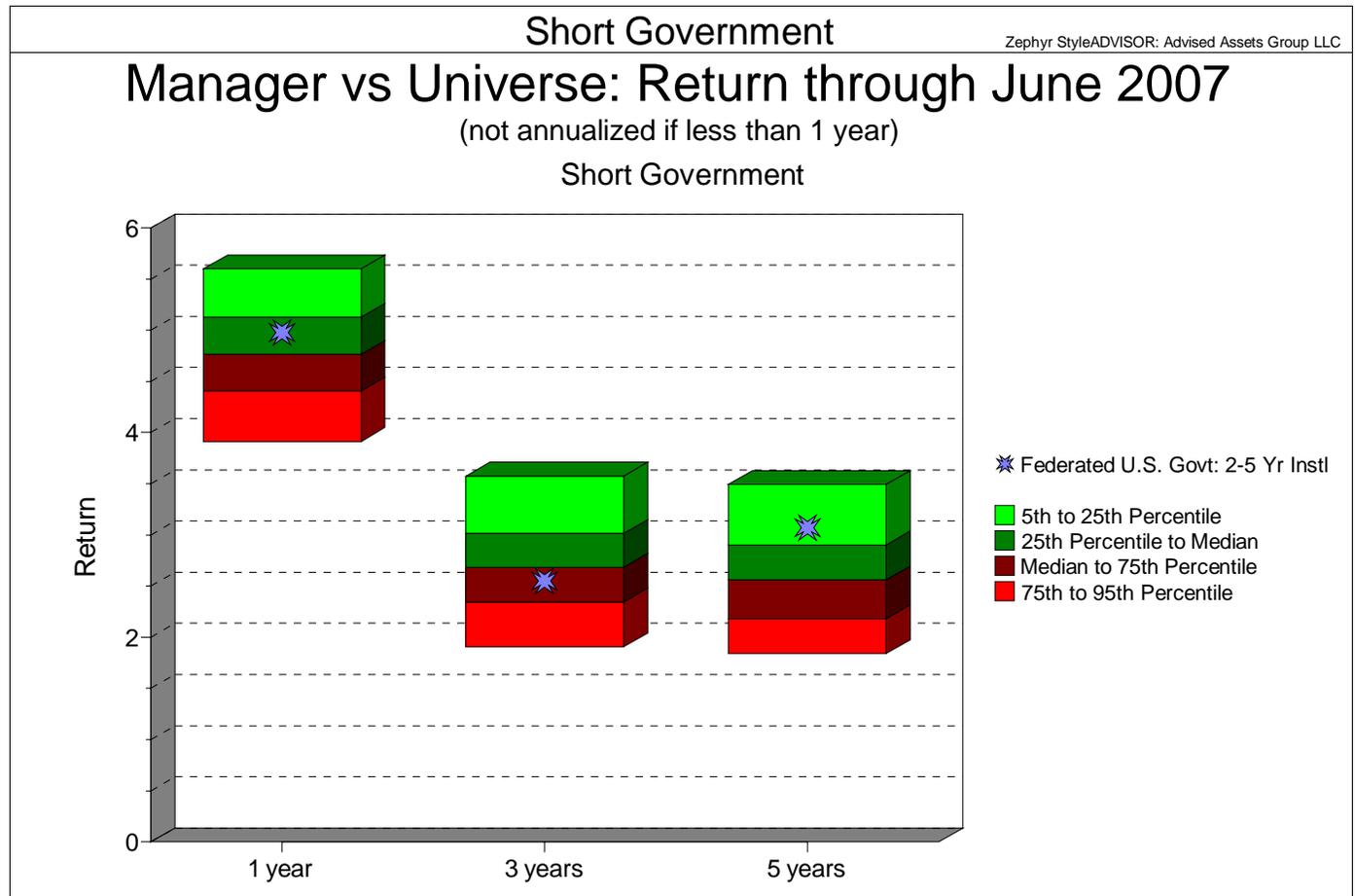
Risk Analysis



Name	Morningstar		%							
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets \$M	% Cash	Total # of Holdings	in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
Vanguard LT Investment-Grade Adm	3	7.26	8.94	5,832.04	0.36	249	15.30	15.00	13	0.12
Cat: Long-Term Bond	3	5.34	7.58	693.59	10.76	175.3953	49.68	158.60	3	0.86

Performance Benchmarking

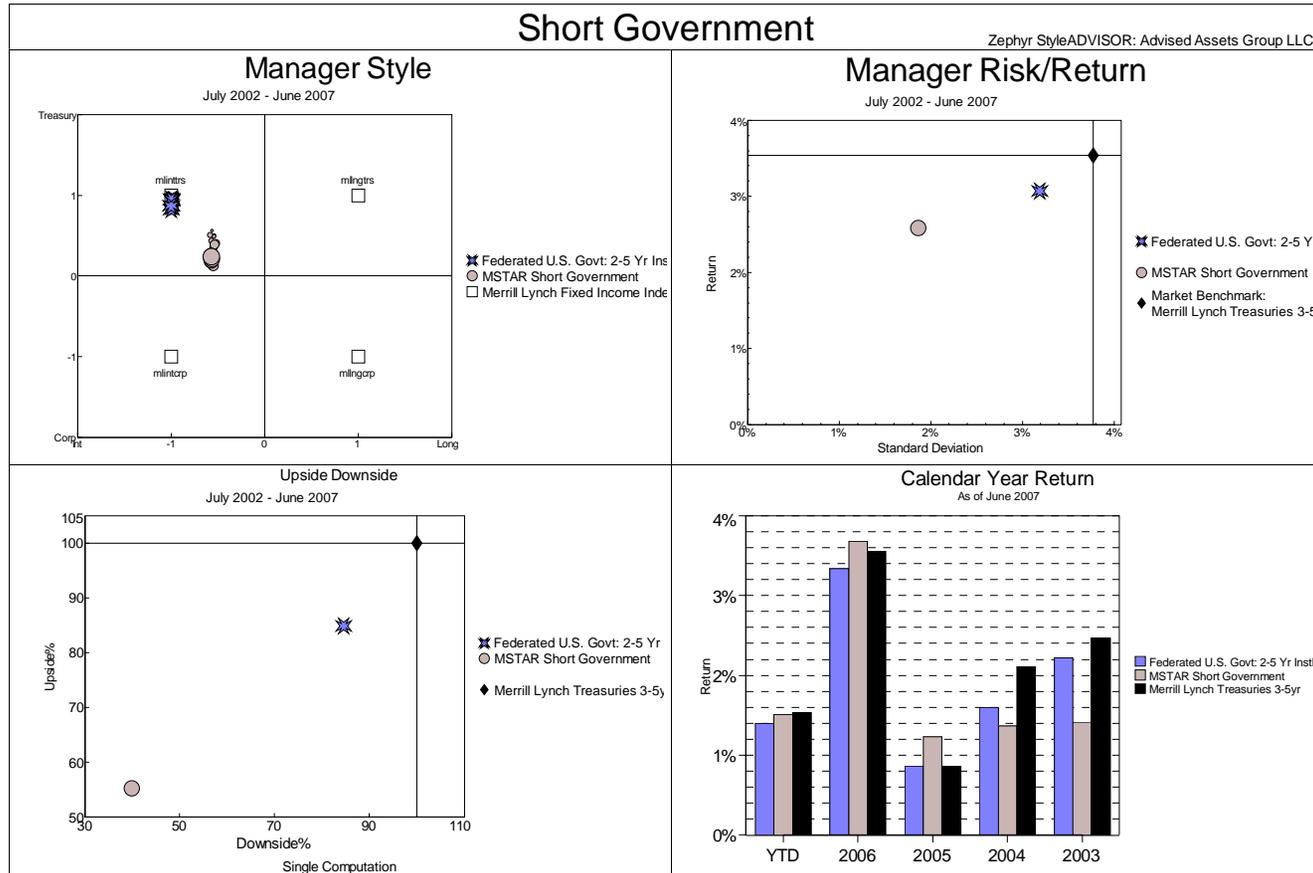
Federated U.S. Government Securities: 2-5 Year Trust seeks current income. The fund invests only in U.S. government securities with a dollar weighted duration between two and five years. It may enter into repurchase agreements.



DATA SOURCE: Morningstar 6/30/2007

	Tot Ret Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)
Federated U.S. Govt: 2-5 Yr Instl	4.98	2.55	3.07	59	16	3.34	0.87	1.60	2.22	9.92
Cat: Short Government	4.77	2.68	2.61	--	--	3.70	1.26	1.38	1.42	6.94

Risk Analysis



Name	Morningstar		Assets				Turnover Ratio	Mgr Tenure	Expense Ratio	
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets \$M	% Cash	Total # of Holdings in Top 10				
Federated U.S. Govt: 2-5 Yr Instl	4	2.33	3.19	631.64	4.36	23	61.43	128.00	2	0.60
Cat: Short Government	3	1.44	1.94	398.47	15.39	163.2961	57.49	163.94	7	0.94

Lifecycle Options



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Lifecycle Option Report Card

Name	Tot Ret		1 year	3 year	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	% Short Term	% US Stocks	% Non US Stocks	% Inv Grade Bond	% High Yield Bond
	3 Mo	6 Mo										
Vanguard Target Retirement 2015	3.86	5.70	16.25	9.65	11.42	4.94	9.04	0	52.3	13.1	34.6	0
Fidelity Freedom 2015	4.26	6.40	15.19	10.16	10.36	7.01	8.50	5.4	46.3	11.6	30.7	6
T. Rowe Price Retirement 2015	5.09	6.79	18.19	12.03	13.73	6.69		3.5	62	10.75	15.75	8
Composite Returns*			16.24	9.75	11.50							
Dow Jones Target 2015	2.08	4.06	11.40	9.53	9.49	5.54	12.25					
Vanguard Target Retirement 2025	4.89	6.83	18.75	11.05	13.25	5.45	10.11	0	64.7	16.2	19.1	0
Fidelity Freedom 2025	5.38	7.69	17.68	11.77	11.84	8.19	9.92	0	57.4	14.5	20.7	7.4
T. Rowe Price Retirement 2025	6.35	8.09	20.77	13.63	15.44	7.42		0	73.5	12.75	7.75	6
Composite Returns*			18.79	11.15	13.38							
Dow Jones Target 2025	4.29	6.89	16.96	13.59	13.76	9.04	14.93					
Vanguard Target Retirement 2035	5.66	7.64	20.42	12.61	15.24	6.30	11.95	0	71.8	18.1	10.1	0
Fidelity Freedom 2035	6.33	8.67	19.46	13.01	12.94	9.04	10.90	0	66.3	16.8	9.2	7.7
T. Rowe Price Retirement 2035	6.87	8.66	21.84	14.40	16.18	8.05		0	78.5	13.75	4	3.75
Composite Returns*			20.53	12.76	15.44							
Dow Jones Target 2035	5.72	8.69	20.55	16.03	16.25	11.10	16.48					
Vanguard Target Retirement 2045	5.69	7.68	20.39	13.28	15.98	6.95	12.89	0	71.8	18.1	10.1	0
Fidelity Freedom 2045	6.76	8.95	20.44					0	68.7	19.4	1.9	10
T. Rowe Price Retirement 2045	6.92	8.65	21.81		16.15			0	78.5	13.75	4	3.75
Composite Returns*			20.53	13.42	16.16							
Dow Jones Target 2045	6.00	9.04	21.22	16.40	16.64	11.36	16.62					
Vanguard Target Retirement Income	1.58	3.38	10.28	6.19	6.38	3.33	6.82	5	24	6	65	0
Fidelity Freedom Income	1.72	3.31	8.66	5.54	6.37	3.78	3.89	40	20	0	35	5
T. Rowe Price Retirement Income	2.76	4.31	12.37	8.33	9.98	4.87	7.66	30	35.75	6.5	20.75	7
Composite Returns*			10.32	6.28	6.47							
Dow Jones Target Today	0.74	2.27	6.64	5.76	6.52	2.64	6.20					

*Composite returns based on returns of passive benchmarks representative of the asset allocation of each fund. Benchmarks (per Vanguard) are the MSCI US Broad Market Index, Lehman Aggregate, Lehman US Treasury TIPS, 3 Month T-bill MSCI EAFE Index, and MSCI Emerging Markets Index

Lifecycle Option Observations

- Vanguard Target Retirement Funds are in line their composite indices over the 1 and 3 year time periods.
- Vanguard Target Retirement Funds are mixed versus the Dow Jones Indices over the 1 and 3 year periods.
- Compared to its competition, Vanguard Target Retirement Funds are in the middle of the pack over 1 year, but trail Fidelity and T. Rowe over 3 years.
- Vanguard's target allocations give them equity exposure that is in-line with their competitors, and international exposure that is greater than most of their competitors.

Economic Overview



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Global Economy

The overriding theme in developed – as well as most developing – economies is continuing economic growth. After growing in aggregate just over 5% in 2006, worldwide economic growth is expected to slow only slightly over the next two years, edging down toward 4.7% in 2007 and perhaps 4.5% in 2008. The developed nations (U.S., UK, Europe and Japan) are expected to grow just slightly below trend, around 2.3%, while the Far East markets, along with Mexico and Brazil, are continuing to exhibit good growth in company profits. Aggregate growth expectations in these markets range generally from 6.0% - 6.5%.

The sustainability of this growth cycle points to something that has developed into a strong positive for the global economy as a whole; i.e., growth is no longer entirely dependent on the strength of the U.S. economy. In evidence of this, while the U.S. economy slowed markedly in Q4 '06 and Q1 '07, Europe, Japan and the UK continued to accelerate. In the past, because of the “engine” function performed by the U.S., slowing here generally meant slowing for our major trading partners. With the explosive growth in China, however, demand for raw materials from emerging markets and engineering and construction machinery from developed countries is enabling the U.S. to absorb the excesses of the subprime market without unduly impacting other economies.

Looking out over the next few quarters, evidence continues to point to reasonable acceleration in the U.S. economy while the UK, Japan and Europe will most likely experience some moderation. This is in line with interest rate forecasts for each respective economy; the U.S. was the first to raise rates closer to long-term nominal levels, and has held at 5.25% since June of 2006. Both the UK and the Eurozone countries have more recently been raising rates, as has Canada, so economists expect to see some moderation in GDP as a result. The interest rate rise around the world during the second quarter began a process most economists are terming “renormalization.” Since 2001, global rates have been fairly low by historic standards, contributing to the extremely high levels of liquidity available, which, in turn, has served to fuel high rates of growth in developed and developing countries alike. In developing markets, investment has been made in infrastructure, from roads to telecommunications to factories. This investment will provide long-run benefits for these economies going forward. In developed markets, the so-called “wall of money” generated by historically low rates has been used to fund share buy-backs, public mergers and private equity deals. It also contributed in no small part to the excesses in the U.S. mortgage market. Looking to coming quarters, in addition to helping to quell cyclical inflationary tendencies, “renormalization” should provide a dampening effect on further market excesses.

In general, the global economy remains strong. Some slowing is likely to occur, but analysts characterize this as a mid-cycle pause as monetary accommodation is withdrawn, rather than as a downturn. Inflation remains largely under control at this stage, so central banks are unlikely to have to move to a fully restrictive stance. The caveat, of course, is that rising energy prices will continue to pose some risks to economies and sectors across the board and, in turn, could impact growth and inflation forecasts.

U. S. Economy

Following two quarters of deteriorating GDP growth, the U.S. economy showed marked improvement in the second quarter of 2007. The corporate sector was the primary driver; U.S. companies are flush with cash and the beneficiaries of strong global growth and a weaker U.S. dollar. In particular, manufacturing is continuing to strengthen, led by engineering and construction equipment, which reflects the ongoing levels of infrastructure development in Asia and, to a lesser degree, some of the Latin American economies. The technology hardware industry also contributed strongly to U.S. GDP performance, benefiting from new product launches and increasing corporate spending on technology.

The labor market remains relatively healthy; although slowing to a degree, job growth is continuing at a reasonable pace. Formerly an area of concern to the Federal Reserve, which was worried about wage inflation, a broader look at employment participation rates indicates that there remains plenty of slack in the market as a whole. Some slowing is expected through the third quarter of 2007. Housing remains the most significant drag on the domestic economy, where the long-expected spillover into consumer spending is now evident. Subprime loans are still working their way through the system, with mortgage resets remaining at high levels through October of 2008. Analysts expect foreclosure rates to continue at an above-average level through this period before beginning a welcome decline in the final quarter of next year. In all, analysts expect U.S. home sales to decline to their lowest level since the start of the five-year housing boom in 2001. Residential lending, reflecting both tightened lending standards and the business failure of a number of subprime specialty lenders, is expected to drop to the lowest level seen since 2002, and perhaps even lower. The supply of available homes, measured in the time it would take to sell all of them, is more than 8 months. According to the National Association of Realtors, inventories are at their highest level since 1992.

Pressure on home prices is effectively combining with stubbornly higher prices in both food and energy to put pressure on the U.S. consumer. Retail sales posted a tepid rise during the quarter, and sales are rising at their slowest pace in more than four years. The Consumer Confidence Index fell more than five points, surprising analysts.

The consumer sector, of course, comprises slightly more than two-thirds of the U.S. economy, so economists monitor it closely. While the sector's current weakness is cause for some short-term concern in certain economic sectors, the macroeconomic implications are more positive, as they help reduce overall inflationary tendencies. Indeed, the housing affordability index is improving, which, as long as mortgage rates remain neutral, will ultimately have the effect of bringing new buyers into the market.

The decidedly "mixed bag" on the inflation front – rising energy prices, which ultimately translate to price pressures in nearly every sector of the economy, falling housing prices, and stable labor prices – indicate that the Federal Reserve is likely to hold steady on the Fed Funds rate at 5.25% for perhaps the rest of 2007. Indeed, the Fed's ability to effectively maneuver is hampered somewhat by the continued decline in the dollar; a weak dollar makes imports more expensive, thus increasing domestic inflation.

U.S. Markets

All stock market sectors in the U.S. grew in the second quarter, responding to increasing evidence that the U.S. economy is beginning to reaccelerate. Two developments in particular can claim noteworthy status: growth stocks, at long last, have begun to handily outperform their value brethren. Second, equities in general are coping very well with the rapid rise in government bond yields around the globe. Both trends serve to underscore analysts' assertions that general market valuations remain favorable, and that this bull market, while aging, is not yet over.

In all, the second quarter saw some distinctive shifts in both stock and bond markets. The bond market finally moved away from a flat yield curve as long bonds rapidly repriced and interest rates around the world began to move to higher levels. As the stock market digested the long-term implications of this development, volatility increased. While investors cheered strong earnings and ongoing merger and acquisition activity, they nonetheless appeared to be turning a bit more risk averse as the fallout from the subprime market spread, as expected, beyond the housing market.

Most analysts characterize the present market as the beginning of the third phase of the bull market. Investors will become more defensive, shifting their attention to larger, well-known companies with a history of paying dividends. A recent survey of stock analysts shows that the best value in the market is, indeed, mega-cap names, which underscores a likely market move into the next phase. It should be noted that global forces are playing a more prominent role in recent years, and that any number of sectors are likely to respond more to global trends than they have in the past.

Sectors

Energy was the strongest performing market sector as petroleum prices continued to rise. Reflecting the demands both of that industry and infrastructure development in the developing world, engineering and construction goods and services and oil and gas services were also strong gainers.

Financials recovered to a small degree, following a very difficult first quarter coping with the fallout from companies in the subprime industry. Mergers and acquisition activity was a bright spot in an industry otherwise highly sensitive to the rising interest rate environment. Utility stocks, star performers last quarter, are frequently held in portfolios as bond substitutes. As such, they are also reacting to interest rate changes.

Index and Sector Performance

Index	Asset Class	Q2 2007	YTD
Russell 1000 Growth Index	Large Cap Growth	6.86	8.13
Russell 1000 Value Index	Large Cap Value	4.93	6.23
Russell Mid Cap Growth Index	Mid Cap Growth	6.74	10.97
Russell Mid Cap Value Index	Mid Cap Value	3.65	8.69
Russell 2000 Growth Index	Small Cap Growth	6.69	9.33
Russell 2000 Value Index	Small Cap Value	2.30	3.80

Sector Name	Q2 2007	YTD
Energy	15.1	17.6
Materials	7.7	17.4
Industrials	10.4	7.6
Consumer Disc	3.3	3.9
Consumer Staples	3.2	5.0
Healthcare	5.0	5.9
Financials	2.1	-0.8
Information Technology	10.4	9.5
Telecomm Services	7.5	12.2
Utilities	0.1	8.4
Transportation	6.5	7.3

International Markets

The consumer area remains a question mark until the full extent of the subprime fallout is known. Consumers are showing signs of caution, and spending has slowed. The market as a whole remains cautious toward this, as well. The growth of financial derivatives in the past several years means there are increasingly complex links between various market instruments; it is difficult to either forecast or fully account for the risks this aberration has placed in the market. Subprime remains the fly in the ointment.

Strong global economic growth continues to raise all boats, with emerging equity markets maintaining a blistering pace. The building of infrastructure in the developing world benefits not only exporters of natural resources, but providers of everything from capital equipment to sophisticated engineering services, as well. Unlike the false demand created in the U.S mortgage market by subprime operators, the pent up demand from the 3.5 billion people in the formerly planned economies of the Communist world is very real. Still, while the underlying story driving emerging markets remains intact, the equity markets themselves look increasingly vulnerable to correction in the near term.

Regions

The story in Europe is restructuring, and the growth potential there remains quite strong. In the Euro zone itself, a very strong currency and rising interest rates are helping to hold down inflationary tendencies. Eastern European markets are living up to the forecasts of the early 1990s, leveraging a highly-educated workforce into a capitalist structure. Forecasts for European markets are good, reflecting the same sort of late-stage bull market characteristics as the U.S. In Japan, the world's second-largest economy, above-trend GDP growth over the last three years has produced only so-so market returns to date. However, many analysts expect a number of sectors to begin to reflect the high levels of capital spending lavished on Japan's large corporations. The overriding issue remains deflation, which Japan has been battling on and off for the better part of two decades. Interest rates are stuck at 0.50%, and the Yen remains very low. While this has helped to boost exports, Japan is highly vulnerable to a slowing U.S. consumer sector. Still, valuations here are very attractive.

International Market Performance

	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
MSCI EAFE	9.47%	24.42%	23.49%	20.34%	7.70%
Emerging Markets	24.02%	50.92%	41.93%	34.13%	9.81%
S&P 500	3.64%	16.13%	11.76%	11.81%	5.98%

Country/Region	YTD	1 Year	3 Years	5 Years
United Kingdom	8.06%	21.47%	21.02%	18.21%
Germany	20.20%	44.63%	30.85%	24.17%
France	9.64%	26.33%	24.90%	21.38%
Japan	2.73%	7.74%	15.15%	14.09%
Eastern Europe	7.10%	22.35%	44.89%	42.05%
Latin America	28.93%	60.22%	56.09%	48.66%
Far East	28.69%	57.63%	38.01%	26.45%

Like Eastern Europe, the Latin American region has provided investors with outstanding returns over the past five years. To some degree, this is a function of the worldwide demand for natural resources that Latin America has in such abundance. Long-term investors, however, note the infrastructure development and economic liberalization that continues in much of Latin America. This region is very much a part of the global economic renaissance that is transforming so many countries.

Finally, Asia, led by China and India, continue to reform their economies and put their populations to work. Rural-to-urban migration continues; the large pool of excess laborers suppresses wage growth around the world to a degree, but it also is raising the demand for goods and services across the board. Infrastructure development remains robust, but rising interest rates and increased attention to risk on the part of institutional investors are combining to slow the tempo to a small degree. Overcapacity has developed in some areas of manufacturing, which will also serve to constrain the pace in the near term.

Outlook

Global equity markets, including in the U.S., should continue to perform well for the investor who takes a longer-term view. Economic fundamentals are positive and valuations generally favorable. The high savings rates in the developing world, as well as the petro dollars being generated by the petroleum-producing economies, remain a catalyst even as higher interest rates reduce a different sort of liquidity.

The recognition of risk has increased, however; investors are no longer willing to give riskier asset classes a free ride, and the renewed vigilance is being felt in the increased levels of volatility the markets have been experiencing. Uncertainties surrounding the U.S. subprime market and the effects of higher interest rates around the world are likely to keep the markets from finding new comfort levels for some time.

Amer Funds EuroPac A

Analyst Pick: Ticker: AEPGX Load: 5.75% NAV: \$51.74 Yield: 1.4% Total Assets: \$114,156 mil Mstar Category: Foreign Large Blend

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

Like all American Funds, this offering boasts many experienced managers, most of whom have been with the company for more than a decade. Each manager runs his or her portion of assets independently of the others. A portion of the portfolio (less than 25% of assets) is run by the firm's analyst staff.

Strategy

The fund divides assets among several portfolio counselors (managers) whose investment philosophies vary from growth-focused to value-oriented. In the aggregate, the fund's portfolio is well diversified across countries and sectors, and its price multiples usually stay close to the category norms. Several of the managers like to pick up stocks on the cheap and then hold them for the long haul. The fund's turnover is quite low.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-9.66	17.98	9.27	14.13	32.91
2004	6.79	-1.83	0.47	13.63	19.69
2005	0.00	0.79	12.25	7.06	21.12
2006	7.54	-0.68	4.99	8.67	21.87
2007	2.92	8.43	—	—	—

Trailing	Total Return%	+/- MSCI EAFE	+/- MSCI Wd xUS	%Rank Cat	Growth of \$10,000
3 Mo	3.73	3.35	2.82	11	10,373
6 Mo	10.27	1.89	1.20	11	11,027
1 Yr	25.31	1.40	1.14	27	12,531
3 Yr Avg	24.54	1.55	1.14	18	19,316
5 Yr Avg	20.66	0.81	0.35	13	25,575
10 Yr Avg	10.50	3.17	2.88	4	27,141
15 Yr Avg	12.50	3.06	2.86	6	58,518

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	20.82	51	1.06	54
5 Yr (estimated)	18.30	28	0.79	63
10 Yr (estimated)	8.64	7	1.10	59

Potential Capital Gain Exposure: 37% of assets

Morningstar's Take by Kai Wiecking 05-22-07

American Funds EuroPacific Growth may not be what it once was, but it remains a solid choice.

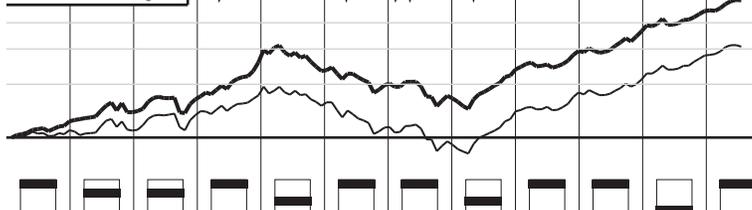
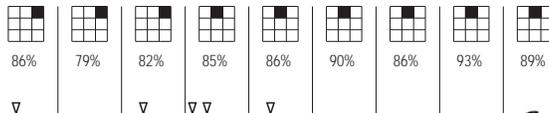
Following five consecutive calendar years of beating its typical rival in the foreign large-blend category, this \$109 billion behemoth of a mutual fund finished 2006 behind 82% of its peers. Thus far in 2007, the fund's performance is broadly in line with the group average, after recovering from a rough patch during the late February correction.

We're not saying by any means that this slowdown means this fund is doomed to a future of mediocrity. But it certainly shows that it's increasingly hard for such a large fund to distinguish itself from the pack.

It's not so much that the portfolio increasingly resembles the benchmark, as happens so often at other shops when assets soar. The eight experienced portfolio managers are all true bottom-up stock-pickers who don't care much which country or sector a stock resides in if they like it. But as the portfolio has grown to include 294 distinct holdings, it becomes harder to make a

Historical Profile

Return: Above Avg
Risk: Below Avg
Rating: ★★★★★ Above Avg



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07
NAV	26.04	26.02	28.40	42.66	31.35	26.87	22.97	30.21	35.63	41.10	46.56	51.74
Total Return %	18.64	9.19	15.54	56.97	-17.84	-12.17	-13.61	32.91	19.69	21.12	21.87	11.13
+/-MSCI EAFE	12.59	7.41	-4.39	29.94	-3.67	9.27	2.33	-5.68	-0.56	7.58	-4.47	2.02
+/-MSCI Wd xUS	11.77	6.92	-3.15	28.99	-4.49	9.23	2.19	-6.51	-0.69	6.65	-3.84	1.40
Income Return %	1.90	1.78	1.40	1.03	0.50	2.09	0.90	1.35	1.68	2.02	1.88	0.00
Capital Return %	16.74	7.41	14.14	55.94	-18.34	-14.26	-14.51	31.56	18.01	19.10	19.99	11.13
Total Rtn % Rank Cat	14	36	42	12	65	5	21	51	20	7	81	16
Income \$	0.43	0.45	0.36	0.29	0.19	0.66	0.24	0.31	0.51	0.72	0.77	0.00
Capital Gains \$	0.89	1.93	1.26	1.39	3.74	0.00	0.00	0.00	0.00	1.32	2.71	0.00
Expense Ratio %	0.95	0.90	0.86	0.84	0.84	0.88	0.88	0.90	0.87	0.82	0.76	0.75
Income Ratio %	2.09	1.77	1.64	1.45	0.93	1.89	1.21	1.06	1.08	1.31	1.58	1.54
Turnover Rate %	22	26	31	32	29	37	27	29	25	30	35	27
Net Assets \$mil	15,727	18,854	20,798	34,783	31,496	27,153	22,601	29,908	36,920	45,485	56,109	60,838

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	18.10			
3 Yr	22.11	Avg	Avg	★★★★
5 Yr	19.24	+Avg	-Avg	★★★★★
10 Yr	9.85	High	-Avg	★★★★★
Incept	13.95			

Other Measures

	Standard Index MSCI EAFE	Best Fit Index MSCI Wd xUS
Alpha	1.9	1.8
Beta	0.96	0.95
R-Squared	89	90
Standard Deviation	9.24	
Mean	24.54	
Sharpe Ratio	2.00	

Portfolio Analysis 06-30-07

Share change since 03-07	Total Stocks:284	Sector	Country	% Assets
+		Roche Holding Ltd	Health Switzerland	2.99
		Bayer	Ind Mtrls Germany	2.23
+		America Mobile ADR	Telecom Mexico	1.91
+		Banco Santander Central	Financial Spain	1.66
		Novo-Nordisk A S	Health Denmark	1.63
		Kookmin Bank	Financial Korea	1.41
+		Hon Hai Precision Indust	Hardware Taiwan	1.39
+		AXA	Financial France	1.24
+		Samsung Electronics	Goods Korea	1.23
-		Nestle	Goods Switzerland	1.17
+		Nokia	Hardware Finland	1.04
+		Vodafone Grp	Telecom U.K.	1.04
+		Petroleo Brasileiro S.A.	Energy Brazil	0.93
+		Siemens	Hardware Germany	0.88
		Continental	Ind Mtrls Germany	0.87
+		Linde	Ind Mtrls Germany	0.85
		Koninklijke KPN	Telecom Netherlands	0.81
+		Renault	Goods France	0.80
		Vivendi	Media France	0.77
		SK	Energy Korea	0.77

Current Investment Style

Value	Blnd	Growth	Market Cap %	Sector Weightings	% of Rel MSCI Stocks	3 Year EAFE High Low
			Giant 62.3	Info	21.27	1.76
			Large 33.6	Software	0.45	0.82 1 0
			Mid 4.0	Hardware	8.98	2.15 9 6
			Small 0.0	Media	2.05	1.08 3 2
			Micro 0.1	Telecom	9.79	1.80 17 7
			Avg \$mil: 36,187	Service	42.81	0.95
				Health	9.42	1.45 10 9
				Consumer	4.64	0.99 5 4
				Business	3.83	0.76 4 1
				Financial	24.92	0.87 26 22
				Mfg	35.93	0.84
				Goods	14.20	1.09 19 14
				Ind Mtrls	11.81	0.67 12 10
				Energy	7.86	1.06 9 6
				Utilities	2.06	0.42 3 1

Value Measures	Rel Category
Price/Earnings	15.16 1.02
Price/Book	2.22 0.99
Price/Sales	1.21 0.99
Price/Cash Flow	8.53 0.98
Dividend Yield %	2.85 0.97
Growth Measures	% Rel Category
Long-Term Erngs	13.18 1.12
Book Value	11.80 1.16
Sales	7.28 0.95
Cash Flow	6.82 0.77
Historical Erngs	26.09 1.16

Regional Exposure		% Stock
UK/W. Europe	53	N. America 3
Japan	11	Latin America 6
Asia X Japan	22	Other 5

Composition		% Stock
Cash	10.0	Bonds 0.3
Stocks	89.4	Other 0.3
Foreign (% of Stock)		99.5
Country Exposure		% Stock
Japan	11	Switzerland 8
Germany	11	South Korea 8
France	9	

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 Add: \$50
 Sales Fees: 5.75%L, 0.25%S
 Management Fee: 0.69% mx./0.40% mn.
 Actual Fees: Mgt:0.43% Dist:0.25%
 Expense Projections: 3Yr:\$813 5Yr:\$989 10Yr:\$1497
 Income Distrib: Annually



DFA U.S. Micro Cap

Ticker: DFSCX Load: None NAV: \$15.52 Yield: 2.0% Total Assets: \$4,938 mil Mstar Category: Small Blend

Governance and Management

Stewardship Grade:

Portfolio Manager(s)

A team of portfolio managers, led by Robert Deere, runs this offering. These folks are focused on implementing the fund's strategy. DFA's investment committee, which includes many famous academics, designed this strategy.

Strategy

The fund invests in the smallest 5% of U.S. exchange-listed stocks to take advantage of the small-cap effect. The portfolio contains anywhere between 2,500 and 3,000 holdings, but it does not contain REITs, newly minted IPOs, or firms that management identifies as merger candidates or too highly leveraged.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-3.99	27.35	12.56	16.77	60.72
2004	6.46	0.14	-4.32	16.06	18.39
2005	-6.43	3.93	6.78	1.78	5.69
2006	14.39	-7.11	-0.21	9.55	16.16
2007	1.66	4.35	—	—	—

Trailing	Total Return%	+/- S&P 500	+/- Russ 2000	%Rank Cat	Growth of \$10,000
3 Mo	-3.88	-2.49	0.56	56	9,612
6 Mo	-1.94	-4.04	0.53	67	9,806
1 Yr	12.30	-3.83	0.18	59	11,230
3 Yr Avg	13.48	1.72	0.08	51	14,614
5 Yr Avg	17.98	6.17	1.96	17	22,858
10 Yr Avg	11.73	5.75	3.93	20	30,318
15 Yr Avg	14.86	4.20	3.72	12	79,897

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	11.85	47	1.44	40
5 Yr (estimated)	16.69	19	1.09	51
10 Yr (estimated)	9.54	29	1.96	76

Potential Capital Gain Exposure: 26% of assets

Morningstar's Take by Marta Norton 05-21-07

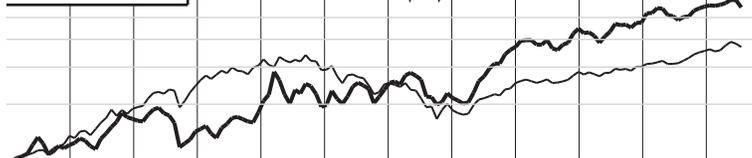
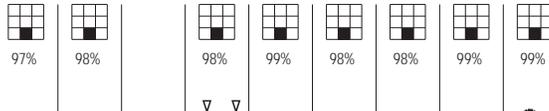
Those who can handle a bumpy ride will like what they see at DFA U.S. Micro Cap.

Uneven returns are the norm at this passively managed fund. That's because it targets the smallest 5% of the exchange-listed stocks in the market. Because tiny companies often have less-diversified businesses and are in the early stages of development, they generally face frequent ups and downs. Indeed, the fund's standard deviation (a measure of return volatility) is well above that of its typical small-blend rival over the short and long haul.

But for those willing to stomach the ride, this fund is a good choice. For one thing, because it holds more than 2,400 stocks and keeps turnover low, it doesn't brush up against the capacity constraints many of its actively managed competitors face. Plus, it has the advantage of low expenses. The actively managed funds focused on micro-caps often come with hefty expense ratios, theoretically because micro-caps are harder to

Historical Profile

Return: Above Avg
Risk: Above Avg
Rating: ★★★ Neutral



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07
NAV	11.20	11.78	10.76	12.61	9.64	10.01	8.53	13.32	15.12	14.77	15.70	15.52
Total Return %	17.65	22.78	-7.32	29.79	-3.60	22.77	-13.27	60.72	18.39	5.69	16.16	-0.81
+/-S&P 500	-5.31	-10.58	-35.90	8.75	5.50	34.66	8.83	32.04	7.51	0.78	0.37	-4.45
+/-Russ 2000	1.16	0.42	-4.77	8.53	-0.58	20.28	7.21	13.47	0.06	1.14	-2.21	0.02
Income Return %	0.26	0.23	1.28	3.49	3.89	0.51	0.16	2.42	2.04	2.38	2.02	0.35
Capital Return %	17.39	22.55	-8.60	26.30	-7.49	22.26	-13.43	58.30	16.35	3.31	14.14	-1.16
Total Rtn % Rank Cat	77	68	70	17	93	10	29	5	55	61	39	72
Income \$	0.03	0.03	0.15	0.38	0.49	0.05	0.02	0.21	0.27	0.36	0.30	0.06
Capital Gains \$	1.16	1.89	0.00	0.89	1.99	1.71	0.14	0.18	0.36	0.84	1.13	0.00
Expense Ratio %	0.61	0.60	0.59	0.61	0.56	0.56	0.56	0.56	0.16	0.55	0.53	—
Income Ratio %	0.22	0.21	0.18	0.30	0.34	0.41	0.24	0.25	0.64	0.48	0.64	—
Turnover Rate %	24	28	26	23	37	—	—	—	—	—	24	—
Net Assets \$mil	1,187	1,437	1,360	1,452	1,378	1,663	1,533	2,685	3,380	3,912	4,881	4,938

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	12.30			
3 Yr	13.48	Avg	+ Avg	★★★
5 Yr	17.98	+ Avg	+ Avg	★★★★
10 Yr	11.73	+ Avg	+ Avg	★★★
Incept	13.63			

Other Measures	Standard Index	Best Fit Index
	S&P 500	Russ 2000
Alpha	-1.8	0.0
Beta	1.53	1.01
R-Squared	67	97

Standard Deviation	Mean	Sharpe Ratio
13.76	13.48	0.70

Portfolio Analysis 04-30-07

Share change since 03-07	Total Stocks:0	Sector	PE	Tot Ret%	% Assets
⊕ Dimensional U.S. Micro C	—	—	—	—	100.00

Current Investment Style



Value	Blind	Growth	Market Cap	%
			Giant	0.0
			Large	0.0
			Mid	0.2
			Small	40.5
			Micro	59.3
Avg \$mil:				436

Value Measures	Rel Category	Sector Weightings	% of Stocks	Rel S&P 500	3 Yr High Low
Price/Earnings	17.03 1.01	Info	19.31	0.92	
Price/Book	2.07 0.98	Software	5.84	1.57	6 6
Price/Sales	0.97 0.96	Hardware	10.12	0.99	10 10
Price/Cash Flow	9.06 1.22	Media	1.31	0.39	1 1
Dividend Yield %	2.60 2.18	Telecom	2.04	0.54	2 1
Growth Measures % Rel Category					
Long-Term Erngs	14.58 1.06	Service	53.00	1.22	
Book Value	5.11 0.57	Health	15.74	1.35	16 15
Sales	6.93 0.87	Consumer	10.18	1.35	10 9
Cash Flow	6.17 0.55	Business	13.00	3.10	13 12
Historical Erngs	9.86 0.55	Financial	14.08	0.70	16 13
Composition					
<ul style="list-style-type: none"> ● Cash 0.7 ● Stocks 99.3 ● Bonds 0.0 ● Other 0.0 ● Foreign 0.0 (% of Stock) 					

Growth Measures	% Rel Category
Long-Term Erngs	14.58 1.06
Book Value	5.11 0.57
Sales	6.93 0.87
Cash Flow	6.17 0.55
Historical Erngs	9.86 0.55

Value Measures	Rel Category
Price/Earnings	17.03 1.01
Price/Book	2.07 0.98
Price/Sales	0.97 0.96
Price/Cash Flow	9.06 1.22
Dividend Yield %	2.60 2.18

Growth Measures	% Rel Category
Long-Term Erngs	14.58 1.06
Book Value	5.11 0.57
Sales	6.93 0.87
Cash Flow	6.17 0.55
Historical Erngs	9.86 0.55

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NTF Plans:	N/A	Expense Projections:	3Yr:\$170	5Yr:\$296	10Yr:\$665
		Income Distrib:	Quarterly		



Federated US 2-5 Instl

Ticker: FIGTX Load: None NAV: \$10.89 Yield: 4.4% SEC Yield: — Total Assets: \$632 mil Mstar Category: Short Government

Governance and Management

Stewardship Grade: D

Portfolio Manager(s)

Don Ellenberger is in charge. Ellenberger, head of government bonds at Federated, joined in June 2005.

Strategy

This fund stands apart from most in the short-term government category because it does not invest in mortgage-backed securities. Instead, it holds a mix of Treasuries and agency bonds. Duration is usually relatively long for its group, as the fund stays within 20% of the Merrill Lynch 3-5 Year Treasury Index. The fund's approach typically results in added interest-rate sensitivity relative to the peer group.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	0.99	1.67	-0.04	-0.40	2.22
2004	2.06	-2.44	2.02	0.02	1.60
2005	-1.05	2.18	-0.71	0.47	0.87
2006	-0.49	0.31	2.85	0.66	3.34
2007	1.63	-0.22	—	—	—

Trailing	Total Return %	+/- LB Aggr	+/- LB 1-5 YR GOVT	%Rank Cat	Growth of \$10,000
3 Mo	0.82	1.05	-0.24	37	10,082
6 Mo	2.95	1.09	0.12	3	10,295
1 Yr	5.45	-0.13	-0.03	4	10,545
3 Yr Avg	2.83	-1.10	-0.37	46	10,873
5 Yr Avg	2.94	-1.47	-0.08	16	11,559
10 Yr Avg	4.90	-0.92	-0.06	12	16,134
15 Yr Avg	5.12	-1.18	-0.14	19	21,149

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	1.38	47	1.41	64
5 Yr (estimated)	1.54	16	1.36	64
10 Yr (estimated)	3.13	5	1.69	51

Potential Capital Gain Exposure: -4% of assets

Morningstar's Take by Marta Norton 04-10-07

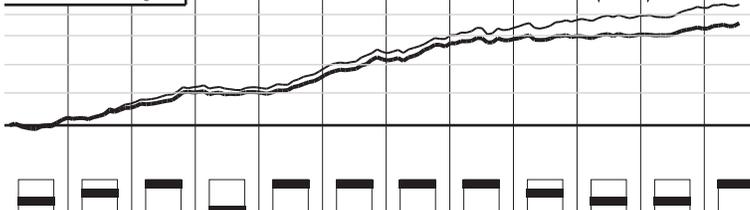
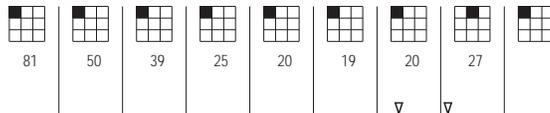
Federated U.S. Government: 2-5 Year is a decent option.

This fund is distinctive in the short-term government category. For one, its duration (a measure of interest-rate sensitivity) is kept within 20% of that of its benchmark, the Merrill Lynch 3-5 Year Treasury Index. Thus, it carries a bit more interest-rate exposure than most of its peers. That's helped lately, since interest rates stopped their climb last August. Indeed, the fund's 4.1% gain over the past eight months beat 77% of its peers. The reverse is also true, however. When rates rise, this fund struggles. It gained a measly 1.6% and 0.9% in 2004 and 2005, respectively, when interest rates were moving higher.

The fund's mortgage-free portfolio is its other distinguishing characteristic. The typical fund in this category has 38% of its assets in mortgage-backed securities, but this fund avoids the sector altogether. That makes the fund a good match with a mortgage-only fund. However, it also means

Historical Profile

Return Above Avg
Risk High
Rating ★★★★★ Above Avg



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07
NAV	10.49	10.63	10.91	10.35	10.77	11.09	11.67	11.52	11.30	10.97	10.86	10.89
Total Return %	3.58	7.12	8.11	-0.52	10.16	8.33	9.92	2.22	1.60	0.87	3.34	2.93
+/-LB Aggr	-0.05	-2.53	-0.58	0.30	-1.47	-0.11	-0.33	-1.88	-2.74	-1.56	-0.99	1.11
+/-LB 1-5 YR GOVT	-1.02	0.01	0.46	-2.48	1.07	-0.31	2.23	0.06	0.06	-0.61	-0.67	-0.05
Income Return %	5.44	5.71	5.40	4.71	5.91	5.33	4.56	3.53	3.54	3.83	4.34	2.65
Capital Return %	-1.86	1.41	2.71	-5.23	4.25	3.00	5.36	-1.31	-1.94	-2.96	-1.00	0.28
Total Rtn % Rank Cat	68	31	4	87	7	11	3	12	30	73	74	6
Income \$	0.57	0.58	0.56	0.50	0.60	0.56	0.50	0.41	0.40	0.43	0.47	0.28
Capital Gains \$	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Expense Ratio %	0.54	0.54	0.54	0.55	0.56	0.57	0.57	0.57	0.57	0.59	0.58	0.58
Income Ratio %	6.07	5.42	5.58	5.13	4.80	6.23	4.29	4.29	3.44	3.55	3.82	4.35
Turnover Rate %	117	99	71	126	172	77	66	31	52	66	113	128
Net Assets \$mil	783	702	723	627	538	603	764	828	740	666	544	551

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	5.45			
3 Yr	2.83	Avg	High	★★★★
5 Yr	2.94	+Avg	High	★★★★★
10 Yr	4.90	+Avg	High	★★★★★
Incept	6.96			

Other Measures	Standard Index	Best Fit Index
Alpha	-1.1	-0.3
Beta	0.77	1.03
R-Squared	86	99
Standard Deviation	2.43	
Mean	2.83	
Sharpe Ratio	-0.49	

Portfolio Analysis 06-30-07

Total Fixed-Income:21	Date of Maturity	Amount \$000	Value \$000	% Net Assets
US Treasury Note 4.625%	02-29-12	53,000	52,338	8.40
US Treasury Note 4.5%	02-28-11	45,000	44,393	7.13
US Treasury Note 4.75%	03-31-11	42,000	41,778	6.71
US Treasury Note 4.875%	04-30-11	40,000	39,938	6.41
US Treasury Note 4.25%	11-15-14	40,000	38,165	6.13
US Treasury Note 4.375%	12-15-10	37,000	36,397	5.84
US Treasury Note 4%	11-15-12	37,000	35,459	5.69
FNMA 6%	05-15-11	33,000	33,847	5.43
US Treasury Note 3.625%	07-15-09	31,000	30,242	4.85
US Treasury Note 3.625%	01-15-10	31,000	30,075	4.83
US Treasury Note 4.75%	02-15-10	30,000	29,891	4.80
US Treasury Note 3.875%	05-15-10	30,000	29,201	4.69
US Treasury Note 3%	07-15-12	26,444	26,947	4.33
US Treasury Note 3.5%	11-15-09	23,000	22,289	3.58
US Treasury Note 4.75%	01-31-12	20,000	19,851	3.19
US Treasury Note	05-15-10	20,000	19,791	3.18
US Treasury Note 2.375%	04-15-11	15,623	15,450	2.48
US Treasury Note 4.5%	02-15-09	15,000	14,899	2.39
FHLBA	10-27-11	15,000	14,879	2.39
FHLMC 5.5%	02-13-09	10,000	9,990	1.60

Current Investment Style

Duration	Short	Int	Long
Quality	High	Med	Low

1 figure provided by fund

Avg Eff Duration ¹	3.4 Yrs
Avg Eff Maturity	3.7 Yrs
Avg Credit Quality	AAA
Avg Wtd Coupon	4.37%
Avg Wtd Price	98.65% of par

Sector Breakdown

Sector	% of assets
US Treasuries	82
TIPS	4
US Agency	9
Mortgage Pass-Throughs	0
Mortgage CMO	0
Mortgage ARM	0
US Corporate	0
Asset-Backed	0
Convertible	0
Municipal	0
Corporate Inflation-Protected	0
Foreign Corporate	0
Foreign Govt	0

Coupon Range

% of Bonds	Rel Cat
0% PIK	0.0
0% to 6%	100.0
6% to 8%	0.0
8% to 10%	0.0
More than 10%	0.0

1.00=Category Average

Credit Analysis

% bonds 06-30-07	Rel Cat
AAA	100
AA	0
A	0
BBB	0

Composition

Asset Class	Value	% of Assets
Cash	4.4	95.6
Bonds	0.0	0.0
Stocks	0.0	0.0
Other	0.0	0.0

Special Securities

Restricted/Illicit Secs	0
Exotic Mortgage-Backed	0
Emerging-Markets Secs	0
Options/Futures/Warrants	No

Address: 5800 Corporate Drive
Pittsburgh, PA 15237-7000
800-341-7400
www.federatedinvestors.com
Inception: 02-18-83
Advisor: Federated Investment Mgmt Corp.
Subadvisor: None
NTF Plans: Schwab OneSource

Minimum Purchase: \$25000 Add: \$0 IRA: \$25000
Min Auto Inv Plan: \$0 Add: —
Sales Fees: No-load
Management Fee: 0.40%, 0.15%
Actual Fees: Mgt:0.40% Dist: —
Expense Projections: 3Yr:\$265 5Yr:\$460 10Yr:\$1025
Income Distrib: Monthly



Fidelity Contrafund

Ticker: FCNTX Load: Closed NAV: \$69.79 Yield: 0.5% Total Assets: \$72,621 mil Mstar Category: Large Growth

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

Will Danoff has been at the helm since September 1990 and is backed by Fidelity's deep research staff. He has adapted his style to the fund's size by holding more large caps, and he has cut the fund's turnover in recent years. He has also run Fidelity Advisor New Insights since its July 2003 inception.

Strategy

Call it forced evolution: As this fund's asset base grew in the 1990s, manager Will Danoff had to move away from mid-caps and small caps and adopt a growth-at-a-reasonable-price philosophy. He continues to own a substantial stake in mid-caps, but it is now dominated by larger fare. It has been more conservative than most of its large-growth rivals in recent years, with big underweightings in racy sectors such as technology. Danoff has reined in the fund's turnover considerably in recent years.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-2.15	11.83	5.02	11.34	27.95
2004	3.75	2.36	-0.63	9.04	15.07
2005	0.33	2.95	8.41	3.79	16.23
2006	4.75	-0.77	0.79	6.46	11.54
2007	1.41	7.50	—	—	—

Trailing	Total Return %	+/- S&P 500	+/- Russ 1000Gr	%Rank Cat	Growth of \$10,000
3 Mo	3.01	4.40	2.54	17	10,301
6 Mo	5.82	3.72	2.04	26	10,582
1 Yr	17.64	1.51	-1.83	47	11,764
3 Yr Avg	16.71	4.95	6.45	5	15,897
5 Yr Avg	15.10	3.29	4.92	7	20,201
10 Yr Avg	9.80	3.82	6.45	4	25,470
15 Yr Avg	13.55	2.89	4.95	6	67,268

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	15.88	6	0.71	48
5 Yr (estimated)	14.59	7	0.44	41
10 Yr (estimated)	8.33	5	1.34	66

Potential Capital Gain Exposure: 31% of assets

Morningstar's Take by Greg Carlson 04-13-07

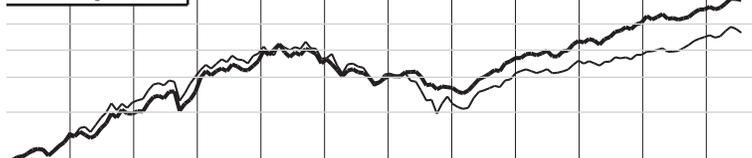
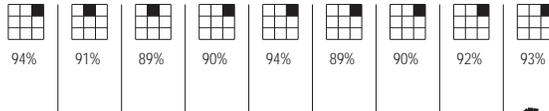
Can Fidelity Contrafund avoid the fate that Fidelity Magellan once suffered?

Between this offering, Fidelity Advisor New Insights and variable-annuity accounts--all run in a similar style--manager Will Danoff has a tremendous amount on this plate. According to filings, he managed a staggering \$97 billion in assets at the end of 2006. The only equity-fund manager we can recall handling more money was Bob Stansky, who ran Fidelity Magellan from 1996 to 2005. That fund topped out at more than \$109 billion in early 2000; its size helped push that fund into mega-caps and greatly hampered Stansky's flexibility, and the fund lagged the S&P 500 Index for four of the next five years before Stansky stepped down.

Is this fund headed for a slump as well? The style with which Danoff has generated most of his stellar 17-year record here isn't well-suited to a huge asset base; Danoff prefers smaller, faster-growing companies to behemoths, and he traded around positions quite actively until the fund's girth forced

Historical Profile

Return High
Risk Below Avg
Rating ★★★★★ Highest



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07
NAV	42.15	46.63	56.81	60.02	49.18	42.77	38.60	49.35	56.74	64.76	65.21	69.79
Total Return %	21.94	23.00	31.57	25.03	-6.80	-12.59	-9.63	27.95	15.07	16.23	11.54	8.11
+/-S&P 500	-1.02	-10.36	2.99	3.99	2.30	-0.70	12.47	-0.73	4.19	11.32	-4.25	4.47
+/-Russ 1000Gr	-1.18	-7.49	-7.14	-8.13	15.62	7.83	18.25	-1.80	8.77	10.97	2.47	1.66
Income Return %	1.05	0.84	0.64	0.50	0.41	0.45	0.12	0.10	0.09	0.41	0.61	0.00
Capital Return %	20.89	22.16	30.93	24.53	-7.21	-13.04	-9.75	27.85	14.98	15.82	10.93	8.11
Total Rtn % Rank Cat	32	67	47	70	32	16	2	51	7	3	16	25
Income \$	0.38	0.35	0.30	0.28	0.24	0.22	0.05	0.04	0.05	0.23	0.39	0.00
Capital Gains \$	3.45	4.56	4.22	10.22	6.62	0.00	0.00	0.00	0.00	0.97	6.49	0.67
Expense Ratio %	0.79	0.67	0.61	0.62	0.84	0.91	0.99	0.98	0.92	0.88	0.89	—
Income Ratio %	1.28	0.91	0.70	0.48	0.45	0.49	0.14	0.01	0.08	0.46	0.62	—
Turnover Rate %	159	144	197	177	166	141	80	67	64	60	76	—
Net Assets \$mil	23,798	30,809	38,821	46,927	40,220	32,321	27,695	36,051	44,484	60,094	68,576	72,621

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	17.64			
3 Yr	16.71	High	Avg	★★★★★
5 Yr	15.10	High	Low	★★★★★
10 Yr	9.80	High	Low	★★★★★
Incept	13.34			

Other Measures	Standard Index	Best Fit Index
Alpha	4.6	1.6
Beta	0.99	0.68
R-Squared	70	85
Standard Deviation	8.65	
Mean	16.71	
Sharpe Ratio	1.37	

Portfolio Analysis 03-31-07

Share change since 12-06	Total Stocks:419	Sector	PE	Tot Ret%	% Assets	
+		Google, Inc.	Business	45.7	10.75	4.32
+		Berkshire Hathaway Inc.	Financial	15.0	0.01	2.70
+		Hewlett-Packard Company	Hardware	20.0	12.17	2.48
+		Genentech, Inc.	Health	33.2	-8.32	2.39
-		America Mobile ADR L	Telecom	26.8	33.19	2.08
+		Apple, Inc.	Hardware	41.7	55.30	2.08
+		Procter & Gamble Company	Goods	21.3	-2.22	2.01
+		ExxonMobil Corporation	Energy	12.4	12.06	1.95
+		AT&T, Inc.	Telecom	19.9	11.69	1.81
-		Roche Holding	Health	—	—	1.64
+		Walt Disney Company	Media	15.4	-1.85	1.60
-		Wells Fargo Company	Financial	13.3	-3.54	1.44
-		Schlumberger, Ltd.	Energy	25.5	50.71	1.21
-		PepsiCo, Inc.	Goods	18.4	6.00	1.16
-		EnCana Corporation	Energy	10.1	33.70	1.15
-		Bank of America Corporat	Financial	10.1	-9.21	1.08
-		Metropolitan Life Insura	Financial	14.3	2.05	1.05
+		Merck & Co., Inc.	Health	23.4	15.72	1.03
+		Danaher Corporation	Ind Mtrls	20.9	3.16	1.01
-		NII Holdings, Inc.	Telecom	47.9	30.38	0.94

Current Investment Style

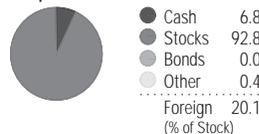
Value	Blind Growth	Market Cap	%
Large	Mid	Small	51.8
Large	Mid	Small	30.3
Large	Mid	Small	15.0
Large	Mid	Small	2.7
Large	Mid	Small	0.2
Avg \$mil:			36,816

Value Measures	Rel Category
Price/Earnings	17.83 0.94
Price/Book	2.69 0.82
Price/Sales	1.96 1.04
Price/Cash Flow	10.42 0.85
Dividend Yield %	1.20 1.14
Growth Measures	% Rel Category
Long-Term Erngs	12.81 0.89
Book Value	15.18 1.19
Sales	12.20 0.97
Cash Flow	18.26 1.23
Historical Erngs	26.67 1.12

Profitability	% Rel Category
Return on Equity	20.80 1.03
Return on Assets	11.54 1.07
Net Margin	14.93 1.08

Sector Weightings	% of Stocks	Rel S&P 500	3 Year High Low
Info	24.59	1.17	
Software	4.29	1.16	4 2
Hardware	10.94	1.07	11 5
Media	3.33	1.00	3 2
Telecom	6.03	1.60	6 4
Service	46.02	1.06	
Health	12.64	1.09	16 11
Consumer	5.18	0.69	9 5
Business	9.07	2.16	10 6
Financial	19.13	0.95	23 14
Mfg	29.38	0.83	
Goods	9.22	1.10	10 7
Ind Mtrls	10.69	0.85	19 10
Energy	8.08	0.73	17 8
Utilities	1.39	0.39	1 0

Composition



Address: 82 Devonshire Street
Boston, MA 02109
800-544-9797
www.fidelity.com
Inception: 05-17-67
Advisor: Fidelity Mgmt & Research (FMR)
Subadvisor: Fidelity Intl Investment Adv, Inc
NTF Plans: Fidelity Retail-NTF, Commonwealth NTF

Minimum Purchase: Closed
Add: — IRA: —
Min Auto Inv Plan: Closed
Add: —
Sales Fees: No-load
Management Fee: 0.71%
Actual Fees: Mgt:0.71% Dist: —
Expense Projections: 3Yr:\$287 5Yr:\$498 10Yr:\$1108
Income Distrib: Semi-Annually

T. Rowe Price Mid Gr

Ticker RPMGX **Load** Closed **NAV** \$60.69 **Yield** 0.1% **Total Assets** \$17,201 mil **Mstar Category** Mid-Cap Growth

Governance and Management

Stewardship Grade:

Portfolio Manager(s)

Brian Berghuis has run this offering since its June 1992 inception. He is assisted by comanager John Wakeman, and the two draw ideas from T. Rowe's strong corp of research analysts. Berghuis was named Morningstar's Domestic-Fund Manager of the Year for 2004.

Strategy

Manager Brian Berghuis looks for companies with sound business models that are growing rapidly. But unlike some other mid-growth managers, he pays close attention to valuations: The fund's average P/E is well below that of its typical rival. He also keeps the fund well diversified across sectors and does not let individual positions in the portfolio become too significant.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-1.32	19.62	4.20	12.36	38.21
2004	3.36	4.22	-2.14	12.32	18.39
2005	-2.25	4.12	8.17	4.28	14.82
2006	6.22	-4.69	-0.05	5.54	6.79
2007	3.24	11.53	—	—	—

Trailing	Total Return%	+/- S&P 500	+/- Russ MG	%Rank Cat	Growth of \$10,000
3 Mo	3.46	4.85	3.50	26	10,346
6 Mo	10.27	8.17	5.60	13	11,027
1 Yr	24.01	7.88	2.61	29	12,401
3 Yr Avg	17.41	5.65	1.16	27	16,185
5 Yr Avg	17.41	5.60	0.11	17	22,311
10 Yr Avg	11.75	5.77	4.32	11	30,372
15 Yr Avg	15.60	4.94	4.61	4	87,977

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	16.48	23	0.79	40
5 Yr (estimated)	16.85	16	0.48	37
10 Yr (estimated)	11.09	7	0.59	16

Potential Capital Gain Exposure: 37% of assets

Morningstar's Take by Kerry O'Boyle 05-14-07

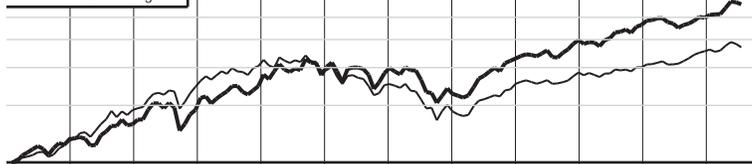
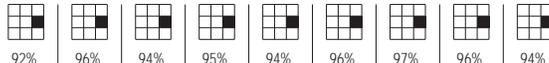
T. Rowe Price Mid-Cap Growth is simply one of the best.

Shareholders of this closed fund should count themselves fortunate. Although growth investors have faced an uphill climb relative to the rest of the market in recent years, this fund has made the most of it. Veteran manager Brian Berghuis, who in June will mark his 15th year in charge, has stayed ahead of his mid-growth rivals by focusing on firms with sound business models that are trading at attractive valuations. While 2006 was relatively lackluster, the fund has bounced back quickly in 2007. Indeed, one of its many charms has been how consistently Berghuis has been able to top its rivals over most mid- to long-term time periods.

We think the fund's edge owes a lot to patience and the firm's topnotch central analyst staff. T. Rowe Price's domestic equity funds have generally excelled across the board thanks to the strong research effort. Managers like Berghuis have put that research to good use by building

Historical Profile

Return Above Avg
Risk Below Avg
Rating ★★★★★ Above Avg



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07	History
NAV	24.43	28.60	34.08	40.13	39.79	39.40	31.04	42.90	49.88	54.14	53.69	60.69	NAV
Total Return %	24.84	18.33	22.00	23.78	7.43	-0.98	-21.22	38.21	18.39	14.82	6.79	13.04	Total Return %
+/-S&P 500	1.88	-15.03	-6.58	2.74	16.53	10.91	0.88	9.53	7.51	9.91	-9.00	9.40	+/-S&P 500
+/-Russ MG	7.36	-4.21	4.14	-27.51	19.18	19.17	6.19	-4.50	2.91	2.72	-3.87	4.56	+/-Russ MG
Income Return %	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.00	Income Return %
Capital Return %	24.84	18.33	22.00	23.78	7.43	-0.98	-21.22	38.21	18.39	14.82	6.64	13.04	Capital Return %
Total Rtn % Rank Cat	9	61	30	81	31	12	29	32	15	14	66	18	Total Rtn % Rank Cat
Income \$	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.00	Income \$
Capital Gains \$	0.69	0.30	0.73	1.88	3.27	0.00	0.00	0.00	0.90	3.15	4.07	0.00	Capital Gains \$
Expense Ratio %	1.04	0.95	0.91	0.87	0.86	0.89	0.88	0.87	0.83	0.80	0.80	—	Expense Ratio %
Income Ratio %	-0.11	-0.14	-0.14	-0.09	-0.09	-0.35	-0.50	-0.44	-0.39	-0.12	0.14	—	Income Ratio %
Turnover Rate %	38	43	47	53	54	43	36	30	30	29	34	—	Turnover Rate %
Net Assets \$mil	1,021	1,839	3,310	5,243	6,589	6,739	5,713	9,869	12,651	15,187	14,629	16,449	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	24.01			
3 Yr	17.41	+ Avg	- Avg	★★★★
5 Yr	17.41	+ Avg	- Avg	★★★★
10 Yr	11.75	+ Avg	- Avg	★★★★
Incept	16.03			

Other Measures	Standard Index	Best Fit Index
Alpha	4.1	2.1
Beta	1.16	0.90
R-Squared	70	91
Standard Deviation	10.12	
Mean	17.41	
Sharpe Ratio	1.24	

Portfolio Analysis 06-30-07

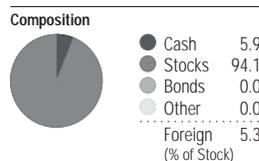
Share change since 03-07	Total Stocks:152	Sector	PE	Tot Ret%	% Assets
⊖ Amazon.com, Inc.		Consumer	NMF	99.04	1.77
⊖ Roper Industries, Inc.		Ind Mtrls	26.5	19.82	1.71
⊕ Harman International Ind		Goods	28.3	16.13	1.68
⊖ Smith International, Inc		Energy	22.3	50.13	1.52
⊖ Rockwell Collins, Inc.		Ind Mtrls	21.8	9.06	1.50
⊖ Manor Care, Inc.		Health	28.4	35.79	1.45
⊖ Cephalon, Inc.		Health	24.9	6.72	1.39
⊖ VeriSign, Inc.		Software	17.4	23.45	1.37
⊖ DST Systems, Inc.		Business	21.2	21.14	1.37
⊖ Ametek, Inc.		Ind Mtrls	21.6	22.96	1.31
⊖ Crown Castle Internation		Telecom	-86.2	12.23	1.31
⊕ Juniper Networks, Inc.		Hardware	-17.0	58.18	1.30
⊖ Lamar Advertising Compan		Business	NMF	-4.18	1.30
⊖ EOG Resources		Energy	16.0	12.62	1.26
⊖ Rogers Communications, I		Telecom	49.8	52.58	1.22
⊖ Consol Energy, Inc.		Energy	19.6	30.10	1.22
⊖ American Tower Corporati		Telecom	NMF	11.75	1.16
⊕ Leap Wireless Internatio		Telecom	-185.2	48.65	1.09
⊖ Manpower, Inc.		Business	20.6	5.86	1.06
⊖ XTO Energy, Inc.		Energy	11.4	16.38	1.04

Current Investment Style

Value	Blind Growth	Large Mid Small	Market Cap %	Sector Weightings	% of Stocks	Rel S&P 500	3 Year High Low
			Giant 1.3	Info	28.56	1.36	
			Large 14.2	Software	6.90	1.86	7 6
			Mid 76.3	Hardware	12.51	1.23	13 10
			Small 8.2	Media	2.75	0.83	5 2
			Micro 0.0	Telecom	6.40	1.70	6 3
			Avg \$mil: 6,000	Service	47.17	1.09	
				Health	15.05	1.29	20 15
				Consumer	13.37	1.77	13 10
				Business	13.24	3.15	15 13
				Financial	5.51	0.27	10 6
				Mfg	24.28	0.68	
				Goods	2.79	0.33	3 2
				Ind Mtrls	10.76	0.86	12 9
				Energy	10.73	0.97	11 8
				Utilities	0.00	0.00	0 0

Value Measures	Rel Category
Price/Earnings	18.39 0.90
Price/Book	3.34 1.08
Price/Sales	1.92 1.13
Price/Cash Flow	14.66 1.27
Dividend Yield %	0.46 0.68
Growth Measures	% Rel Category
Long-Term Erngs	15.61 0.95
Book Value	3.50 0.24
Sales	15.72 1.38
Cash Flow	14.26 0.78
Historical Erngs	6.30 0.24

Profitability	% Rel Category
Return on Equity	16.89 0.95
Return on Assets	6.17 0.67
Net Margin	7.93 0.71



Address:	100 East Pratt Street Baltimore, MD 21202 800-225-5132	Minimum Purchase:	Closed	Add: —	IRA: —
Web Address:	www.troweprice.com	Min Auto Inv Plan:	Closed	Add: —	
Inception:	06-30-92	Sales Fees:	No-load		
Advisor:	T. Rowe Price Associates, Inc.	Management Fee:	0.66%		
Subadvisor:	None	Actual Fees:	Mgt:0.66%	Dist: —	
NTF Plans:	N/A	Expense Projections:	3Yr:\$255	5Yr:\$444	10Yr:\$990
		Income Distrib:	Annually		



Vanguard Inst Idx

Ticker: VINIX Load: None NAV: \$133.14 Yield: 1.8% Total Assets: \$68,859 mil Mstar Category: Large Blend

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

Donald Butler, who joined Vanguard in 1992, has been involved with the day-to-day management of this fund since 2000 and has been lead manager since 2005.

Strategy

The core of the fund's strategy is simple: Manager Donald Butler buys and holds the stocks that compose the S&P 500 Index. Butler attempts to add value on the margins by opportunistically buying futures contracts, among other strategies, and he actively pursues ways to reduce trading costs.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-3.15	15.41	2.63	12.16	28.66
2004	1.69	1.72	-1.87	9.23	10.86
2005	-2.14	1.37	3.60	2.08	4.91
2006	4.21	-1.44	5.66	6.69	15.78
2007	0.63	6.27	—	—	—

Trailing	Total Return%	+/- S&P 500	+/- Russ 1000	%Rank Cat	Growth of \$10,000
3 Mo	-1.38	0.01	0.14	52	9,862
6 Mo	2.10	0.00	0.19	48	10,210
1 Yr	16.11	-0.02	-0.34	38	11,611
3 Yr Avg	11.75	-0.01	-0.75	46	13,955
5 Yr Avg	11.81	0.00	-0.54	35	17,474
10 Yr Avg	6.02	0.04	-0.35	37	17,942
15 Yr Avg	10.69	0.03	-0.15	29	45,880

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	11.37	35	0.34	15
5 Yr (estimated)	11.41	31	0.36	22
10 Yr (estimated)	5.50	26	0.49	16

Potential Capital Gain Exposure: 23% of assets

Morningstar's Take by Dan Culloton 08-16-07

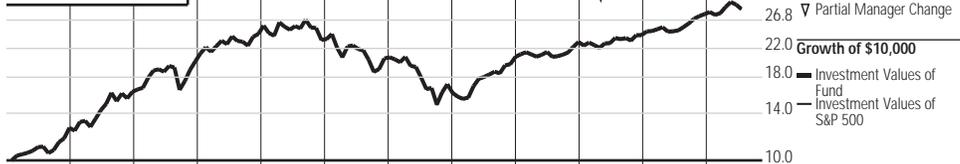
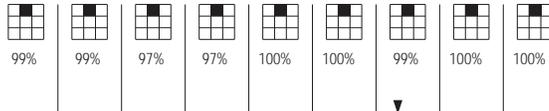
If you have access to Vanguard Institutional Index, strongly consider it for a core holding.

There's some truth to the claim that events have overtaken this fund and its benchmark, the S&P 500. There are lots of new ways to get cheap, reliable, and efficient exposure to the broad U.S. stock market through low-cost conventional and exchange-traded rivals. Funds tracking all-inclusive benchmarks, such as the Dow Jones Wilshire 5000 Index or the MSCI Broad Market Index, also have emerged as better choices for one-stop domestic-stock exposure. And new funds tracking alternatively weighted benchmarks have taken aim at the S&P 500, which critics contend leaves investors vulnerable to bubbles and bear markets by emphasizing stocks whose market caps have swelled as their prices have risen.

This fund still has many virtues, though, and should acquit itself well over time. It's competently managed by a long-term member of Vanguard's quantitative equity group, which could write a

Historical Profile

Return Average
Risk Average
Rating ★★★ Neutral



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07	History
NAV	68.86	89.56	112.85	134.01	120.72	104.89	80.45	101.78	110.70	114.01	129.59	133.14	NAV
Total Return %	23.06	33.36	28.79	21.17	-8.94	-11.93	-22.03	28.66	10.86	4.91	15.78	3.64	Total Return %
+/-S&P 500	0.10	0.00	0.21	0.13	0.16	-0.04	0.07	-0.02	-0.02	0.00	-0.01	0.00	+/-S&P 500
+/-Russ 1000	0.61	0.51	1.77	0.26	-1.15	0.52	-0.38	-1.23	-0.54	-1.36	0.32	-0.23	+/-Russ 1000
Income Return %	2.37	2.03	1.59	1.35	1.05	1.14	1.35	1.91	2.00	1.86	1.98	0.90	Income Return %
Capital Return %	20.69	31.33	27.20	19.82	-9.99	-13.07	-23.38	26.75	8.86	3.05	13.80	2.74	Capital Return %
Total Rtn % Rank Cat	30	14	16	33	64	52	51	34	41	59	22	51	Total Rtn % Rank Cat
Income \$	1.36	1.39	1.42	1.51	1.40	1.38	1.41	1.53	2.02	2.05	2.24	1.17	Income \$
Capital Gains \$	0.99	0.71	0.90	0.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	0.06	0.06	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.05	0.05	—	Expense Ratio %
Income Ratio %	2.18	1.77	1.46	1.25	1.10	1.27	1.57	1.74	2.00	1.87	1.87	—	Income Ratio %
Turnover Rate %	9	7	11	14	11	8	10	13	5	9	8	—	Turnover Rate %
Net Assets \$mil	11,426	15,348	22,338	28,918	26,406	24,165	20,361	29,458	34,990	39,154	45,243	44,817	Net Assets \$mil

Rating and Risk

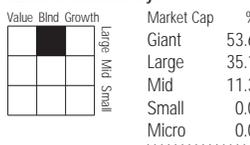
Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	16.11			
3 Yr	11.75	Avg	Avg	★★★
5 Yr	11.81	Avg	Avg	★★★
10 Yr	6.02	Avg	Avg	★★★
Incept	10.92			

Other Measures	Standard Index S&P 500	Best Fit Index S&P 500
Alpha	0.0	0.0
Beta	1.00	1.00
R-Squared	100	100
Standard Deviation	7.35	
Mean	11.75	
Sharpe Ratio	1.01	

Portfolio Analysis 03-31-07

Share change since 12-06	Total Stocks:507	Sector	PE	Tot Ret%	% Assets	
+		ExxonMobil Corporation	Energy	12.4	12.06	3.37
+		General Electric Company	Ind Mtrls	19.3	5.75	2.85
+		Citigroup, Inc.	Financial	11.2	-14.72	1.97
+		AT&T, Inc.	Telecom	19.9	11.69	1.93
+		Microsoft Corporation	Software	20.9	-2.26	1.88
+		Bank of America Corporat	Financial	10.1	-9.21	1.79
+		Procter & Gamble Company	Goods	21.3	-2.22	1.56
+		Altria Group, Inc.	Goods	12.1	5.28	1.44
+		Pfizer Inc.	Health	16.2	-7.26	1.40
+		American International G	Financial	11.2	-10.01	1.37
+		Johnson & Johnson	Health	17.2	-7.83	1.37
+		J.P. Morgan Chase & Co.	Financial	10.2	-6.88	1.32
+		Chevron Corporation	Energy	10.4	17.63	1.25
+		Cisco Systems, Inc.	Hardware	26.0	5.78	1.21
+		IBM	Hardware	17.9	14.68	1.11
+		Wells Fargo Company	Financial	13.3	-3.54	0.91
+		Wal-Mart Stores, Inc.	Consumer	15.5	0.45	0.91
+		ConocoPhillips	Energy	8.6	14.27	0.88
+		Verizon Communications	Telecom	21.8	18.08	0.87
+		Intel Corporation	Hardware	26.0	17.87	0.86

Current Investment Style

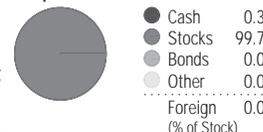


Value Measures	Rel Category
Price/Earnings	15.16 0.98
Price/Book	2.35 0.94
Price/Sales	1.45 1.04
Price/Cash Flow	8.87 0.97
Dividend Yield %	1.99 1.12
Growth Measures	% Rel Category
Long-Term Erngs	11.05 0.94
Book Value	11.53 1.07
Sales	9.78 1.03
Cash Flow	9.76 0.87
Historical Erngs	18.02 0.91

Sector Weightings

Sector	% of Stocks	Rel S&P 500	3 Yr High Low
Info	20.00	0.95	
Software	3.66	0.99	4 3
Hardware	9.01	0.88	10 9
Media	3.60	1.08	4 3
Telecom	3.73	0.99	4 3
Service	45.66	1.05	
Health	11.93	1.02	13 12
Consumer	8.12	1.08	9 8
Business	4.00	0.95	5 4
Financial	21.61	1.08	22 20
Mfg	34.33	0.97	
Goods	8.53	1.02	9 8
Ind Mtrls	12.10	0.96	13 12
Energy	9.93	0.90	10 9
Utilities	3.77	1.07	4 3

Composition



Profitability

Return on Equity	20.27	1.01
Return on Assets	10.92	1.03
Net Margin	14.46	1.05

Address:	Po Box 2600 Valley Forge, PA 19482 800-997-2798	Minimum Purchase:	\$5000000	Add: \$100	IRA: \$0
Web Address:	www.vanguard.com	Min Auto Inv Plan:	\$5000000	Add: \$50	
Inception:	07-31-90	Sales Fees:	No-load		
Advisor:	The Vanguard Group, Inc.	Management Fee:	0.05%		
Subadvisor:	None	Actual Fees:	Mgt:0.05%	Dist: —	
NTF Plans:	Vanguard NTF	Expense Projections:	3Yr:\$16	5Yr:\$28	10Yr:\$64
		Income Distrib:	Quarterly		

Vanguard Long-Tm InvGrde

Analyst Pick: **WVESX** Load: None NAV: \$8.88 Yield: 5.9% SEC Yield: 6.07% Total Assets: \$5,832 mil M-Star Category: Long-Term Bond

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

Earl McEvoy of esteemed subadvisor Wellington Management Company has managed this fund since March 1994. McEvoy also runs Vanguard High-Yield Corporate and the bond portion of Vanguard Wellesley Income's balanced portfolio, where he has posted impressive results.

Strategy

The fund invests mainly in high-quality corporate bonds, but it may also invest up to 20% of assets in Treasuries and other government securities. Starting in mid-2001, the fund could invest up to 5% of assets in high-yield debt, but it has barely endeavored to do so yet. The fund's duration is kept within 20% of the Lehman Brothers Long Credit A or Better Index's, meaning that it tends to be more sensitive to interest-rate shifts than are many of its long-term bond peers. Over the past year or so, the fund's duration has ranged from 9.1 to 11.5 years.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	1.96	6.48	-2.18	0.04	6.26
2004	4.90	-5.01	6.48	2.67	8.94
2005	0.70	6.97	-3.22	0.86	5.13
2006	-3.63	-1.88	7.25	1.42	2.86
2007	0.64	-1.97	—	—	—

Trailing	Total Return%	+/- LB Aggr	+/- LB LongTerm	%Rank Cat	Growth of \$10,000
3 Mo	-2.36	-2.13	-4.93	70	9,764
6 Mo	-0.14	-2.00	-2.16	73	9,986
1 Yr	5.85	0.27	-4.52	49	10,585
3 Yr Avg	4.88	0.95	-1.52	37	11,537
5 Yr Avg	6.20	1.79	-1.28	70	13,509
10 Yr Avg	6.32	0.50	-1.68	23	18,457
15 Yr Avg	7.26	0.96	-1.16	1	28,613

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	2.87	29	1.92	59
5 Yr (estimated)	4.12	68	1.96	45
10 Yr (estimated)	3.84	20	2.33	75

Potential Capital Gain Exposure: 0% of assets

Morningstar's Take by Lawrence Jones 03-14-07

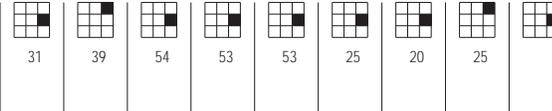
Despite recent trouble, Vanguard Long-Term Investment-Grade is one of our favorites.

In 2006 the fund had a difficult year, as the interest-rate risk it takes on cut into returns. The fund's duration (a measure of that risk) was about 11 years at year end, longer than the typical long-term bond category rival's. The added yield provided by the fund's corporate holdings often provides some cushion against rising rates, but with corporate bonds' yields creeping closer to Treasury yields in recent years, that segment of the market has grown increasingly rate-sensitive.

While the fund carries significant interest-rate risk, as well as a modest level of credit risk, relative to peers, veteran manager Earl McEvoy's experience and substantial credit analyst support have kept most trouble at bay. McEvoy has worked at esteemed subadvisor Wellington Management since 1978 and has run the fund for more than a dozen years. He's backed by a team of 15 investment-grade analysts, as well as a team of

Historical Profile

Return: Average
Risk: Above Avg
Rating: ★★★ Neutral



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07	History
NAV	8.79	9.26	9.29	8.11	8.45	8.68	9.23	9.27	9.55	9.52	9.25	8.88	NAV
Total Return %	1.20	13.78	9.21	-6.23	11.76	9.57	13.22	6.26	8.94	5.13	2.86	-0.74	Total Return %
+/-LB Aggr	-2.43	4.13	0.52	-5.41	0.13	1.13	2.97	2.16	4.60	2.70	-1.47	-2.56	+/-LB Aggr
+/-LB LongTerm	1.06	-0.74	-2.56	1.42	-4.40	2.29	-1.59	0.39	0.38	-0.20	0.15	-2.74	+/-LB LongTerm
Income Return %	6.79	7.21	6.56	6.25	7.30	6.86	6.60	5.85	5.77	5.53	5.61	3.34	Income Return %
Capital Return %	-5.59	6.57	2.65	-12.48	4.46	2.71	6.62	0.41	3.17	-0.40	-2.75	-4.08	Capital Return %
Total Rtn % Rank Cat	38	56	12	46	8	54	24	68	30	24	78	80	Total Rtn % Rank Cat
Income \$	0.62	0.61	0.59	0.56	0.57	0.56	0.56	0.53	0.52	0.52	0.52	0.30	Income \$
Capital Gains \$	0.15	0.07	0.21	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	0.31	0.28	0.32	0.30	0.30	0.30	0.32	0.31	0.28	0.25	0.25	0.25	Expense Ratio %
Income Ratio %	7.03	7.06	6.87	6.26	6.59	7.02	6.48	6.24	5.64	5.58	5.35	5.73	Income Ratio %
Turnover Rate %	49	30	33	43	7	17	39	33	11	16	9	15	Turnover Rate %
Net Assets \$mil	3,412	3,637	4,153	3,724	3,704	3,550	3,753	3,851	4,213	4,224	4,187	4,304	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	5.85			
3 Yr	4.88	Avg	High	★★★
5 Yr	6.20	-Avg	+Avg	★★
10 Yr	6.32	Avg	+Avg	★★★
Incept	8.65			

Other Measures

	Standard Index	Best Fit Index
Alpha	1.3	-0.3
Beta	2.41	1.03
R-Squared	92	99
Standard Deviation		7.22
Mean		4.88
Sharpe Ratio		0.14

Portfolio Analysis 03-31-07

	Date of Maturity	Amount \$000	Value \$000	% Net Assets
Total Fixed-Income:248				
Illinois St Go Bds 5.1%	06-01-33	140,175	133,867	2.34
General Elec Cap 6.75%	03-15-32	95,975	108,704	1.90
FHLMC 6.25%	07-15-32	95,400	108,497	1.90
FNMA 6.625%	11-15-30	83,925	99,038	1.73
FHLBA 5.5%	07-15-36	85,000	87,620	1.53
Deutsche Telekom Intl Fi	06-15-30	59,000	73,066	1.28
New York Life Ins 144A 5	05-15-33	70,275	71,233	1.24
At&T Wireless Svcs 8.75%	03-01-31	52,725	67,998	1.19
Natl Rural Utils Coop Fi	03-01-32	50,000	63,512	1.11
France Telecom Sa 8.5%	03-01-31	48,175	62,598	1.09
President&Fellow Harvard	10-01-37	55,000	58,239	1.02
Intl Busn Machs 7%	10-30-25	50,000	57,243	1.00
Hydro-Quebec 9.4%	02-01-21	40,000	55,426	0.97
BANK AMER CHRLT NC MTN	10-15-36	55,000	55,206	0.96
Wal Mart Stores 7.55%	02-15-30	45,000	54,104	0.94
Intl Bk For Recon&Dev 7.	01-19-23	43,320	53,878	0.94
NEW YORK N Y CITY TRANSI	08-01-17	51,980	51,812	0.90
HARTFORD FINL SVCS GROUP	10-01-41	47,500	48,030	0.84
Aluminum 6.75%	01-15-28	45,000	48,013	0.84
Bellsouth 6%	11-15-34	49,000	47,314	0.83

Current Investment Style

Duration	Short	Int	Long	Quality
				High Med Low
Avg Eff Duration ¹	11.4 Yrs			
Avg Eff Maturity	21.9 Yrs			
Avg Credit Quality	A			
Avg Wtd Coupon	6.66%			
Avg Wtd Price	109.28% of par			

Coupon Range	% of Bonds	Rel Cat
0% PIK	1.0	0.2
0% to 6%	30.0	0.6
6% to 8%	58.7	1.5
8% to 10%	11.3	1.2
More than 10%	0.1	0.1

Credit Analysis	% bonds	03-31-07
AAA	14	BB
AA	30	B
A	44	Below B
BBB	11	NR/NA

Sector Breakdown

	% of assets
US Treasuries	0
TIPS	0
US Agency	6
Mortgage Pass-Throughs	0
Mortgage CMO	0
Mortgage ARM	0
US Corporate	80
Asset-Backed	0
Convertible	0
Municipal	6
Corporate Inflation-Protected	0
Foreign Corporate	6
Foreign Govt	2

Composition

Cash	0.4	Bonds	99.6
Stocks	0.0	Other	0.0

Special Securities

Restricted/Illiquid Secs	7
Exotic Mortgage-Backed	0
Emerging-Markets Secs	0
Options/Futures/Warrants	No

Address: PO Box 2600
Valley Forge, PA 19482
800-662-2739
www.vanguard.com
Inception: 07-09-73
Advisor: Wellington Management Company LLP
Subadvisor: None
NTF Plans: Schwab Instl NTF, Vanguard NTF

Minimum Purchase: \$3000 Add: \$100 IRA: \$0
Min Auto Inv Plan: \$0 Add: \$50
Sales Fees: No-load
Management Fee: 0.26%
Actual Fees: Mgt:0.22% Dist: —
Expense Projections: 3Yr:\$80 5Yr:\$141 10Yr:\$318
Income Distrib: Monthly

Vanguard Target Rmt 2015

Analyst Pick: Ticker: VTXVX Load: None NAV: \$12.96 Yield: 2.4% Total Assets: \$6,027 mil Mstar Category: Target-Date 2015-2029

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

A team led by experienced index-fund manager Duane Kelly oversees this and other Vanguard Target Retirement Funds. Because this is a fund composed of various Vanguard index offerings, shareholders tap into the company's skill at running index funds.

Strategy

This fund emphasizes capital growth and income. As of the end of May 2007, it had 35.9% of assets in Vanguard Total Bond Market Index, 51.2% in Vanguard Total Stock Market Index, 7.5% in Vanguard European Stock Index, 3.4% in Vanguard Pacific Stock Index, and 2% in Vanguard Emerging Markets Stock Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	—
2004	2.78	-0.56	0.75	5.89	9.04
2005	-1.16	2.26	2.21	1.57	4.94
2006	2.44	-1.11	4.22	5.53	11.42
2007	1.77	3.86	—	—	—

Trailing	Total Return%	+/- DJ Index	+/- Dow Jones Target 2025	%Rank Cat	Growth of \$10,000
3 Mo	-0.54	-0.74	-0.79	31	9,946
6 Mo	2.86	-1.17	-1.51	43	10,286
1 Yr	13.71	0.14	-1.86	50	11,371
3 Yr Avg	9.58	-2.66	-4.66	65	13,158
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	8.87	47	0.65	27
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 8% of assets

Morningstar's Take by Marta Norton 07-13-07

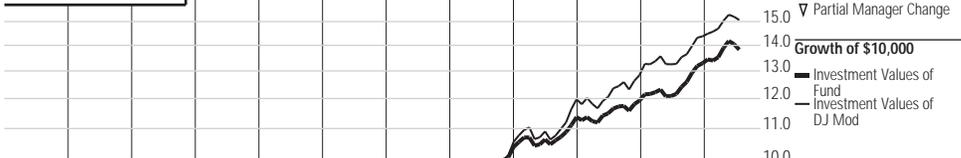
Vanguard Target Retirement 2015 is one of our favorites in the target-retirement space.

This fund of funds works as a stand-alone portfolio. It holds a mix of stock and bond funds, and scales back its equity exposure over time. For instance, the fund currently stores 64% of its assets in stocks and 36% in bonds, but this will gradually shift as the fund approaches its target date. A few years after 2015, it should mirror Vanguard Target Retirement Income's 30/70 split between equity and fixed income.

We think this approach has a lot of appeal for investors looking for a hands-off approach to investing. Plus, while a number of other target-retirement funds suffer from lackluster underlying holdings, we like what this fund owns. It invests exclusively in Vanguard's stellar lineup of index funds. For instance, it currently stores 51% of its assets in Vanguard Total Stock Market Index, which is ultracheap (it has a 0.19% expense ratio) and is well diversified across the domestic-stock

Historical Profile

Return Average
Risk Low
Rating ★★★
Neutral



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07	History
NAV	—	—	—	—	—	—	—	10.43	11.17	11.46	12.46	12.96	NAV
Total Return %	—	—	—	—	—	—	—	—	9.04	4.94	11.42	4.01	Total Return %
+/-DJ Mod	—	—	—	—	—	—	—	—	-4.11	-2.31	-0.49	-0.83	+/-DJ Mod
+/-Dow Jones Target 2025	—	—	—	—	—	—	—	—	-5.67	-3.77	-2.86	-1.46	+/-Dow Jones Target 2025
Income Return %	—	—	—	—	—	—	—	—	1.92	2.33	2.71	0.00	Income Return %
Capital Return %	—	—	—	—	—	—	—	—	7.12	2.61	8.71	4.01	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	46	78	61	47	Total Rtn % Rank Cat
Income \$	—	—	—	—	—	—	—	0.06	0.20	0.26	0.31	0.00	Income \$
Capital Gains \$	—	—	—	—	—	—	—	0.00	0.00	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.21	Expense Ratio %
Income Ratio %	—	—	—	—	—	—	—	—	2.69	3.11	3.04	—	Income Ratio %
Turnover Rate %	—	—	—	—	—	—	—	—	1	1	15	—	Turnover Rate %
Net Assets \$mil	—	—	—	—	—	—	—	50	707	2,293	4,355	6,027	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	13.71	—	—	—
3 Yr	9.58	Avg	Low	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	9.18	—	—	—

Other Measures	Standard Index	Best Fit Index
Alpha	-0.3	1.0
Beta	0.72	0.53
R-Squared	83	87
Standard Deviation	4.26	—
Mean	9.58	—
Sharpe Ratio	1.23	—

Portfolio Analysis 03-31-07

Total Stocks:0	Share change since 12-31-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Stock Mkt Idx	—	—	—	—	49.63
Vanguard Total Bond Market Index	—	—	—	—	35.93
Vanguard European Stock Index	—	—	—	—	7.57
Vanguard Pacific Stock Index	—	—	—	—	3.33
Vanguard Emerging Mkts Stock Idx	—	—	—	—	2.04
Vanguard Total Stock Market ETF	—	—	—	—	1.51

Total Fixed-Income:0

Date of Maturity	Amount \$000	Value \$000	% Net Assets
—	—	—	—

Equity Style	Fixed-Income Style
Style: Blend	Duration: Inter-M Term
Size: Large-Cap	Quality: High
Value Measures	Rel Category
Price/Earnings	15.36
Price/Book	2.27
Price/Sales	1.32
Price/Cash Flow	8.55
Dividend Yield %	2.09
Growth Measures	% Rel Category
Long-Term Erngs	11.41
Book Value	10.43
Sales	9.28
Cash Flow	9.41
Historical Erngs	18.29
Market Cap %	
Giant	45.2
Large	29.6
Mid	18.4
Small	5.2
Micro	1.7
Avg \$mil:	28,118

Composition	Sector Weightings
Cash	1.3
Stocks	63.4
Bonds	35.1
Other	0.3
Foreign	20.0
(% of Stock)	
Info	18.36
Software	3.26
Hardware	7.82
Media	3.19
Telecom	4.09
Service	46.67
Health	10.70
Consumer	7.73
Business	5.24
Financial	23.00
Mfg	35.00
Goods	8.89
Ind Mtrls	12.94
Energy	9.13
Utilities	4.04

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-662-6273	Minimum Purchase:	\$3000	Add: \$100	IRA: \$3000
Web Address:	www.vanguard.com	Min Auto Inv Plan:	\$3000	Add: \$50	
Inception:	10-27-03	Sales Fees:	No-load		
Advisor:	Vanguard Advisers, Inc.	Management Fee:	0.00%		
Subadvisor:	None	Actual Fees:	—	Dist: —	
NTF Plans:	Schwab Instl NTF, Vanguard NTF	Expense Projections:	3Yr:\$68	5Yr:\$118	10Yr:\$268
		Income Distrib:	Annually		



Vanguard Target Rmt 2025

Analyst Pick

Ticker VTTVX

Load None

NAV \$13.63

Yield 2.1%

Total Assets \$6,125 mil

Mstar Category Target-Date 2015-2029

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

A team led by experienced index-fund manager Duane Kelly oversees this and other Vanguard Target Retirement Funds. Because this fund is composed of various Vanguard index offerings, shareholders tap into the company's skill at running index funds.

Strategy

This fund emphasizes capital growth and income. As of the end of May 2007, it had 20.5% of assets in Vanguard Total Bond Market Index, 63.5% in Vanguard Total Stock Market Index, 9.3% in Vanguard European Stock Index, 4.2% in Vanguard Pacific Stock Index, and 2.5% in Vanguard Emerging Markets Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	—
2004	2.85	-0.28	0.37	6.95	10.11
2005	-1.32	2.14	2.79	1.78	5.45
2006	3.23	-1.32	4.34	6.55	13.24
2007	1.84	4.89	—	—	—

Trailing	Total Return%	+/- DJ Index	+/- Dow Target 2025	%Rank Cat	Growth of \$10,000
3 Mo	-0.58	-0.78	-0.83	34	9,942
6 Mo	3.10	-0.93	-1.27	36	10,310
1 Yr	15.71	2.14	0.14	22	11,571
3 Yr Avg	10.94	-1.30	-3.30	35	13,654
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	10.32	27	0.56	8
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 11% of assets

Morningstar's Take by Marta Norton 07-13-07

Vanguard Target Retirement 2025 is a sensible choice for investors looking for an all-in-one investment solution.

This fund of funds is designed to keep things simple. It offers a complete portfolio of stock and bond index funds. Currently, it stores approximately 80% of its assets in equity and the remaining 20% in fixed income, but that will gradually change. A few years after its target date, it should offer the same 70/30 stock/bond split as Vanguard Target Retirement Income.

That structure has appeal for investors looking for a low-maintenance investment choice, but it's not unusual. Lots of target-retirement funds have the same construction. What distinguishes this fund is its impressive underlying holdings. It sticks exclusively to Vanguard's stellar lineup of index funds. Its largest equity holding, Vanguard Total Stock Market Index, holds nearly every domestic stock and, with the help of an experienced management team and a low expense ratio, has

Historical Profile

Return	Average
Risk	Average
Rating	★★★ Neutral



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07
------	------	------	------	------	------	------	------	------	------	------	-------

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07
—	—	—	—	—	—	—	10.51	11.39	11.77	13.04	13.63
—	—	—	—	—	—	—	—	10.11	5.45	13.24	4.52
—	—	—	—	—	—	—	—	-3.04	-1.80	1.33	-0.32
—	—	—	—	—	—	—	—	-4.60	-3.26	-1.04	-0.95
—	—	—	—	—	—	—	—	1.71	2.11	2.46	0.00
—	—	—	—	—	—	—	—	8.40	3.34	10.78	4.52
—	—	—	—	—	—	—	—	23	65	32	31
—	—	—	—	—	—	—	0.06	0.18	0.24	0.29	0.00
—	—	—	—	—	—	—	0.00	0.00	0.00	0.00	0.00
—	—	—	—	—	—	—	—	2.33	2.84	2.66	—
—	—	—	—	—	—	—	—	3	2	22	—
—	—	—	—	—	—	—	30	708	2,529	4,605	6,125

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	15.71	—	—	—
3 Yr	10.94	Avg	Avg	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	10.45	—	—	—

Other Measures	Standard Index	Best Fit Index
Alpha	-0.3	1.2
Beta	0.88	0.66
R-Squared	84	93
Standard Deviation	5.15	—
Mean	10.94	—
Sharpe Ratio	1.27	—

Portfolio Analysis 03-31-07

Total Stocks:0	Share change since 12-31-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Stock Mkt Idx	—	—	—	—	61.54
Vanguard Total Bond Market Index	—	—	—	—	20.51
Vanguard European Stock Index	—	—	—	—	9.41
Vanguard Pacific Stock Index	—	—	—	—	4.05
Vanguard Emerging Mkts Stock Idx	—	—	—	—	2.48
Vanguard Total Stock Market ETF	—	—	—	—	2.01

Total Fixed-Income:0

Date of Maturity	Amount \$000	Value \$000	% Net Assets
—	—	—	—

Equity Style	Style: Blend	Size: Large-Cap	Value Measures	Rel Category	Fixed-Income Style	Duration: Inter-M Term	Quality: High	Value Measures	Rel Category		
Price/Earnings	15.36	0.98	Avg Eff Duration	4.5 Yrs	Avg Eff Maturity	6.8 Yrs	Avg Credit Quality	AAA	Avg Wtd Coupon	5.32%	
Price/Book	2.27	0.96	Figure provided by fund as of 03-31-07								
Price/Sales	1.32	1.03									
Price/Cash Flow	8.55	0.98									
Dividend Yield %	2.09	1.08									
Growth Measures	%	Rel Category									
Long-Term Erngs	11.41	0.96									
Book Value	10.43	1.07									
Sales	9.27	1.14									
Cash Flow	9.42	0.93									
Historical Erngs	18.29	0.94									
Market Cap %											
Giant	45.2	Small	5.2								
Large	29.5	Micro	1.7								
Mid	18.4	Avg \$mil:	28,145								

Composition	Cash	Stocks	Bonds	Other	Foreign
	1.0	78.7	20.0	0.3	19.9
(% of Stock)					

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-662-6273	Minimum Purchase:	\$3000	Add: \$100	IRA: \$3000
Web Address:	www.vanguard.com	Min Auto Inv Plan:	\$3000	Add: \$50	
Inception:	10-27-03	Sales Fees:	No-load		
Advisor:	Vanguard Advisers, Inc.	Management Fee:	0.00%		
Subadvisor:	None	Actual Fees:	—	Dist: —	
NTF Plans:	Schwab Instl NTF, Vanguard NTF	Expense Projections:	3Yr:\$68	5Yr:\$118	10Yr:\$268
		Income Distrib:	Annually		



Vanguard Target Rtm 2035

Analyst Pick: Ticker: VTTX Load: None NAV: \$14.54 Yield: 1.8% Total Assets: \$4,125 mil Mstar Category: Target-Date 2030+

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

A team led by experienced index-fund manager Duane Kelly oversees this and other Vanguard Target Retirement Funds. Because this fund is composed of various Vanguard index offerings, shareholders tap into the company's skill at running index funds.

Strategy

This fund emphasizes capital growth and income. As of the end of May 2007, it invested 10% of assets in Vanguard Total Bond Market Index, 72% in Vanguard Total Stock Market Index, 10.5% in Vanguard European Stock Index, 4.7% in Vanguard Pacific Stock Index, and 2.8% in Vanguard Emerging Markets Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	—
2004	2.92	0.46	-0.64	8.98	11.95
2005	-1.62	1.82	4.00	2.04	6.30
2006	4.49	-1.41	4.35	7.20	15.24
2007	1.87	5.66	—	—	—

Trailing	Total Return%	+/- DJ Index	+/- Dow Target 2040	%Rank Cat	Growth of \$10,000
3 Mo	-0.68	-0.88	-1.00	37	9,932
6 Mo	3.27	-0.76	-1.74	41	10,327
1 Yr	16.99	3.42	-2.21	40	11,699
3 Yr Avg	12.65	0.41	-4.33	54	14,295
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	12.16	37	0.43	5
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 12% of assets

Morningstar's Take by Marta Norton 07-10-07

Vanguard Target Retirement 2035 is a good choice for investors planning for retirement.

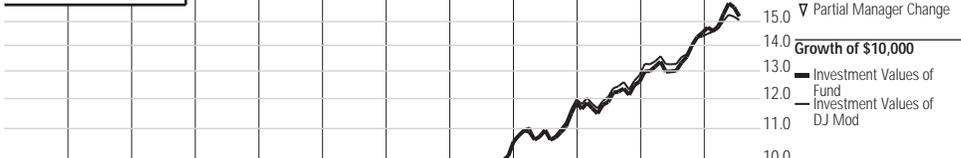
This fund of funds is a low-maintenance investment option. It offers a complete portfolio of stock and bond index funds and gradually increases its stake in fixed-income securities as it nears its target date. Currently the fund has 90% in equity and stores the remaining 10% in fixed income, but a few years after 2035, it should match Vanguard Target Retirement Income's 30% stock, 70% bond asset allocation.

This structure promises ease of use, but there are more reasons than that to give the fund a look. It sticks to Vanguard's strong lineup of index funds, which are extremely well diversified. For instance, Vanguard Total Stock Market Index, the fund's largest equity holding, covers nearly every stock in the domestic market. Similarly, Vanguard Total Bond Market Index provides exposure to the entire investment-grade bond universe.

We're also pleased the fund has a stake

Historical Profile

Return: Average
Risk: Below Avg
Rating: ★★★ Neutral



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07	History
NAV	—	—	—	—	—	—	—	10.63	11.73	12.26	13.87	14.54	NAV
Total Return %	—	—	—	—	—	—	—	—	11.95	6.30	15.24	4.83	Total Return %
+/-DJ Mod	—	—	—	—	—	—	—	—	-1.20	-0.95	3.33	-0.01	+/-DJ Mod
+/-Dow Jones Target 2040	—	—	—	—	—	—	—	—	-4.41	-4.66	-2.13	-1.82	+/-Dow Jones Target 2040
Income Return %	—	—	—	—	—	—	—	—	1.60	1.79	2.12	0.00	Income Return %
Capital Return %	—	—	—	—	—	—	—	—	10.35	4.51	13.12	4.83	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	43	87	35	45	Total Rtn % Rank Cat
Income \$	—	—	—	—	—	—	—	—	0.06	0.17	0.21	0.26	Income \$
Capital Gains \$	—	—	—	—	—	—	—	—	0.00	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.21	Expense Ratio %
Income Ratio %	—	—	—	—	—	—	—	—	1.70	2.33	2.21	—	Income Ratio %
Turnover Rate %	—	—	—	—	—	—	—	—	2	—	14	—	Turnover Rate %
Net Assets \$mil	—	—	—	—	—	—	—	19	373	1,402	3,050	4,125	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	16.99	—	—	—
3 Yr	12.65	Avg	-Avg	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	12.13	—	—	—

Other Measures	Standard Index	Best Fit Index
Alpha	-0.4	1.4
Beta	1.11	0.80
R-Squared	88	96
Standard Deviation	6.34	—
Mean	12.65	—
Sharpe Ratio	1.28	—

Portfolio Analysis 03-31-07

Total Stocks:0	Share change since 12-31-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Stock Mkt Idx	—	—	—	—	69.58
Vanguard European Stock Index	—	—	—	—	10.55
Vanguard Total Bond Market Index	—	—	—	—	10.04
Vanguard Pacific Stock Index	—	—	—	—	4.64
Vanguard Emerging Mkts Stock Idx	—	—	—	—	2.83
Vanguard Total Stock Market ETF	—	—	—	—	2.36

Total Fixed-Income:0

Date of Maturity	Amount \$000	Value \$000	% Net Assets
—	—	—	—

Equity Style	Fixed-Income Style
Style: Blend	Duration: —
Size: Large-Cap	Quality: —
Value Measures	Rel Category
Price/Earnings	15.37 0.98
Price/Book	2.27 0.95
Price/Sales	1.32 1.04
Price/Cash Flow	8.55 0.99
Dividend Yield %	2.09 1.09
Growth Measures	% Rel Category
Long-Term Erngs	11.41 0.95
Book Value	10.43 1.08
Sales	9.27 1.11
Cash Flow	9.41 0.92
Historical Erngs	18.29 0.94
Market Cap %	
Giant	45.2 Small 5.3
Large	29.6 Micro 1.7
Mid	18.4 Avg \$mil: 28,121

Composition	Sector Weightings
Cash 0.8	Info 18.36
Stocks 89.0	Software 3.26
Bonds 9.8	Hardware 7.82
Other 0.3	Media 3.20
Foreign 19.9	Telecom 4.08
(% of Stock)	Service 46.68
	Health 10.71
	Consumer 7.74
	Business 5.24
	Financial 22.99
	Mfg 34.98
	Goods 8.88
	Ind Mtrls 12.93
	Energy 9.13
	Utilities 4.04

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-662-6273	Minimum Purchase:	\$3000	Add: \$100	IRA: \$3000
Web Address:	www.vanguard.com	Min Auto Inv Plan:	\$3000	Add: \$50	
Inception:	10-27-03	Sales Fees:	No-load		
Advisor:	Vanguard Advisers, Inc.	Management Fee:	0.00%		
Subadvisor:	None	Actual Fees:	—	Dist: —	
NTF Plans:	Schwab Instl NTF, Vanguard NTF	Expense Projections:	3Yr:\$68	5Yr:\$118	10Yr:\$268
		Income Distrib:	Annually		



Vanguard Target Rtmt 2045

Analyst Pick: Ticker: VTIVX Load: None NAV: \$15.02 Yield: 1.7% Total Assets: \$2,004 mil Mstar Category: Target-Date 2030+

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

A team led by experienced index-fund manager Duane Kelly oversees this and other Vanguard Target Retirement Funds. Because this fund is composed of various Vanguard index offerings, shareholders tap into the company's skill at running index funds.

Strategy

This fund holds a diverse mix of stocks and bonds. Initially, it invests 72.1% of assets in Vanguard Total Stock Market Index, 10.5% in Vanguard European Stock Index, 4.7% in Vanguard Pacific Stock Index, and 2.8% in Vanguard Emerging Markets Index. The remaining 9.9% is devoted to bonds through Vanguard Total Bond Market Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	—
2004	2.89	0.82	-1.17	10.11	12.89
2005	-1.76	1.62	4.70	2.32	6.95
2006	5.25	-1.44	4.29	7.20	15.98
2007	1.89	5.69	—	—	—

Trailing	Total Return%	+/- DJ Index	+/- Dow Jones Target 2040	%Rank Cat	Growth of \$10,000
3 Mo	-0.66	-0.86	-0.98	37	9,934
6 Mo	3.30	-0.73	-1.71	41	10,330
1 Yr	17.00	3.43	-2.20	39	11,700
3 Yr Avg	13.53	1.29	-3.45	23	14,633
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	13.09	12	0.39	1
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 12% of assets

Morningstar's Take by Marta Norton 07-10-07

Vanguard Target Retirement 2045 is easy for young investors to use, but there are other things to like about it as well.

This fund of funds is a low-maintenance investment option. It offers a complete portfolio of stock and bond index funds and gradually increases its stake in fixed-income securities as it nears its target date. Currently, the fund stores about 90% of its assets in stocks and the remaining 10% in bonds, but a few years after 2045, it should match Vanguard Target Retirement Income's 30% stock, 70% bond asset allocation.

This structure promises ease of use, but there are more reasons than that to give the fund a look. It sticks to Vanguard's strong lineup of index funds, which are extremely well diversified. For instance, Vanguard Total Stock Market Index, the fund's largest equity holding, covers nearly every stock in the domestic market. Similarly, Vanguard Total Bond Market Index provides exposure to the entire investment-grade bond universe.

Historical Profile

Return: Above Avg
Risk: Average
Rating: ★★★★★
Above Avg



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07	History
NAV	10.71	11.93	12.57	14.32	15.02	—	—	10.71	11.93	12.57	14.32	15.02	NAV
Total Return %	—	—	—	—	—	—	—	—	12.89	6.95	15.98	4.89	Total Return %
+/-DJ Mod	—	—	—	—	—	—	—	—	-0.26	-0.30	4.07	0.05	+/-DJ Mod
+/-Dow Jones Target 2040	—	—	—	—	—	—	—	—	-3.47	-4.01	-1.39	-1.76	+/-Dow Jones Target 2040
Income Return %	—	—	—	—	—	—	—	—	1.49	1.59	1.99	0.00	Income Return %
Capital Return %	—	—	—	—	—	—	—	—	11.40	5.36	13.99	4.89	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	19	74	23	44	Total Rtn % Rank Cat
Income \$	—	—	—	—	—	—	—	—	0.07	0.16	0.19	0.25	Income \$
Capital Gains \$	—	—	—	—	—	—	—	—	0.00	0.00	0.01	0.01	Capital Gains \$
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.21	Expense Ratio %
Income Ratio %	—	—	—	—	—	—	—	—	1.38	2.07	2.03	—	Income Ratio %
Turnover Rate %	—	—	—	—	—	—	—	—	7	7	3	—	Turnover Rate %
Net Assets \$mil	—	—	—	—	—	—	—	7	142	626	1,446	2,004	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	17.00	—	—	—
3 Yr	13.53	+ Avg	Avg	★★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	13.01	—	—	—

Other Measures

	Standard Index S&P 500	Best Fit Index M* U.S. Mkt TR
Alpha	-0.4	1.6
Beta	1.22	0.87
R-Squared	90	97
Standard Deviation	6.90	—
Mean	13.53	—
Sharpe Ratio	1.30	—

Portfolio Analysis 03-31-07

Total Stocks:0	Share change since 12-31-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Stock Mkt Idx	—	—	—	—	69.73
Vanguard European Stock Index	—	—	—	—	10.57
Vanguard Total Bond Market Index	—	—	—	—	10.00
Vanguard Pacific Stock Index	—	—	—	—	4.63
Vanguard Emerging Mkts Stock Idx	—	—	—	—	2.82
Vanguard Total Stock Market ETF	—	—	—	—	2.21

Total Fixed-Income:0

Date of Maturity	Amount \$000	Value \$000	% Net Assets
—	—	—	—

Equity Style

Style: Blend
Size: Large-Cap

Value Measures	Rel Category	Fixed-Income Style
Price/Earnings	15.37 0.98	Duration: —
Price/Book	2.27 0.95	Quality: —
Price/Sales	1.32 1.04	Avg Eff Duration 1
Price/Cash Flow	8.55 0.99	Avg Eff Maturity
Dividend Yield %	2.09 1.09	Avg Credit Quality
Growth Measures	% Rel Category	Avg Wtd Coupon
Long-Term Erngs	11.41 0.95	Figure provided by fund
Book Value	10.43 1.08	Sector Weightings
Sales	9.27 1.11	Info 18.36 — 3 3
Cash Flow	9.41 0.92	Software 3.26 — 9 8
Historical Erngs	18.29 0.94	Hardware 7.82 — 9 8
Market Cap %		Media 3.20 — 4 3
Giant 45.2 Small 5.3		Telecom 4.08 — 4 4
Large 29.6 Micro 1.7		Service 46.68 —
Mid 18.4 Avg \$mil: 28,127		Health 10.71 — 12 11

Composition

Cash	0.9
Stocks	89.0
Bonds	9.8
Other	0.3
Foreign	19.9
(of Stock)	

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-662-6273	Minimum Purchase:	\$3000	Add: \$100	IRA: \$3000
Web Address:	www.vanguard.com	Min Auto Inv Plan:	\$3000	Add: \$50	
Inception:	10-27-03	Sales Fees:	No-load		
Advisor:	Vanguard Advisers, Inc.	Management Fee:	0.00%		
Subadvisor:	None	Actual Fees:	—	Dist: —	
NTF Plans:	Schwab Instl NTF, Vanguard NTF	Expense Projections:	3Yr:\$68	5Yr:\$118	10Yr:\$268
		Income Distrib:	Annually		



Vanguard Target Rmt Inc

Analyst Pick

Ticker VTINX

Load None

NAV \$10.84

Yield 3.8%

Total Assets \$1,197 mil

Mstar Category Target-Date 2000-2014

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

A team led by experienced index-fund manager Duane Kelly oversees this and other Vanguard Target Retirement Funds. Because the components here all are index offerings, shareholders tap into Vanguard's skill at running index funds.

Strategy

This fund seeks to provide current income and, to a lesser extent, capital appreciation. It is heavily weighted toward fixed-income securities. As of the end of May 2007, it had 45% invested in Vanguard Total Bond Market Index and 20% in TIPS through Vanguard Inflation-Protected Securities. With 5% stored in cash, the remaining 30% of the portfolio's assets are devoted to equities, with 24% invested in Vanguard Total Stock Market Index.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	—
2004	3.15	-1.72	2.16	3.15	6.82
2005	-0.76	2.79	0.47	0.81	3.33
2006	0.19	-0.47	3.82	2.76	6.38
2007	1.77	1.58	—	—	—

Trailing	Total Return%	+/- DJ Jones	+/- Dow Target 2010	%Rank Cat	Growth of \$10,000
3 Mo	-0.18	-0.38	-0.21	19	9,982
6 Mo	2.71	-1.32	-0.15	16	10,271
1 Yr	9.11	-4.46	0.80	45	10,911
3 Yr Avg	6.16	-6.08	-2.14	63	11,964
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	4.83	60	1.25	82
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 3% of assets

Morningstar's Take by Marta Norton 07-10-07

Vanguard Target Retirement Income is a good choice for retired investors.

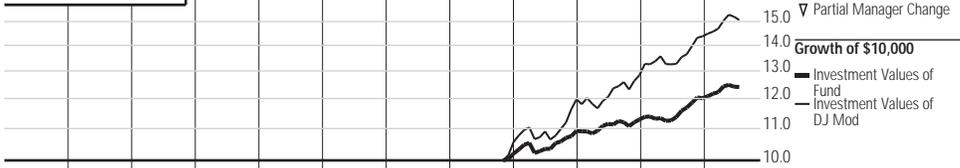
This fund of funds is the final stage in Vanguard's series of target-retirement funds. A few years past their respective target dates, the other funds in the lineup fold into this fund and adopt its 30% stock, 70% bond asset allocation split.

On the whole, we think this fund is a good choice for retirees. It sticks to Vanguard's stellar lineup of index funds, so it's very cheap. (It has a low 0.21% expense ratio.) Plus, the index funds are well diversified. Vanguard Total Bond Market Index, the fund's largest holding, provides broad coverage of the domestic investment-grade bond universe, for example. Vanguard Total Stock Market Index, which claims the majority of the fund's equity stake, is also broad-based. It covers nearly every domestic stock.

Plus, we're pleased the fund diversifies outside of these two core holdings. It has a modest stake in foreign equity index funds and also has exposure to Treasury Inflation-Protected Securities through

Historical Profile

Return Average
Risk Below Avg
Rating ★★★
Neutral



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07	History	
NAV	—	—	—	—	—	—	—	10.18	10.52	10.44	10.70	10.84	NAV	
Total Return %	—	—	—	—	—	—	—	—	6.82	3.33	6.38	3.28	Total Return %	
+/-DJ Mod	—	—	—	—	—	—	—	—	-6.33	-3.92	-5.53	-1.56	+/-DJ Mod	
+/-Dow Jones Target 2010	—	—	—	—	—	—	—	—	-3.80	-0.29	-1.74	0.24	+/-Dow Jones Target 2010	
Income Return %	—	—	—	—	—	—	—	—	3.38	3.95	3.79	1.97	Income Return %	
Capital Return %	—	—	—	—	—	—	—	—	3.44	-0.62	2.59	1.31	Capital Return %	
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	42	62	76	24	Total Rtn % Rank Cat	
Income \$	—	—	—	—	—	—	—	—	0.05	0.34	0.41	0.39	Income \$	
Capital Gains \$	—	—	—	—	—	—	—	—	0.02	0.00	0.00	0.00	Capital Gains \$	
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.21	Expense Ratio %	
Income Ratio %	—	—	—	—	—	—	—	—	3.62	3.80	4.21	—	Income Ratio %	
Turnover Rate %	—	—	—	—	—	—	—	—	1	—	22	—	Turnover Rate %	
Net Assets \$mil	—	—	—	—	—	—	—	—	47	407	734	897	1,197	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	9.11	—	—	—
3 Yr	6.16	Avg	-Avg	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	5.96	—	—	—

Other Measures	Standard Index S&P 500	Best Fit Index LB Long Tr
Alpha	-0.5	1.6
Beta	0.32	0.25
R-Squared	40	42
Standard Deviation	2.70	—
Mean	6.16	—
Sharpe Ratio	0.74	—

Portfolio Analysis 03-31-07

Total Stocks:0	Share change since 12-31-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Bond Market Index	—	—	—	—	45.12
Vanguard Total Stock Mkt Idx	—	—	—	—	23.10
Vanguard Inflation-Protected Secs	—	—	—	—	19.93
Vanguard European Stock Index	—	—	—	—	3.50
Vanguard Pacific Stk Idx Fd Inc	—	—	—	—	1.55
Vanguard Emerging Mkts Stock Idx	—	—	—	—	0.93
Vanguard Total Stock Market ETF	—	—	—	—	0.86

Total Fixed-Income:0

Date of Maturity	Amount \$000	Value \$000	% Net Assets
—	—	—	—

Equity Style	Style: Blend	Size: Large-Cap	Fixed-Income Style	Duration: Inter-M Term	Quality: High
Value Measures	Price/Earnings	15.25	Avg Eff Duration	1	5.2 Yrs
	Price/Book	2.29	Avg Eff Maturity	—	7.9 Yrs
	Price/Sales	1.33	Avg Credit Quality	—	AAA
	Price/Cash Flow	8.52	Avg Wtd Coupon	—	4.43%
	Dividend Yield %	2.09	Figure provided by fund as of 03-31-07		
Growth Measures	Long-Term Erngs	11.40	Sector Weightings	% of Stocks	Rel DJ Mod
	Book Value	10.44	Info	18.85	—
	Sales	9.56	Software	3.42	— 4 3
	Cash Flow	9.78	Hardware	8.01	— 10 8
	Historical Erngs	18.10	Media	3.32	— 5 3
	Market Cap %	—	Telecom	4.10	— 4 3
	Giant	44.8	Service	46.72	—
	Large	29.2	Health	11.04	— 13 11
	Mid	18.7	Consumer	7.89	— 10 7
	Small	5.5	Business	5.14	— 6 5
	Micro	1.8	Financial	22.65	— 24 20
	Avg \$mil:	28,727	Mfg	34.42	—
Composition	Cash	6.4	Goods	8.45	— 9 8
	Stocks	28.1	Ind Mtrls	12.41	— 13 11
	Bonds	63.9	Energy	9.55	— 10 7
	Other	1.6	Utilities	4.01	— 4 3
	Foreign	15.5	(% of Stock)		

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-662-6273	Minimum Purchase:	\$3000	Add: \$100	IRA: \$3000
Web Address:	www.vanguard.com	Min Auto Inv Plan:	\$3000	Add: \$50	
Inception:	10-27-03	Sales Fees:	No-load		
Advisor:	Vanguard Advisers, Inc.	Management Fee:	0.00%		
Subadvisor:	None	Actual Fees:	—	Dist: —	
NTF Plans:	Schwab Instl NTF, Vanguard NTF	Expense Projections:	3Yr:\$68	5Yr:\$118	10Yr:\$268
		Income Distrib:	Quarterly		



Vanguard Wellington

Analyst Pick: Ticker: Load: NAV: Yield: Total Assets: Mstar Category:
 None \$33.42 2.9% \$48,599 mil Moderate Allocation

Governance and Management

Stewardship Grade: A

Portfolio Manager(s)

John Keogh has been the lead fixed-income manager since 2006 but has been with Wellington Management, this fund's subadvisor, since 1983 and worked as a backup on this fund since 2004. Ed Bousa, who took over the equity portfolio at the end of 2002, did a solid job managing Putnam Equity Income from late 1992 through early 2000. He also runs Hartford Dividend & Growth.

Strategy

This fund's fixed-income and equity portfolios follow disciplined strategies. The bond portfolio typically emphasizes high-quality issues, but it has often taken on a modest amount of interest-rate risk. On the stock side, Ed Bousa looks for dividend-paying companies with modest valuations and decent fundamentals. The fund is typically light on technology stocks and has plenty of exposure to value-oriented fare.

Performance 07-31-07

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-3.35	12.55	1.37	9.50	20.75
2004	2.19	0.41	1.65	6.58	11.17
2005	-0.53	1.71	4.22	1.31	6.82
2006	2.99	0.69	5.07	5.51	14.97
2007	1.14	4.91	—	—	—

Trailing	Total Return%	+/- DJ Mod	+/- DJ US Mod	%Rank Cat	Growth of \$10,000
3 Mo	-0.07	-0.27	1.30	23	9,993
6 Mo	3.84	-0.19	2.20	14	10,384
1 Yr	14.02	0.45	2.40	19	11,402
3 Yr Avg	12.12	-0.12	2.20	11	14,094
5 Yr Avg	11.37	-1.38	0.43	18	17,133
10 Yr Avg	8.32	0.72	0.83	8	22,238
15 Yr Avg	10.97	1.79	1.64	8	47,652

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	10.62	11	1.34	64
5 Yr (estimated)	10.08	20	1.16	67
10 Yr (estimated)	6.27	9	1.89	75

Potential Capital Gain Exposure: -1% of assets

Morningstar's Take by Dan Culloton 07-23-07

Invest at Vanguard Wellington and rest easy.

This fund maintains all of the attributes that has made it a fine long-term holding. There are seasoned managers in charge, it practices a risk-conscious and value-oriented brand of investing, and it has very low costs working in its favor. At nearly \$50 billion in assets, this offering is the largest moderate-allocation fund with just one listed manager each for its stock and bond portfolios. As such, it steers more like a dreadnought than a cabin cruiser. (Mid-cap stocks are less of an option than they once were because they're less liquid.) Nevertheless, its patient contrarian style lends itself well to managing a lot of money, and Vanguard has taken precautions to keep asset flows from tripping the fund up, such as raising the minimum investment.

And the fund has not tripped. Late in 2006, equity manager Ed Bousa pared back some of its energy holdings but added back (mostly in major integrated oil firms such as Royal Dutch Shell) on

Historical Profile

Return: Above Avg
 Risk: Below Avg
 Rating: ★★★★★
 Above Avg



Investment Style

Equity: 65%
 Stock: 65%

▼ Manager Change
 ▽ Partial Manager Change

Growth of \$10,000

Investment Values of Fund
 Investment Values of DJ Mod

Performance Quartile (within Category)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	07-07	History
NAV	26.15	29.45	29.35	27.96	28.21	27.26	24.56	28.81	30.19	30.35	32.44	33.42	NAV
Total Return %	16.19	23.23	12.06	4.41	10.40	4.19	-6.90	20.75	11.17	6.82	14.97	4.54	Total Return %
+/-DJ Mod	6.50	12.42	1.61	-13.59	12.56	6.70	0.15	-6.43	-1.98	-0.43	3.06	-0.30	+/-DJ Mod
+/-DJ US Mod	4.85	4.03	-0.33	-8.44	5.96	4.03	3.64	-3.31	0.00	0.82	4.70	1.42	+/-DJ US Mod
Income Return %	4.40	4.34	3.89	3.94	3.88	3.41	3.12	3.15	3.07	3.01	3.27	1.52	Income Return %
Capital Return %	11.79	18.89	8.17	0.47	6.52	0.78	-10.02	17.60	8.10	3.81	11.70	3.02	Capital Return %
Total Rtn % Rank Cat	33	21	60	82	11	6	10	47	18	19	8	22	Total Rtn % Rank Cat
Income \$	1.06	1.12	1.13	1.14	1.07	0.95	0.84	0.77	0.88	0.90	0.98	0.49	Income \$
Capital Gains \$	1.11	1.57	2.44	1.50	1.48	1.12	0.00	0.00	0.91	0.97	1.40	0.00	Capital Gains \$
Expense Ratio %	0.31	0.29	0.31	0.30	0.31	0.36	0.36	0.36	0.31	0.29	0.30	—	Expense Ratio %
Income Ratio %	4.08	3.97	3.68	3.74	3.77	3.42	3.18	3.00	2.99	2.93	3.10	—	Income Ratio %
Turnover Rate %	30	27	29	22	33	33	25	28	24	24	25	—	Turnover Rate %
Net Assets \$mil	16,190	21,812	25,761	25,529	22,799	21,724	19,495	24,326	28,328	26,251	29,675	30,569	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	14.02			
3 Yr	12.12	High	-Avg	★★★★★
5 Yr	11.37	+Avg	Avg	★★★★
10 Yr	8.32	+Avg	-Avg	★★★★
Incept	8.38			

Other Measures

	Standard Index DJ Mod	Best Fit Index Russ 1000 VI
Alpha	1.2	1.6
Beta	0.83	0.60
R-Squared	84	89
Standard Deviation	4.85	
Mean	12.12	
Sharpe Ratio	1.56	

Portfolio Analysis 03-31-07

Total Stocks: 109	Sectors	P/E Ratio	YTD Return %	% Net Assets
Share change since 12-31-06				
⊕ AT&T, Inc.	Telecom	18.9	13.46	2.52
⊕ Bank of America Corporati	Financial	11.6	-1.12	1.93
⊕ General Electric Company	Ind Mtrls	18.7	6.78	1.82
⊖ Citigroup, Inc.	Financial	13.1	-10.30	1.70
⊕ Chevron Corporation	Energy	9.4	18.65	1.55
⊕ ExxonMobil Corporation	Energy	11.6	10.48	1.49
⊕ Total SA ADR	Energy	10.7	2.45	1.47
⊕ IBM	Hardware	16.0	14.38	1.36
⊕ Exelon Corporation	Utilities	26.3	19.65	1.36

Total Fixed-Income: 2386

	Date of Maturity	Amount \$000	Value \$000	% Net Assets
US Treasury Note 3.5%	01-15-11	258,275	317,086	0.68
FHLBA 4.875%	11-18-11	174,400	174,621	0.37
SIEMENS FIN NV	10-17-16	89,650	91,144	0.20
Hbos Plc Medium Tm Sb Nts	11-01-33	80,500	81,107	0.17
Household Fin 6.375%	10-15-11	75,000	78,142	0.17
Hewlett Packard 5.25%	03-01-12	75,000	75,441	0.16
Proc & Gambi Pft Shr Tr &	01-01-21	59,025	73,722	0.16
Japan Fin 4.625%	04-21-15	75,000	72,998	0.16
Barclays Bk 144A FRN	12-15-49	70,000	71,651	0.15

Equity Style

Style: Value
 Size: Large-Cap

Value Measures	Rel Category
Price/Earnings	14.46 0.93
Price/Book	2.24 0.92
Price/Sales	1.53 1.10
Price/Cash Flow	9.29 1.06
Dividend Yield %	2.45 1.26
Growth Measures	% Rel Category
Long-Term Erngs	10.17 0.87
Book Value	10.18 1.02
Sales	9.17 1.01
Cash Flow	11.06 0.97
Historical Erngs	16.17 0.84

Market Cap %	Small	Micro	Avg \$mil:
Giant	63.8	0.0	66,223
Large	32.4	0.0	
Mid	3.8		

Composition

Cash	3.4
Stocks	65.0
Bonds	31.5
Other	0.2
Foreign	18.6
(% of Stock)	

Fixed-Income Style

Duration: Interm-Term
 Quality: High

Avg Eff Duration	1	5.3 Yrs
Avg Eff Maturity		8.2 Yrs
Avg Credit Quality		AA
Avg Wtd Coupon		5.57%
*figure provided by fund as of 03-31-07		

Sector Weightings

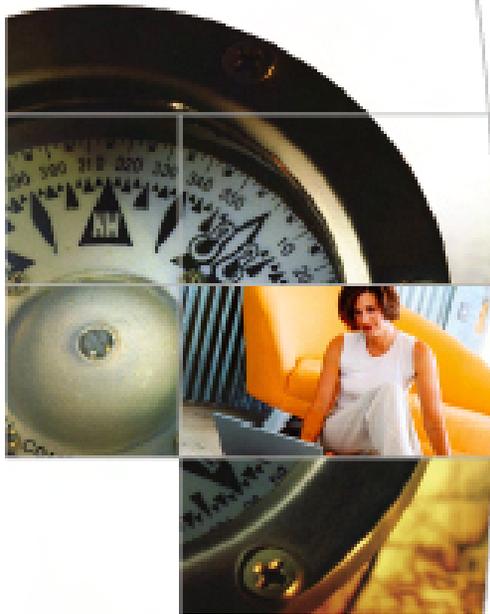
% of Stocks	Rel DJ Mod	3 Year High Low
Info	16.33	—
Software	2.24	3 1
Hardware	4.46	6 4
Media	4.45	5 4
Telecom	5.18	5 4

Service	38.76	—
Health	11.15	11 9
Consumer	4.98	5 3
Business	4.75	7 5
Financial	17.88	19 18

Mfg	44.91	—
Goods	8.92	9 7
Ind Mtrls	16.10	19 16
Energy	14.39	17 13
Utilities	5.50	6 5

Address:	PO Box 2600 Valley Forge, PA 19482 800-662-6273	Minimum Purchase:	\$10000	Add: \$100	IRA: \$10000
Web Address:	www.vanguard.com	Min Auto Inv Plan:	\$10000	Add: \$50	
Inception:	07-01-29	Sales Fees:	No-load		
Advisor:	Wellington Management	Management Fee:	0.28%		
Subadvisor:	None	Actual Fees:	Mgt:0.28%	Dist: —	
NTF Plans:	Schwab Instl NTF, Vanguard NTF	Expense Projections:	3Yr:\$97	5Yr:\$169	10Yr:\$381
		Income Distrib:	Quarterly		

Investment Policy Statement and Fund Benchmarks



AdvisedAssetsGroup

Put Our Power Behind You™

Investment Benchmarks

Investment Product	2007 Performance Benchmarks
American Funds EuroPacific Growth R5	1 MSCI EAFE Index* 2 Lipper International Funds Average* 3 MSCI All Country World Index ex-USA* 4 Morningstar Foreign Large Cap Blend Category Average**
Barclay's EAFE Equity Index Fund	1 MSCI EAFE*
DFA U.S. Microcap Portfolio	1 Russell 2000 Index* 2 Russell Microcap Index** 3 Morningstar Small Blend Category Average**
Barclay's Small Cap Equity Index Fund	1 Russell 2000 Index*
T. Rowe Price MidCap Growth Fund	1 Lipper Mid Cap Growth Funds Average* 2 Russell Mid Cap Growth Index* 3 S&P 400 Mid Cap Index* 4 Morningstar Mid Cap Growth Category Average**
Barclay's MidCap Equity Index Fund	1 S&P MidCap 400 Index*
Calvert Social Investment Equity Fund- Institutional Class	1 S&P 500 Index* 2 Lipper Multi-Cap Core Funds Average* 3 Calvert Social Index** 4 Morningstar Socially Responsible Large Cap Fund Average**
Fidelity Contrafund	1 S&P 500 Index* 2 Lipper Growth Fund Average* 3 Morningstar Large Growth Category Average**
Vanguard Institutional Index Fund (Plus Shares)	1 S&P 500 Index*
Vanguard Wellington Fund (Admiral Shares)	1 S&P 500 Index* 2 Morningstar Moderate Allocation Funds Average** 3 Composite 65% S&P 500/35% Lehman Aggregate Index**
Vanguard Long-Term Investment Grade-Fund (Admiral Shares)	1 Lehman Brothers LT Corporate A * 2 Morningstar LT Corporate Category Average**
Barclay's U.S. Debt Index Fund	1 Lehman Brothers Aggregate Bond Index*
Federated U.S. Government Securities Fund 2-5 Years (Instl)	1 Merrill Lynch 3-5 Year Treasury Index* 2 Lipper Short-Intermediate U.S. Government Average* 3 Morningstar Short-term Government Category**
Vanguard Admiral Treasury Money Market Fund	1 iMoneyNet Money Fund Report Average 100% Treasury Fund*
Stable Value Fund (Galliard)	1 Five Year Constant Maturity Treasury Rate (CMT)* 2 Hueler Analytics Pooled Fund Universe Average*
FDIC Option- M&I Bank of Southern Wisconsin	1 50% 3-Month LIBOR/50% 12-Month LIBOR
Vanguard Lifecycle Funds	1 Composite benchmarks based on asset allocation of funds

*Represent benchmarks used by the fund. **Represent benchmarks used by the Board.

Wisconsin Deferred Compensation Program
Deferred Compensation Board
Investment Policy Statement
Approved by the Deferred Compensation Board November 1998
Revision for February 2005

Objective

The Wisconsin Deferred Compensation Program (WDC) will provide participants with the ability to invest pre-tax income in a broad range of investment alternatives with diverse risk and return characteristics. The Deferred Compensation Board's goal is to ensure the WDC offers sufficient investment choices to meet participants' needs when establishing their personal retirement savings portfolio.

Investment Spectrum

The Board will maintain a core investment spectrum, normally between eight and twenty options, to ensure sufficient choices are available and are reasonable in number to allow the average participant to decide which options best meet their personal needs. The spectrum will be comprised of fixed options and publicly traded mutual fund options from the following categories:

1. *Fixed income/cash investments - FDIC insured bank account option, stable value fund, or money market mutual fund.*
2. *Bond mutual funds - government or corporate bond funds, domestic or international, active or passive management.*
3. *Balanced mutual fund – combining equity and bond investments in one option.*
4. *Domestic large cap equity mutual funds – including both active and passive (index) investments; funds with investment objectives that may include: growth and income, growth, aggressive growth, value, and blend of growth and value.*
5. *Domestic small and mid cap equity mutual funds – growth, value or blend.*
6. *International or foreign equity mutual funds – growth, value or blend.*
7. *Lifecycle funds – age-based portfolios for multiple time horizons.*

Selection Process

The Board may from time to time provide additional investment alternatives and may change the categories of funds offered to maintain a broad spectrum to address participants' changing needs or changes to the investment industry. The Board has established minimum criteria for selecting and evaluating the options offered by the WDC.

Mutual fund options are selected from the universe of publicly traded funds through a comprehensive search process. For an option to be considered for the WDC, it must meet the established minimum requirements in regard to: asset size, years in operation, costs (expense

ratio and sales fees), and historical performance. Once the initial screening has occurred, options are further analyzed based on criteria that includes, but is not limited to: short and long term performance as compared to peer group average and benchmarks, risk/return measurements, manager tenure, and industry ratings (such as *Morningstar*). Fixed income investments must also meet minimum criteria established by the Board (see attachment 1) and are selected from a competitive request for proposal process.

Evaluation Process

To ensure options continue to be suitable for offering to WDC participants and are consistent with the established investment policy, the Board completes a comprehensive evaluation each year.

Performance benchmarks are specifically established for each investment option and include a comparison to their peer group average, an appropriate index measurement, and an internal benchmark identified by the fund manager. Volatility is also measured by an analysis of risk versus return.

If the Board determines an option is no longer acceptable for continued offering, the Board may close the investment to new participant elections or initiate the process to phase the option out of the WDC and require participants to move account balances to an alternate choice. The steps in the review process are as follows:

- 1. A determination is made that a fund is unacceptable for offering. The Board can either close the fund to new elections and proceed with step 2, or initiate the phase out process to remove the fund from the WDC and skip step 2 and 3 and go directly to step 4.*
- 2. As a result of the next year's annual review, if it is determined to once again be acceptable, the fund is re-opened to participant elections.*
- 3. If improvements have occurred but it is not completely meeting all established criteria and/or there are remaining questions about its performance in can be continued in it's current closed status for an additional year.*
- 4. If the review demonstrates that the fund continues to be unacceptable for offering, the Board can initiate the process to phase it out of the WDC over a minimum of a one-year period (as required in Wisconsin Administrative Code ETF 70.08(3)).*
- 5. Participants are instructed to re-direct deferrals to an alternate choice within a period of not less than six-months from the original notification. If this action is not taken, deferrals being directed into the option being removed will automatically be redirected to an alternate option as designated by the Board.*
- 6. Participants are instructed to transfer existing balances to an alternate choice within a period of not less than one year from the original notification. If this action is not taken, account balances not exchanged out of the option being removed will automatically be redirected to an alternate option as designated by the Board.*

Responsibilities

Deferred Compensation Board – The Board is responsible for selecting appropriate investment options for offering by the WDC and monitoring the selections to ensure they continue to be acceptable for long-term retirement savings.

Investment Providers – The companies contracted to provide an investment option to the WDC are responsible for following the investment objectives that were either, identified during the competitive bid process (for fixed income options) or stated in their fund prospectus (for mutual funds).

Department of Employee Trust Funds and Administrative Services Provider Staff – Staff is responsible for completing the annual evaluation to monitor the WDC investment choices and providing sufficient analysis and information on which the Board can base decisions regarding maintaining, removing or adding investment options to the WDC. Staff is also responsible for providing sufficient information about the available investment choices and how to structure a retirement savings portfolio to enable participants to make informed decisions.

Participants – Investment decisions are the full responsibility of participants and their beneficiaries. Although the Board monitors the options that are being made available, participants are responsible for deciding which, if any, of the available choices are the most appropriate for their supplemental retirement savings needs.

Minimum Criteria for Selecting and Evaluating Fixed Income Options	
Bank Option	<ul style="list-style-type: none"> • FDIC insured • Capital ratio as required by US government to maintain FDIC coverage • Minimum size - \$1 billion in assets
Insurance Option	<ul style="list-style-type: none"> • Top rating received by at least 2 rating agencies • No rating below a Double A or equivalent • Total capital (equivalent to total assets minus total liabilities) equal to at least 5% of invested assets • High risk assets (non-investment grade bonds and non-performing real estate loans and investments) under 200% of total capital • Performance returns compared to blended 5-year Treasury rates, or other index as appropriate
Stable Value Fund Manager	<ul style="list-style-type: none"> • Minimum five years experience managing stable value assets • Minimum \$2 billion in discretionary assets under management • Investment guidelines and performance benchmark as approved by Board
Minimum Criteria for Selecting and Evaluating Mutual Fund Options	
Selection Criteria: <i>Requirements apply to all mutual funds unless specifically waived</i>	<ul style="list-style-type: none"> • Minimum 5 year operating history – may be waived for index funds • Expense ratio [internal expense charge plus any 12(b)1 fee] not greater than the mean for the appropriate peer group • 5-year rolling average performance must equal or exceed appropriate benchmark or index • Minimum total asset size of \$400 million – may be waived for certain categories of funds • Anticipated WDC assets not greater than 5% of total fund (determined by comparing current WDC asset levels in a comparable fund) • No loads or sales charges unless they are waived for the WDC • Not a sector fund
Monitoring Criteria: <i>Requirements apply to all mutual funds unless specifically waived</i>	<ul style="list-style-type: none"> • Performance must meet or exceed one or more of established benchmarks – benchmarks used include, but are not limited to 1) peer group average, 2) appropriate index as determined by Board, and 3) internal benchmark assigned by fund manager. • For specialty funds selected for reasons other than performance (e.g., socially responsive funds or lifecycle funds), performance will only be evaluated based on a comparison to the funds peer group of funds with same specialty objective. [Participants will be fully advised that fund is selected for reasons other than investment returns.] • WDC assets in fund no greater than 10% of the total mutual fund assets • After 5 years in WDC, minimum of 3% of participants or 3% of assets.

Glossary



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12b-1 Fee The maximum annual charge deducted from fund assets to pay for distribution and marketing costs. Although usually set on a percentage basis, this amount will occasionally be a flat figure.

Actively managed fund A fund manager buys and sells securities attempting to outperform the market as a whole.

Adjustable Bonds A bond whose coupon is reset periodically—usually every six months to three years. At the reset date, the coupon is set equal to some base index, such as the one-year constant Treasury rate, plus a spread (or margin). When interest rates are falling, these bonds do better than an in-year Treasury, but when interest rates rise, they can lag Treasury yields.

Aggressive Growth (Objective) Funds that seek rapid growth of capital and that may invest in emerging market growth companies without specifying a market capitalization range. They often invest in small or emerging growth companies and are more likely than other funds to invest in IPO's or in companies with high price/earnings and price/book ratios. They may use such investment techniques as heavy sector concentrations, leveraging, and short-selling.

Alpha A measure of the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates the fund's underperformance, given the expectations established by the fund's beta.

Annual Returns Total returns calculated on a calendar-year basis. The annual return for a fund will be the same as its trailing 12-month total return only at year-end.

Annualized Returns Returns for periods longer than one year are expressed as "annualized returns." This is equivalent to the compound rate of return which, over a certain period of time, would produce a fund's total return over that same period.

Asset Allocation (Objective) Income and capital appreciation are dual goals for funds in this objective. Managers often use a flexible combination of stocks, bonds, and cash. Managers may shift assets based on analysis of business-cycle trends.

Average Credit Quality Gives a snapshot of the portfolio's overall credit quality. It is an average of each bond's credit rating, adjusted for its relative weighting in the portfolio.

Average Effective Duration A measure of a fund's interest-rate sensitivity--the longer a fund's duration, the more sensitive the fund is to shifts in interest rates. Duration is determined by a formula that includes coupon rates and bond maturities. Small coupons tend to increase duration, while shorter maturities and higher coupons shorten duration. The relationship between funds with different durations is straightforward: A fund with a duration of 10 years is twice as volatile as a fund with a five-year duration.

Average Effective Maturity Used for taxable fixed-income funds only, this figure takes into consideration all mortgage prepayments, puts, and adjustable coupons; it does not, however, account for call provisions. The number listed is a weighted average of all the maturities of the bonds in the portfolio, computed by weighing each maturity date (the date the security comes due) by the market value of the security.

Balanced (Objective) Funds that seek both income and capital appreciation by investing in a generally fixed combination of stocks and bonds. These funds generally hold a minimum of 25% of their assets in fixed-income securities at all times.

Basis Point One-hundredth of a percentage point. For example, 50 basis points equals .50%.

Beta A measure of a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. Beta is calculated by comparing a fund's excess return over Treasury bills to the market's excess return over Treasury bills, so a beta of 1.10 shows that the fund has performed 10% better than its benchmark index in up markets and 10% worse in down markets, assuming all other factors remain constant. Conversely, a beta of 0.85 indicates that the fund's excess return is expected to perform 15% worse than the market's excess return during up markets and 15% better during down markets.

Bonds Interest-bearing certificates of indebtedness or IOUs. While bonds' rates of return remain fixed, bond prices change in relation to interest rates — when interest rates go up, bond prices go down, and vice versa. However, bond funds are variable funds and fluctuate with market conditions.

Bond funds Contrary to individual bonds, which offer a guaranteed rate of return, bond funds are variable funds and their returns may rise or fall depending on market conditions. Funds with 70% or more of their assets invested in bonds are classified as Bond Funds. Bond funds are divided into two main groups: Taxable Bond and Municipal Bond. Taxable Bond Fund categories include the following: Long-Term Government, Intermediate-Term Government, Short-Term Government, Long-Term Bond, Intermediate-Term Bond, Short-Term Bond, Ultrashort-Bond, International-Bond, High-Yield Bond, Emerging-Markets Bond and Multisector Bond.

Breakpoint The investment amount at which investors in a load fund qualify for a discount on the fund's sales charges.

Glossary

Broker A firm or individual that acts as an intermediary between a buyer and a seller of securities, thereby earning a commission on the transaction. Unlike a broker-dealer, a broker does not own the securities that he or she sells.

Callable Bond A bond that can be repaid early, at the issuer's discretion. A callable bond allows an issuer to refinance debt at a lower rate, should interest rates drop below the coupon rate on the bond. If interest rates have dropped significantly since the date of issue, a callable bond will trade as though its maturity were shortened to the call date, which is the earliest time at which the bond can be redeemed.

Capital Appreciation The taxable income generated when a security is sold. The amount of appreciation is measured by subtracting the purchase price from the sale price.

Capital Gains Taxable income generated only when a security is sold. This figure is calculated by subtracting the purchase price from the sale price. Under IRS regulations, funds must distribute 98% of their capital gains each year to avoid paying taxes on them. Shareholders pay taxes on these distributions, even if the gains are reinvested. Further capital gains can be generated by selling shares in a fund for more than the original purchase price.

Capitalization The total dollar value of all stock issued by a company. Small-cap stocks are issued by companies with market cap less than \$1 billion. Mid-cap stocks are issued by medium-sized companies with market cap anywhere from \$1 billion to \$5 billion. Large-cap stocks include companies with market cap greater than \$5 billion.

CMOs Collateralized mortgage obligations are derivative securities, created by chopping up mortgage pass-throughs or whole loans into various slices in order to redistribute the cash flows (both principal and interest payments) from the underlying bonds. The CMO group, except for adjustable-rate mortgage funds, includes PACs (planned amortization class bonds), floating- and inverse-floating-rate CMOs, and accrual or Z-tranche bonds, among other varieties.

Consumer Price Index (CPI) This index measures the changes in prices of goods and services purchased by urban households. Many pension and employment contracts are tied to changes in consumer prices, as protection against inflation and reduced purchasing power.

Corporate Bond--General (Objective) Funds that seek income by investing in fixed-income securities. Funds with this objective may hold a variety of issues, including but not limited to government bonds, high-quality corporates, mortgages, asset-backed, bank loans and junk bonds.

Corporate Bond--High Quality (Objective) Offerings that seek income by investing at least 65% of their assets in corporate debt securities rated A or higher. They generally maintain average ratings of AA or better.

Corporate Bond--High Yield (Objective) Funds that seek income by generally investing 65% or more of their assets in bonds rated below BBB. The price of these issues is generally affected more by the condition of the issuing company (similar to a stock) than by the interest-rate fluctuation that usually causes bond prices to move up and down.

Current income Results when a stock pays a dividend or a bond makes an interest payment. This is the value of your investment increased. With current income, you get a fairly stable pattern of income — which generally means reduced volatility. (Stock dividends must be declared, and are not predictable.)

Diversification Spreading your money over many different types of investments. Contrary to putting all your eggs in one basket, diversification can help protect your savings because when one investment is doing poorly, another may be doing well. This does not guarantee against loss of value in your investments.

Dividends The distribution of earnings to stockholders by a company. Dividends are usually paid out from current earnings.

Domestic equity funds are placed in a category based on the style and size of the stocks they typically own. The style and size parameters are based on the divisions used in the investment style box: Value, Blend, or Growth style and Small, Medium, or Large median market capitalization.

Domestic Hybrid Category Used for funds with stock holdings of greater than 20% but less than 70% of the portfolio.

Dow Jones Industrial Average Computed by summing the prices of the stocks of 30 companies and then dividing that total by an adjusted value--one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities.

Duration A time measure of a bond's interest-rate sensitivity, based on the weighted average of the time periods over which a bond's cash flows accrue to the bondholder. Time periods are weighted by multiplying by the present value of its cash flow divided by the bond's price. (A bond's cash flows consist of coupon payments and repayment of capital). A bond's duration will almost always be shorter than its maturity, with the exception of zero-coupon bonds, for which maturity and duration are equal.

Equity-Income (Objective) Funds that are expected to pursue current income by investing at least 65% of their assets in dividend-paying equity securities.

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Equity style box is a matrix that shows a fund's investment style. Nine boxes represent two variables: the size of the companies invested in (small-cap, mid-cap, large-cap), and whether a fund is growth, value, or blend oriented. Morningstar recalculates the style of each fund on a monthly basis. The equity style box is shown below (areas are shaded according to risk — the darker the area, the higher the risk associated with the investment).

Value	Blend	Growth	
1	2	3	Large
4	5	6	Medium
7	8	9	Small

Excess Returns A component found in Morningstar Return, Morningstar Risk, and the Morningstar Rating. This figure is calculated by subtracting the monthly returns of the three-month Treasury-bill from the monthly returns of the fund during the same time period.

Exchange-Traded Funds (ETFs) are not mutual funds in the traditional sense; rather, they are hybrid instruments combining aspects of common stocks and mutual funds and offering many the benefits of both. ETFs are products that trade like stocks. They mimic stock indexes and are passively managed just like an index fund. Because ETFs trade throughout the day just like a stock, investors have the ability to choose the timing and know the price of the transaction.

Expense Ratio The percentage of fund assets paid for operating expenses and management fees, including 12b-1 fees, administrative fees, and all other asset-based costs incurred by the fund, except brokerage costs. Fund expenses are reflected in the fund's NAV. Sales charges are not included in the expense ratio.

FHLMC mortgages The Federal Home Loan Mortgage Commission, a federally-sponsored corporation that packages huge pools of individual mortgages and carves these pools up as mortgage-backed securities. This provides diversification, and consequently lower risk for mortgage investors. Although FHLMC securities are not directly backed by the federal government, it is implicitly recognized that the government would step in were there a likelihood that they would default.

Fixed-income style box is similar to the equity style box. Fixed income style boxes represent a bond fund's investment style. A fixed-income style would be the intersection of its duration (short, intermediate, and long) and the quality of the bonds selected for the portfolio (high, medium, low). Listed below is the matrix using the fixed-income style groupings (again, the darker the shading, the higher the risk).

Short	Int.	Long	
1	2	3	High
4	5	6	Medium
7	8	9	Low

Flagship Fund Not to be confused with the Flagship Family of funds, a flagship fund is typically the oldest of a management company's funds, or one that boasts the largest number of assets. Such funds often bear the management company's name.

Foreign Stock Category An international fund having no more than 10% of stocks invested in the United States.

Fund of Funds A fund that specializes in buying shares in other mutual funds rather than individual securities. Quite often this type of fund is not discernible from its name alone, but rather through prospectus wording (i.e.: the fund's charter).

Geometric Mean Return A compounded and annualized rate of return.

GNMA mortgages These are mortgage pass-through securities issued by the Government National Mortgage Association. These bonds are backed by the full faith and credit of the U.S. government.

Government Bond--General (Objective) Offerings that pursue income by investing in a combination of mortgage-backed securities, Treasuries, and agency securities.

Glossary

Government Bond--Mortgage (Objective) Funds that seek income by generally investing at least 65% of their assets in securities backed by mortgages, such as securities issued by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC).

Government Bond--Treasury (Objective) Treasury funds that seek income by generally investing at least 80% of their assets in U.S. Treasury securities.

Growth (Objective) Funds that pursue capital appreciation by investing primarily in equity securities. Current income, if considered at all, is a secondary concern.

Growth and Income (Objective) Growth of capital and current income are near-equal objectives for these funds. Investments are typically selected for both appreciation potential and dividend-paying ability.

Guaranteed Certificate Fund All money deposited into a certificate during a "deposit period" earns a guaranteed rate of return, credited daily until maturity. Backed by the general assets of the certificate issuer.

High-Yield Bond Category A fund with at least 65% or more of bond assets in bonds rated below BBB.

Index Fund A fund that tracks a particular index and attempts to match returns. While an index typically has a much larger portfolio than a mutual fund, the fund's management may study the index's movements to develop a representative sampling, and match sectors proportionately.

Individual Retirement Account (IRA) A personal retirement plan. Taxes on earnings are deferred until money from the account is withdrawn.

Industrial Cyclical Sector Includes aerospace and aerospace industries, building supplies, industrial-building products, business equipment, chemicals, machinery (both light and industrial), metals fabrication (iron, steel, coal, and rare metals), paper and packaging, and photo equipment. Some examples of companies in this sector include Boeing, Canon, Caterpillar, Eastman Kodak, Georgia Pacific, Potash, and Sherwin-Williams.

Information Ratio The information ratio is a measure of the consistency of excess return. This value is determined by taking the annualized excess return over a benchmark (style benchmark by default) and dividing it by the standard deviation of excess return.

Institutional Fund Any fund that meets one of the following qualifications:

a) has the word "institutional" in its name.

b) has a minimum initial purchase of \$100,000 or more.

c) states in its prospectus that it is designed for institutional investors or those purchasing on a fiduciary basis.

International Equity Funds with 40% or more of their equity holdings in foreign stocks (on average over three years) are placed in the international equity class. These categories include Europe, Japan, International Hybrid, Latin America, Diversified Pacific, Pacific ex. Japan, Specialty Precious Metals, Diversified Emerging Markets, World Stock, and Foreign Stock. Foreign investments involve special risks, including currency fluctuations and political developments.

Lehman Brothers 1-3 Year Government Bond Comprised of both the Treasury Bond index (all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues) and the Agency Bond Index (all publicly issued debt of U.S. Government agencies and quasi-federal corporations and corporate-debt guaranteed by the U.S. Government). These bonds also must have maturities of one to three years. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Aggregate Index Composed of the Lehman Brothers Govt/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Credit Listed for corporate bond-general and high-quality funds. This index tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC-registered, investment-grade corporate debt. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Government Bond Index Listed for government-bond general and Treasury funds. Because it tracks the returns of U.S. Treasuries, agency bonds, and one- to three-year U.S. government obligations, this index is effective for tracking portfolios holding non-mortgage government securities. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Govt/Credit Represents a combination of the Government and Corporate Bond indices. The returns published for the index are total returns, which include reinvestment of dividends. For more information, view the Lehman Brothers Web site or call 212-526-1000.

Glossary

Lehman Brothers Intermediate Government Index Includes those indexes found in the LB Government Index which have a maturity of one to three years. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Intermediate Government/Corporate Index Includes both corporate (publicly-issued, fixed-rate, nonconvertible, investment grade, dollar-denominated, SEC-registered, corporate dept.) and government (Treasury Bond index, Agency Bond index, 1-3 Year Government index, and the 20+-Year treasury) indexes, including bonds with maturities up to ten years. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Intermediate Treasury This index includes treasury bonds with maturates of at least one year and up to 10 years with an outstanding par value of at least 100 million. They include fixed-rate debt issues, rated investment grade or higher by Moody's Investor Services, Standard & Poor's Corporation, or Fitch Investor's Service (in that order). Treasuries include all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Long Credit Serves as a measure of all public-issued nonconvertible investment-grade corporate debts that have a maturity of 10 years or more. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Long Term Government Index Includes those indexes found in the LB Government index which have a maturity of 10 years or more. The returns published for the index are total returns, which include reinvestment of dividends.

Lehman Brothers Mortgage-Backed Securities Includes 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA). The returns published for the index are total returns, which include reinvestment of dividends.

Life Cycle These funds are geared toward investors of a certain age or with a specific time horizon for investing. Typically they are grouped together in sets (i.e. conservative, moderate, and aggressive portfolios).

Linear Scale Linear graphs are scaled so that equal vertical distances represent the same absolute dollar value change. A drop from \$10,000 to \$9,000, for example, is represented in the same way as a drop from \$100,000 to \$99,000.

Logarithmic Scale Used for graphs, a scale that reveals percentage changes. A given percentage move takes up the same amount of space as another move of equal percentage. A change from 100 to 200, for example, is presented in the same way as a change from 1000 to 2000.

Maturity Short-term bonds mature (or come due) in less than four years. Intermediate-term bonds mature in four to ten years. Long-term bonds mature more than ten years from the date of purchase. The longer the term, the higher the risk and the rate of potential return.

Management Fees The management fee is the percentage deducted from fund assets to pay an advisor or subadvisor. Often, as the fund's net assets grow, the percentage deducted for management fees decreases. For example, a particular fund may report a management fee of 0.40% on the first \$500 million in assets, 0.35% on all assets between \$500 million and \$1 billion, and 0.30% on assets in excess of \$1 billion. Thus, if the fund contains \$1.5 billion in total net assets, the advisor scales back its management fees accordingly. Alternatively, the fund may compute the fee as a flat percentage of average net assets. The management fee might also come in the form of a group fee (G), a performance fee (P), or a gross income fee (I). Note: The management fee is just one (albeit a major) component of a fund's costs. The overall expense ratio is the most useful number for investors. Actual fees are also noted in this section.

Market-Neutral Funds These are funds that attempt to eliminate the risks of the market by holding 50% of assets in long positions in stocks and 50% of assets in short positions. Funds in this group match the characteristics of their long and short portfolios, keeping factors such as price-to-earnings and industry exposure similar. Stock picking, rather than broad market moves, should drive a market-neutral fund's performance.

Median Market Capitalization The median market capitalization of a fund's equity portfolio gives you a measure of the size of the companies in which the fund invests. It is the trimmed mean of the market capitalizations of the stocks in the fund's portfolio.

Modern Portfolio Theory (MPT) Statistics Alpha, beta, and R-squared are modern-portfolio-theory measures of a fund's relative risk, based on least-squares regression of a fund's excess returns on the excess returns of a market index. Standard deviation is not considered an MPT statistic because it is not generated through the same formula or mathematical analysis as the other three statistics.

Money market funds Best described as short-term versions of bonds. These relatively low-risk variable funds hold very short-term securities such as U.S. government securities, certificates of deposit, cash and cash equivalents. Investments in Money Market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money in Money Market funds.

Glossary

Morley Stable Value Index A hypothetical portfolio comprised of a weighted blend of 50% five-year stable value contracts, 30% three-year stable value contracts and 20% 30-day prime commercial paper. The five-year component consists of 60 hypothetical five-year stable value contracts, one purchased at the prior month end's illustrative rate at the beginning of each month for the prior 60 months. The three-year component consists of 36 hypothetical three-year stable value contracts, one purchased at the prior month end's illustrative rate at the beginning of each month for the prior 36 months.

Morningstar was founded in 1984 to provide investors with useful information for making intelligent, informed investment decisions. The company's first product, originally named the Mutual Fund Sourcebook, proved to be innovative in its ability to tap into an underserved market. Soon a demand grew for an even more in-depth and analytical publication, leading to the launch of Morningstar Mutual Funds in late 1986.

Morningstar Category identifies funds based on their actual investment styles as measured by their underlying portfolio holdings (portfolio statistics and compositions over the past three years). If the fund is new and has no portfolio, we estimate where it will fall before assigning a more permanent category. When necessary, we may change a category assignment based on current information.

MSCI EAFE Ndrtr_D Listed for foreign stock funds (EAFE refers to Europe, Australasia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world. Ndrtr_D indexes are calculated daily and take into account actual dividends reinvested daily before withholding taxes, but exclude special tax credits declared by companies. In addition, Ndrtr_D indexes subtract withholding taxes retained at the source, for foreigners who do not benefit from a double taxation treaty. The returns published for the index are total returns, which include reinvestment of dividends.

MSCI Europe Ndrtr_D Listed for Europe stock funds. This index measures the performance of stock markets in Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, Ireland, Portugal, and the United Kingdom. Total returns date back to December 1981. Ndrtr_D indexes are calculated daily and take into account actual dividends reinvested daily before withholding taxes, but exclude special tax credits declared by companies. In addition, Ndrtr_D indexes subtract withholding taxes retained at the source, for foreigners who do not benefit from a double taxation treaty.

MSCI Pacific Ndrtr_D Formerly known as MS Pacific, this index is listed for Pacific stock funds and measures the performance of stock markets in Australia, Hong Kong, Japan, New Zealand, and Singapore, and Malaysia. Ndrtr_D indexes are calculated daily and take into account actual dividends reinvested daily before withholding taxes, but exclude special tax credits declared by companies. In addition, Ndrtr_D indexes subtract withholding taxes retained at the source, for foreigners who do not benefit from a double taxation treaty. The returns we publish for the index are total returns, which include reinvestment of dividends.

MSCI World Ndrtr_D Includes all 23 MSCI developed market countries. Ndrtr_D indexes are calculated daily and take into account actual dividends reinvested daily before withholding taxes, but exclude special tax credits declared by companies. In addition, Ndrtr_D indexes subtract withholding taxes retained at the source, for foreigners who do not benefit from a double taxation treaty.

Mutual fund An investment option that pools money from many shareholders and invests it in a group of stocks, bonds, or other securities. Also known as an open-end investment management company, mutual funds are securities required to be registered with the SEC.

NASD (National Association of Securities Dealers) A self-regulatory organization for the securities industry with jurisdiction over certain broker-dealers. The NASD enforces broker-dealers' compliance with securities regulations, including the requirement that they maintain sufficient levels of net operating capital. It also conducts market surveillance of the over-the-counter (OTC) securities market.

NAV Stands for net asset value, which is the fund's share price. Funds compute this value by dividing the total net assets by the total number of shares.

NASDAQ Composite Index Measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures.

Net Assets The month-end net assets of the mutual fund, recorded in millions of dollars. Net-asset figures are useful in gauging a fund's size, agility, and popularity. They help determine whether a small company fund, for example, can remain in its investment-objective category if its asset base reaches an ungainly size.

Ndrtr_D: Noted for various Morgan Stanley indexes, Ndrtr_D indicates that the index is listed in US dollars, with net dividends reinvested. Ndrtr_D indexes take into account actual dividends before withholding taxes, but excludes special tax credits declared by companies. In addition, Ndrtr_D indexes subtract withholding taxes retained at the source, for foreigners who do not benefit from a double taxation treaty.

NYSE (New York Stock Exchange Composite) Serves as a comprehensive measure of the market trend for the benefit of investors who are concerned with general stock market price movements. The index is a composite of all common stocks listed on the NYSE and four sub-groups--Industrial, Transportation, Utility, and Finance.

Options/Futures/Warrants Options and futures may be used speculatively, to leverage a portfolio, or cautiously, as a hedge against risk.

Glossary

OTC (over the counter) A name for a security that is not listed on an exchange. The OTC is the major trading market for all US bonds, as well as many small- and large-capitalization stocks. Whereas non-OTC stocks trade on the floor of actual stock exchanges, OTC issues are traded via telephone and computer networks connecting dealers in stocks and bonds. The dealer may or may not be a member of a securities exchange, but he or she must be a member of the NASD.

Price/Book Ratio The weighted average of the price/book ratios of all the stocks in a fund's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation. In theory, a high P/B ratio indicates that the price of the stock exceeds the actual worth of the company's assets, while a low P/B ratio indicates that the stock is a bargain.

Price/Earnings Ratio The weighted average of the price/earnings ratios of the stocks in a fund's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. In computing the average, Morningstar weights each portfolio holding by the percentage of equity assets it represents, so that larger positions have proportionately greater influence on the fund's final P/E.

Price/Cash Flow This represents the weighted average of the price/cash-flow ratios of the stocks in a fund's portfolio. Price/cash-flow represents the amount an investor is willing to pay for a dollar generated from a particular company's operations. Price/cash-flow shows the ability of a business to generate cash and acts as a gauge of liquidity and solvency. Because accounting conventions differ among nations, reported earnings (and P/E ratios) may not be comparable across national boundaries. Price/cash-flow attempts to provide an internationally-standard measure of a firm's stock price relative to its financial performance.

Prospectus A fund's formal written statement, generally issued on an annual basis. In this statement the fund sets forth its proposed purposes and goals, and other facts (e.g.: history and investment objective) that an investor should know in order to make an informed decision.

Prospectus Objective Indicates a particular fund's investment goals, based on the wording in a fund's prospectus.

R-Squared Reflects the percentage of a fund's movements that can be explained by movements in its benchmark index. An R-squared of 100 indicates that all movements of a fund can be explained by movements in the index. Thus, index funds that invest only in S&P 500 stocks will have an R-squared very close to 100. Conversely, a low R-squared indicates that very few of the fund's movements can be explained by movements in its benchmark index. An R-squared measure of 35, for example, means that only 35% of the fund's movements can be explained by movements in the benchmark index.

Regression A mathematical tool used to study the way that two sets of numbers interact with each other. Regression measures how much of one number's changes might be caused by or linked to how much another number changes.

Returns Based Style Analysis In 1988, William F. Sharpe, Nobel Laureate and Professor of Finance at Stanford University, wrote an article for the Investment Analyst Review entitled "Determining a Fund's Effective Asset Mix". In this article, he demonstrated that a manager's style could be determined by analyzing portfolio returns, as opposed to holdings. This was done mathematically by comparing the manager's returns to the returns of a number of style indexes. This discovery revolutionized style and performance analysis and provided the basis for the StyleADVISOR suite of software.

Since its debut in 1993, StyleADVISOR has been the style analysis package of choice for the large institutional marketplace. Our client list has grown to include over 250 plan sponsors, consultants, and money managers. They use StyleADVISOR to determine, for themselves, using only monthly or quarterly returns, the style and consistency of managers and funds. They create custom style benchmarks, do performance, risk-return, upside downside market capture analyses, manager to peer universe comparisons, asset allocation, and much more. StyleADVISOR also enables them to perform manager searches, create custom universes, evaluate competitors, and monitor aggregate portfolios.

Risk Basically there are four types of risk: 1) inflation risk means your money may not earn enough in the long run because as prices go up the value of your money goes down; 2) market risk means you could lose money because the price of a stock may go down; 3) credit risk means a company or organization that borrowed your money may not be able to pay it back; and 4) interest rate risk means you could lose money because as interest rates go up the value of bond investments goes down.

Risk-Free Rate of Return Three-month T-bills are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months.

Risk/Return Graph The Manager Risk/Return Graph displays the risk/return characteristics of a manager and compares them to a benchmark, universe or other managers. It plots Return on the vertical axis and a Risk Statistic on the horizontal axis.

The chart has crosshairs that provide a basis for comparison by dividing the graph into four quadrants. The crosshairs are centered at either the Market Benchmark, the Style Benchmark or the median of the Universe, depending on the options you select. A relatively aggressive manager, for example, is likely to fall in the Northeast corner relative to the crosshairs centered at the universe median, with both more risk and more return.

Glossary

Russell 1000 Consists of the 1000 largest companies within the Russell 3000 index. Also known as the Market-Oriented Index, because it represents the group of stocks from which most active money managers choose. The returns published for the index are total returns, which include reinvestment of dividends.

Russell 1000 Growth Market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 includes the largest 1000 firms in the Russell 3000, which represents approximately 98% of the investable US equity market.

Russell 1000 Value Market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 includes the largest 1000 firms in the Russell 3000, which represents approximately 98% of the investable US equity market.

Russell 2000 Consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization. The returns published for the index are total returns, which include reinvestment of dividends.

Russell 2000 Growth Market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 3000 Index represents 98% of the of the investable US equity market.

Russell 2000 Value Market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 3000 Index represents 98% of the of the investable US equity market.

Russell 3000 Composed of the 3000 largest U.S. companies by market capitalization, representing approximately 98% of the U.S. equity market. The returns published for the index are total returns, which include reinvestment of dividends.

S&P 500/BARRA Growth Index A subset of the Standard & Poor's 500 Index®. Each year, all the stocks in the S&P 500® are classified as either growth or value. The stocks classified as growth make up the S&P 500/BARRA Growth Index. In general, growth companies tend to have high price-to-earnings (P/E) ratios, low dividend yields, and above-average earnings growth rates.

S&P 500/BARRA Value Index A subset of the Standard & Poor's 500 Index®. Each year, all the stocks in the S&P 500® are classified as either growth or value. The stocks classified as value make up the S&P 500/BARRA Value Index. In general, value companies tend to have low P/E ratios, high dividend yields, and below-average earnings growth rates.

S&P 400 MidCap Index The S&P 400 MidCap Index consists of 400 U.S. companies that have market capitalization from \$1 billion to \$5 billion. The index includes approximately 312 industrial companies, 10 transportation companies, 41 utilities, and 37 financial companies.

S&P 500 Index® Standard & Poor's 500 Index® is a benchmark for the United States stock market. It's a list of the 500 largest publicly traded companies, which include 400 industrial companies, 20 transportation companies, 40 utilities, and 40 financial companies.

S&P Small Cap 600 Index The Standard & Poor's SmallCap 600 Index consists of 600 U.S. companies that have market capitalization less than \$1 billion. The index includes approximately 499 industrial companies, 18 transportation companies, 27 utilities, and 56 financial companies. Equity securities of companies with small market capitalization may be more volatile than securities of larger, more established companies.

SEC Yield A calculation based on a 30-day period ending on the last of the previous month. It is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period.

Share Classes Shares of the same fund that offer different shareholder rights and obligations, such as different fee and load charges. Common share classes are A (front-end load), B (deferred fees), C (no sales charge and a relatively high annual 12b-1 fee, such as 1.00%). Multi-class funds hold the same investment portfolio for all classes, and differ only in their surrounding fee structure.

Sharpe Ratio A risk-adjusted measure developed by Nobel Laureate William Sharpe. It is calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the fund's historical risk-adjusted performance. The Sharpe ratio is calculated for the past 36-month period by dividing a fund's annualized excess returns by its annualized standard deviation.

Glossary

Socially Conscious Any fund that invests according to non-economic guidelines. Such funds may make investments based on such issues as environmental responsibility, human rights, or religious views. A socially conscious fund may take a pro-active stance by selectively investing in, for example, environmentally-friendly companies, or firms with good employee relations. This group also includes funds that avoid investing in companies involved in promoting alcohol, tobacco, or gambling, or in the defense industry.

Standard Deviation A statistical measurement of dispersion about an average, which, for a mutual fund, depicts how widely the returns varied over a certain period of time. Investors use the standard deviation of historical performance to try to predict the range of returns that are most likely for a given fund. When a fund has a high standard deviation, the predicted range of performance is wide, implying greater volatility.

Stocks Ownership in a company. Stocks are sold by the company and then bought/sold among investors. Risks involved include the company not performing up to expectations or that the price of your stock will fall.

Style Benchmark The concept of the style benchmark was first introduced by Nobel Laureate William F. Sharpe in 1988 and referred to as the "Effective Asset Mix". A quadratic optimizer is used to find a combination of the selected indices that would best track (have the highest correlation to) a given return series. For example, if a domestic equity manager optimization found that a weighted composite of 20% Russell Large Value, 10% Russell Large Growth, 60% Russell Small Value, 5% Russell Small Growth, and 5% T-bills had a 92% R-squared to that manager's returns, it could be said that 92% of this manager's performance may be attributed to his "style". The remaining 8% is unexplained variance due to stock selection, etc.

Tax-deferred earnings You don't have to pay taxes on any earnings in your 401(k) until you withdraw your money. The money in a 401(k) can grow faster than with other types of savings plans, because the earnings you accumulate, if any, are also tax-deferred.

Treynor Ratio The Treynor Ratio is a measure of performance per unit of market risk. It is the portfolio's excess return over the risk-free rate divided by the portfolio's beta to the selected benchmark. Also known as the Reward to Volatility Ratio.

Turnover Ratio The turnover rate of a fund is a decent proxy for how frequently a manager trades his or her portfolio. The inverse of a fund's turnover ratio is the average holding period for a security in that fund. If a fund consistently showed a 20% turnover ratio, for example, it would suggest that--on average--that fund holds a security for five years before selling it. A fund with a 200% turnover ratio pretty much changes its portfolio wholesale every six months.

Upside / Downside Market Capture Graph StyleADVISOR's Upside / Downside Market Capture graph displays the percentage of benchmark movement captured by a manager in both up and down markets. The graph plots the manager's upside capture ratio (vertical axis) against the downside capture ratio (horizontal axis). The capture ratio is the manager's return divided by the benchmark's return, or the percentage of the benchmark's return that was "captured" by the manager. The Upside capture ratio is computed for periods when the market has a positive return. The Downside capture ratio is computed for periods when the market has a negative return.

Variable funds Investments that fluctuate with market conditions. Unlike guaranteed investments, such as bonds or CDs, variable funds don't guarantee a specific rate of return. They do offer potential for higher earnings in return for higher degree of market risk.

Wilshire 4500 Listed for small-company funds, measures the performance of all U.S. common equity securities excluding the stocks in the S&P 500. The returns published for the index are total returns, which include reinvestment of dividends.

Wilshire 5000 Measures the performance of all U.S. common equity securities, and so serves as an index of all stock trades in the United States. The returns published for the index are total returns, which include reinvestment of dividends.

World Stock Category An international fund having more than 10% of stocks invested in the US. Also known as global funds. Foreign Investments involve special risks, including currency fluctuations and political developments.

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CORRESPONDENCE MEMORANDUM

DATE: August 21, 2007
TO: Deferred Compensation Board Investment Committee
FROM: Shelly Schueller
SUBJECT: WDC Benchmarks: EuroPacific Growth and US Microcap

One of the core investment options in the Wisconsin Deferred Compensation (WDC) Program recently changed its benchmark index, and the Board discussed possible changes to another fund's benchmark index at the May 2007 meeting. This memo explains what has occurred with the funds and provides staff recommendations for the Investment Committee's consideration.

EUROPACIFIC GROWTH (AMERICAN FUNDS)

In the March 31, 2007, EuroPacific Growth Fund annual report, American Funds reported replacing the primary benchmark index for the EuroPacific Growth Fund, the MSCI Europe, Australasia, Far East (EAFE) Index, with the MSCI All Country World Index (ACWI).

The MSCI ACWI is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. The index consists of forty-seven developed and emerging market country indices. American Funds made the change to this index because it believes the MSCI ACWI better reflects the EuroPacific Growth Fund's investment universe.

US MICROCAP FUND (Dimensional Fund Advisors or DFA)

The Board discussed the US Microcap Fund at its May 2007 meeting and the use of the Russell 2000 as the benchmark index. The Board directed staff to find out if there is a different benchmark index the WDC should be using with regard to this fund.

At the Department's request, Alex Roitz from Advised Assets Group (AAG) investigated the benchmark indices used by DFA and the WDC. Mr. Roitz learned that DFA has not changed its primary benchmark index. DFA still lists the Russell 2000 in the prospectus as a reference point. The Russell Microcap Index has been listed in the Fund Compliance report card as another benchmark index for the fund.

RECOMMENDATIONS

Staff suggests that the Investment Committee consider recommending the following to the full Board:

- 1) EuroPacific Growth: replace the MSCI EAFE Index with the MSCI ACWI; and
- 2) US Microcap: add the Russell Microcap as another benchmark used by the WDC.

Department staff will be available at the meeting to discuss this memo with the Committee.

Reviewed and approved by Dave Stella, Deputy Secretary

Signature

Date

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July 31, 2007

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PERFORMANCE THROUGH INNOVATION
BARCLAYS GLOBAL INVESTORS

Re: EAFE, MidCap and U.S. Debt Index Funds

Dear Shelly:

This letter will advise you of a few changes we are making to three BGI collective funds that the State of Wisconsin Deferred Compensation Board offers to its participants. The effective date for these changes will be on or about October 1, 2007, and this letter replaces and supersedes your current Guideline and Fee Agreement for the funds listed below related to the Investment Management Agreement between you and BGI with respect to these funds.

- The EAFE Equity Index Fund W assets will be moved into the EAFE Equity Index Fund T (see attached fund description). Both funds have the same investment management fee of 10 basis points per annum. There will be no cost to participants from this change. Participants may notice a change in the unit value and number of units held on their next quarterly statement, but the change itself will not impact the total values in their accounts. By consolidating funds we can better accumulate assets, benefiting participants through increased liquidity (i.e. more crossing opportunities) and smaller tracking error (due to a higher asset base over which to apply administrative costs).
- The annual investment management fee for the MidCap Equity Index Fund W will increase from 4 basis points to 7 basis points. The new fee is still highly competitive with industry pricing for MidCap equity index funds.
- The annual investment management fee for the U.S. Debt Fund W will decrease to 4 basis points.

We will collaborate with your recordkeeper to ensure that these changes are noted in any materials they create for participants as well as in their trading systems. Should you have any questions or concerns, please contact me at your earliest convenience. Otherwise, please sign and fax back this letter to indicate your acknowledgement of these changes to 415-618-5485.

Sincerely,



Collective trust funds maintained by Barclays Global Investors, N.A. are not insured by the Federal Deposit Insurance Corporation and are not guaranteed by BGI or its affiliates

Investment Guideline Description

EAFE Equity Index Fund T

The EAFE Equity Index Fund T shall be invested and reinvested in a portfolio of international equity securities whose total rates of return will approximate as closely as practicable the capitalization weighted total rates of return of the markets in certain countries for equity securities traded outside the United States. The primary criterion for selection of investments shall be the Morgan Stanley Capital International Europe Australasia and Far East Index. When deemed appropriate by BGI, BGI may invest a portion of the EAFE Equity Index Fund T in futures contracts and American Depository Receipts for the purpose of acting as a temporary substitute for investment in international securities. The EAFE Equity Index Fund T will not engage in speculative futures transactions.

Fees

EAFE Equity Index Fund T / 10 Basis Points per annum

MidCap Equity Index Fund W / 7 Basis Points per annum

U.S. Debt Fund W / 4 Basis Points per annum

The investment management fees will be accrued on a daily basis and reflected in the fund's daily unit (share) price.

AGREED AND ACCEPTED:

WISCONSIN DEFERRED COMPENSATION BOARD

By: _____

Date: _____

Name:

Title:

Collective trust funds maintained by Barclays Global Investors, N.A. are not insured by the Federal Deposit Insurance Corporation and are not guaranteed by BGI or its affiliates



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CORRESPONDENCE MEMORANDUM

DATE: September 4, 2007
TO: Wisconsin Deferred Compensation Board Investment Committee
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: WDC Fixed Investment Options Review

At the request of the Board, staff has been evaluating the Wisconsin Deferred Compensation Program (WDC) fixed fund investment options over the past fourteen months. Our review indicates that the WDC has more fixed fund options than other similar deferred compensation plans. The WDC also has two fixed fund options that are very similar in investment objective and performance: the Federal Deposit Insurance Corporation (FDIC) bank option and the Vanguard Admiral Money Market option.

Staff recommends that as a first step, the Investment Committee consider recommending a reduction in the number of fixed fund options offered through the WDC. This could be accomplished by establishing one federally insured money market fund to replace the M&I FDIC option and the Vanguard Admiral Money Market options.

Background

At the May 2006 meeting, the Board reviewed the potential costs and benefits of replacing the FDIC and the Vanguard Admiral Money Market options. The Board delegated further analysis of this proposal to the Investment Committee. The Investment Committee examined annualized returns from the fixed options over the past five years and requested that staff continue monitoring performance for another year.

The graph on page four tracks the funds' most recent performance. Although the FDIC option provided higher returns than the Vanguard Money Market option for the past three years (March 2004 through December 2006), the two funds have had virtually the same performance results during the first quarter of 2007 and the Vanguard option was slightly higher during the second quarter of 2007. The performance results for the Schwab money market fund are included for comparison purposes only. It should be noted that the FDIC fund is based on the LIBOR¹ fixed and floating rates, whereas the Vanguard money market is not.

¹ LIBOR is the *London InterBank Offered Rate*. LIBOR is the rate on dollar-denominated deposits, also known as Eurodollars, traded between banks in London. It is the rate that the most creditworthy international banks charge each other for large loans.

Reviewed and approved by David A. Stella, Deputy Secretary

Signature Date

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At the Department's request, staff at Advised Assets Group (AAG) reviewed the number and type of fixed option investment options offered by the large plans it advises. The analysis by AAG suggests that it is rare to see both a money market fund and a stable value fund in the same lineup. Moreover, it is very unusual to find two fixed options (FDIC and money market) and a stable value fund in the same lineup. The majority of large plans offer either a money market or a stable value fund. By offering three stable options (FDIC, Money Market and Stable Value funds), the WDC is above average in fixed fund offerings.

Future Fixed Option Return Forecasts

In the fall of 2006, the Investment Committee asked both Vanguard and M&I Bank for future investment performance forecasts based on different market scenarios and interest rates. Neither Vanguard nor M&I Bank were willing to provide any specific performance forecasts.

Vanguard suggested that the performance of the money market will continue to be very competitive because of Vanguard's substantial cost advantage (low fees). Vanguard also noted that due to the short-term nature of the securities in money market funds, investors should expect yields to track in the same direction as short-term interest rates in the marketplace.

Discussion

Staff reviewed the WDC's fixed fund offerings and optional actions the Board may choose to take, including:

- 1) Replacing the FDIC and Vanguard Admiral Money Market fund options with a single FDIC insured money market fund.

Advantages to Replacing the FDIC and Money Market Funds

- Continues to provide federal insurance for participants. As of late 2006, the FDIC increased its insurance rates from \$100,000 to \$250,000. Money market funds such as the WDC's Vanguard Admiral Money Market fund cannot provide similar insurance.
- Continues to provide a sound fixed investment option with a competitive rate of return.
- Reduces, by one, the number of investment options for WDC participants without losing a money market option; the Schwab Self-Directed Option provides a money market.
- Preserves principal upon default. If the Board designated the FDIC as the default option, participants whose account balances defaulted would be guaranteed preservation of principal through the FDIC insurance.
- Reduces the number of competing funds requiring an "equity wash," or intermediate transfer to an equity fund, prior to receiving assets transferred from the Stable Value Fund.
- Potentially reduces confusion among participants about small differences in fixed investment options.
- Potentially reduces cost due to the requirement in the Board's Investment Policy Statement that fixed options be selected through a competitive bid (Request for Proposal) process. See table of fixed option participant expenses on the next page for details.

Fixed Option Participant Expenses	
Option	Expense
FDIC (@ M&I Bank)	Blended fixed/floating rate less a spread of 0.40 bps ²
Money Market (Vanguard Admiral)	0.13% of assets
Stable Value Fund (@ Galliard)	Performance is net of management fees of approx. 0.21%
Barclays US Debt Index	0.04% of assets (1 bps decrease effective 10-1-07)
Federated 2-5 Year Government Bonds	0.57% of assets
Vanguard Long Term Investment Grade	0.19% of assets

Disadvantages to Replacing FDIC and Money Market Funds

- Reduces the overall number of fixed options for WDC participants.
- Potentially reduces some trading flexibility because the FDIC option has a two account (“NOW” and money market) feature to address Regulation D requirements, which limit transactions in FDIC money market accounts to six per month.
- Requires the Board to designate a new default option when closing a fund or “map” to the new FDIC insured money market option.
- Requires a Request for Proposal, per the Board’s Investment Policy Statement.
- Creates some additional administrative work for staff at the Department and the WDC’s record keeper, Great-West Retirement Services. This would include planning and creating an information outreach/education plan to notify all WDC participants of the anticipated changes. Because the Vanguard Money Market fund has been the default fund when a fund is closed, there are many participants with Money Market accounts. As of December 31, 2006, over 10,600 WDC participants held assets in the Money Market fund. Another 2,700 participants hold funds in the FDIC option.

- 2) Requesting further review of the WDC’s other fixed options – specifically the Federated US Government 2-5 Year Fund.

The Federated US Government 2-5 Year Fund (Federated) is a short-term bond fund, which makes it similar to both stable value and money market funds. Because of the similarities, Department staff have questioned if the WDC perhaps has too many fixed fund options. AAG staff specifically reviewed the Federated fund and offered the following commentary:

This fund's duration is about a year longer than its typical peer, and it carries no exposure to mortgages as opposed to the average fund in its category, which holds around a 35% exposure to mortgages. The longer duration of the Federated fund causes it to trail its peers in a rising interest rate environment. However, the converse is also true; Federated will outperform most of its peers in times of declining interest rates. This fund will typically perform better in a falling or flat interest rate environment than it will in a rising interest rate environment.

The Federated fund tends to be a bit more volatile than its peer funds while not delivering investment performance returns that differ much from stable investment options. For example, over the past 1 and 5-year time periods ending June 30, 2007,

² This rate is reset quarterly.

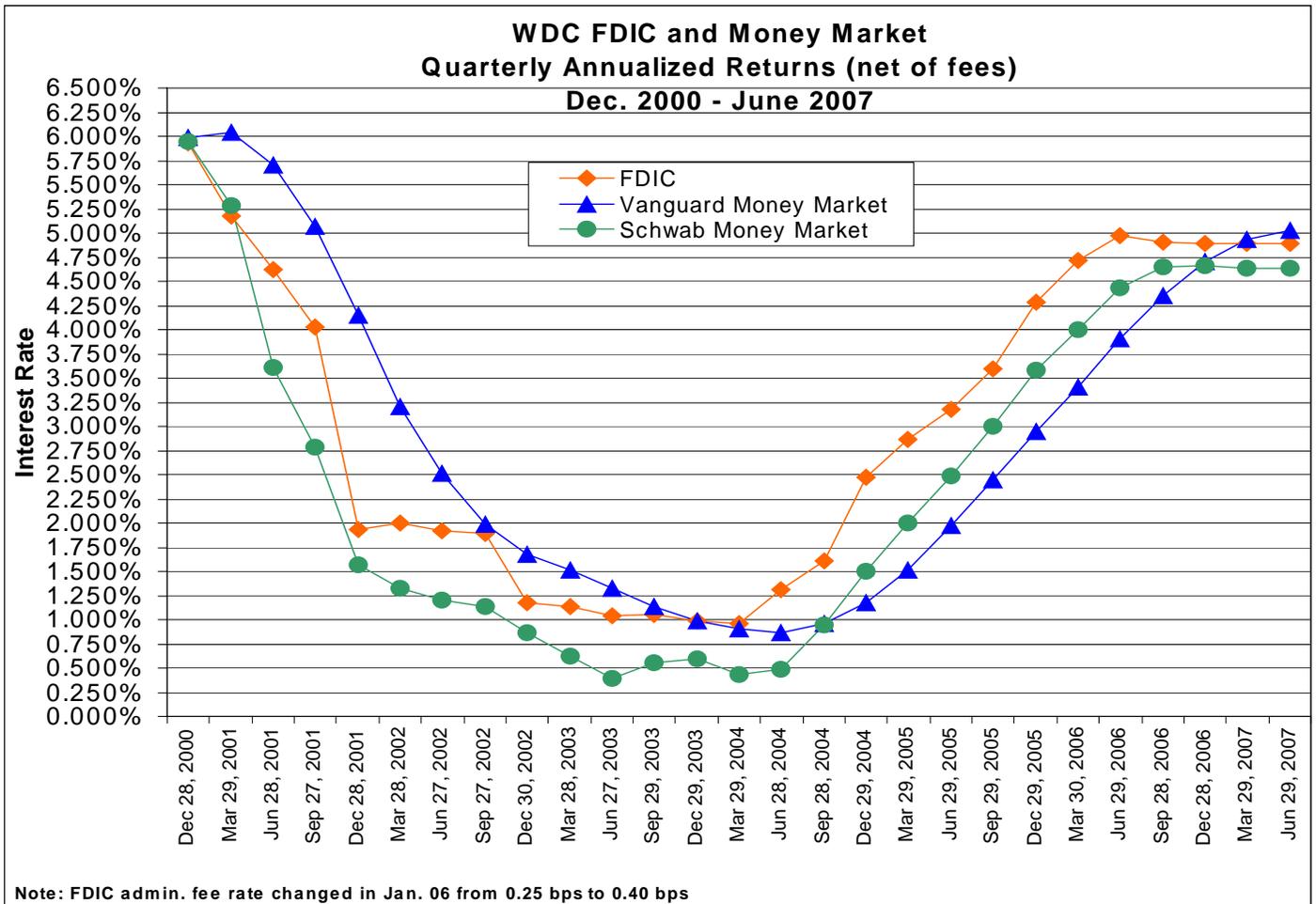
the difference in returns between the Federated fund and the average money market fund (net of fees) have been 23 basis points (1 year) and 82 basis points (5 year). In addition, the average money market has outperformed the Federated fund over the 3 year time period by 74 basis points. Looking back over a longer time period, the Federated fund has outperformed the average money market by only 156 basis points over the last ten years (ending June 30, 2007). The slight additional return provided by this fund may not be worth the risk or the confusion it adds to participants trying to discern slight differences between the WDC's fixed fund options.

- 3) Doing nothing (make no changes). Continue to provide all current similar fixed option investments.

Recommendation

Staff proposes that the Investment Committee consider recommending that the Board move to reduce the number of fixed fund options offered through the WDC. This could be best accomplished by replacing the M&I FDIC option and the Vanguard Admiral Money Market option with an insured money market fund. Creation of one fund would require a competitive bid process, which could take place during calendar year 2008.

Staff will be available at the meeting to discuss this memo and recommendation.





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CORRESPONDENCE MEMORANDUM

DATE: September 4, 2007
TO: Wisconsin Deferred Compensation Board Investment Committee
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Managed Accounts -- Reality Investing

At the May 2007 meeting, the Board learned about a new type of service available for participants called managed accounts. After some discussion, the Board delegated further analysis of this proposal to the Investment Committee. Department staff has reviewed the features of Great-West Retirement Services' managed account services, called "Reality Investing," and believes that the Investment Committee should consider recommending that the Board add the option of Reality Investing to the Wisconsin Deferred Compensation (WDC) Program.

Background

The Pension Protection Act (PPA) of 2006 clarified that financial advice may be offered to participants via professionally managed accounts. Managed account services use computer programs that automatically manage investment portfolios that are tailored to match an individual's age and risk tolerance. These accounts are managed and rebalanced over the course of a participant's life. Managed accounts typically take into account any other retirement income that a participant expects to have, including retirement annuities (like the Wisconsin Retirement System), Social Security earnings, individual savings, etc. Under the PPA, if the firm providing the advice is prudently selected, plan sponsors are not liable for the advice provided to participants.

The Board's 2005 Administrative Services Request for Proposal (RFP) included an optional question regarding cost and availability of managed account services, in case the Board decided at a future date that it would like to offer a managed accounts option to participants. All three firms responding to that RFP included a managed account feature in their proposals.

Reality Investing

Reality Investing is designed to provide interested participants with a range of financial management services; each intended to facilitate the alignment of a participant's asset allocation strategy and its associated risk/return characteristics with the participant's specific retirement goals and current financial position.

Reviewed and approved by David A. Stella, Deputy Secretary

Signature Date

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Reality Investing is based on data resulting from the methodologies and software developed and employed by Ibbotson Associates. Reality Investing includes a managed account service using an independent financial expert (Advised Assets Group [AAG], a Great-West Life company) to allocate funds and an online service with account planning and advisory tools. Participants using Reality Investing receive a retirement portfolio designed for their personal situation, timeframe and overall financial situation. Portfolios are automatically managed each quarter.

Use of Managed Accounts in Defined Contribution Plans

Interest in offering managed accounts is growing. The National Association of Government Defined Contribution Administrators (NAGDCA) asked questions about the use of investment advice and management in the 2006 NAGDCA Biennial State and Local Government Defined Contribution Plan Survey. According to the NAGDCA report, just over half (33 of 65) of the responding plans offer investment advice. Of the 32 plans that do not offer advice, 17 reported that they expect to offer it within the next year or two. The most common delivery method used is a web-based approach. Twenty-one plans reported that the cost to a participant for using the service was less than \$25 per year.

Thirteen plans offering advice reported that less than one percent of their participants use the service, seven reported that one to five percent use the service, and five reported that six to ten percent use the service. Only two plans reported that more than 30% use the service.¹ The table below provides data from Great-West regarding use of Reality Investing by participants of eight other large s. 457 defined contribution plans.

GREAT-WEST Reality Investing Use				
	Implementation	Adoption Rate	Assets Under Management (3/31/07)	Total Reality Investing Participant Accounts
Plan A	July 2006	7%	\$13,295,349	3,307
Plan B	Dec. 2006	10%	\$34,229,433	3,752
Plan C	April 2005	24%	\$590,365,187	5,723
Plan D	Feb. 2005	3%	\$11,218,143	1,656
Plan E	Sept. 2005	6%	\$8,162,865	1,920
Plan F	Sept. 2005	3%	\$6,949,424	817
Plan G	Oct. 2005	7%	\$26,421,251	1,034
Plan H	Dec. 2004	15%	\$17,018,275	1,444

Costs

At the Board’s request, staff has completed a market analysis of managed account services in the defined contribution arena. All five of the major administrative service/recordkeeping firms now offer some form of managed accounts. The table on the following page provides a comparison.

¹ 2006 NAGDCA Biennial State and Local Government Defined Contribution Plan Survey p. 7

Managed Account Services					
	AAG	AIG/Valic	CitiStreet	ICMA	NRS
Product Name	Managed Accounts	Guided Portfolio Services	CHART	Guided Pathways	RIA Managed Account Service
Starting Fee	0.60%	1.25%	0.60%	0.60%	1.50%
Annual Fee on \$100,000 Account (Example)	\$600	\$1,250	\$600	\$600	\$1,500
Independent Financial Expert	Ibbotson Associates	Ibbotson Associates	Financial Engines	Ibbotson Associates	Wilshire Associates
Assets Under Mgmt.	\$1 Billion +	\$3 Billion +	N/A	New	\$80 million
Online Access	Yes	Yes	Yes	Yes	Yes
Integrated w/ Recordkeeping System	Yes	Yes	Yes	Yes	Yes
Advice/Guidance Offered	Yes	Yes	Yes	Yes	Yes

Because the managed accounts feature was included in the Board's contract with Great-West and there are no additional system implementation costs for Reality Investing, there would be no additional charge to the WDC if the Board decided to make Reality Investing available to participants. Participants who chose to use these optional features would be charged on an individual basis. Quarterly fees would be taken from participant accounts as follows:

Reality Investing Participant Fees		
	Quarterly Fee	Total Annual Fee
Reality Investing Managed Accounts	0.60% bps to 0.30% bps (based on account balances)	Varies based on account balance
Reality Investing Online Advice	\$6.25	\$25

Participant Experience

AAG recently completed a twelve-month Reality Investing performance study to further its understanding of the behavioral aspects of defined contribution plan participant investing patterns. The study involved over 100,000 participants of five large government plans on Great-West's recordkeeping system. The study compared the investment performance results of a non-user of advisory service tools to a user of the advisory service tools (guidance, advice or managed accounts).

As shown in the table on the next page, AAG's study indicates that participants enrolled in managed accounts have higher individual rates of return than other groups. As the table on the following page indicates, the individual rate of return for participants choosing to use just the guidance feature was 1.07% higher than those not using any Reality Investing feature, and those using the full managed account feature enjoyed individual rates of return that were 4.21% higher than those not using any of the services.

AAG Participant Experience Study² April 1, 2006 through March 31, 2007			
Participant Enrollment Status as of 3-31-07	Average Annual Individual Rate of Return	# Participants	% Participants
Guidance	8.34%	368	0.4%
Advice	9.57%	154	0.1%
Managed Accounts	11.48%	9,451	9.2%
No Reality Investing Services	7.27%	93,159	90.3%

Plan Sponsor Perspectives

Department staff solicited information from several s. 457 plans currently offering Reality Investing to their participants. Only the City of Austin, Texas, responded. Austin has provided Reality Investing since February 2005 and provided the following responses to staff's questions:

- 1) How many of your participants use the features (and which ones)? What is most popular and why, from your perspective?

1,870 (20%) of the 9,452 participants in the City of Austin Deferred Compensation Plan are currently utilizing the Reality Investing (RI) suite of investment advisory and account management services. Of the participants using RI, 95% are using the Managed Accounts Service. Attached is information detailing RI participation by service, participant age, and participant account balance. During the first half of 2007, one half of the new enrollees in the Plan selected the Managed Accounts Service, rather than electing to select their own investment options. I believe this is due to most employees lacking the knowledge, interest, time, and/or inclination to manage their accounts. They just want somebody to do it for them.

- 2) What sort of reaction have you received from participants regarding the cost?

While some participants are concerned about the cost, most think it is fair and reasonable for the service provided. Participants whom are knowledgeable understand the fees are low, when compared to outside investment advisors. In a 2006 survey of Plan participants, 76% of the respondents indicated they were satisfied with the RI service in which they enrolled.

- 3) How well you thought the roll-out/implementation campaign was organized?

The City of Austin implemented RI in February 2005. The implementation campaign was well thought out and now utilizes an award-winning set of education and information material.

² AAG conducted this study to review the performance of Reality Investing services, net of fees. The study encompassed participants using Reality Investing service across five defined contribution plans similar in size to the WDC. To fully account for the study population, also shown is the average annual rate of return for plan participants not using any Reality Investing services.

- 4) Who provides education for your participants -- if it is Great-West, would you share your feelings on whether your local service providers now focus on "selling" RI or if they remain focused on educating participants?

Great-West representatives educate our participants about the plan and RI. Because we feel it is appropriate for each participant to have a proper asset allocation, RI has been integrated into all of our Plan's communication materials and educational sessions. We have shared with Great-West our concern about their representatives "selling" RI and they are careful to maintain a proper balance between education and selling.

- 5) Please share any other comments or insights you might have regarding Reality Investing.

...believe in RI and have personally been a Managed Accounts participant since 2005. I recommend the service to any participant who lacks the knowledge, interest, time, and/or inclination to manage their own account. A recent analysis of City of Austin RI usage indicated that the RI participants had significantly improved investment performance for the years ending 4/30/2006 and 4/30/2007, when compared to participants managing their accounts completely on their own. Based on this data, the City's Deferred Compensation Committee has started discussions of making Managed Accounts the Plan's "default" investment option.

Recommendation

Staff suggests that the Investment Committee consider recommending that the Board offer WDC participants the option of using Reality Investing.

If the Board decided to offer Reality Investing, it is likely that an amendment to the Board's contracts with both Great-West and AAG would be needed, as neither addresses managed account services. There would not be an additional cost to the WDC, however, as the costs for managed accounts are borne by the participants using the services.

Department staff would also work with Great-West to ensure that a thorough marketing and education campaign to inform WDC participants of the new services is planned and implemented. This would likely include providing Reality Investing information on the WDC's Web site, at presentations and in the WDC's quarterly newsletter.

Staff will be available at the meeting to discuss this memo and recommendation.

Attachment: Sample City of Austin Reality Investing Statistics