

investment option, the quartile performance ranking of three year total returns and the Morningstar one-page investment summary reports as applicable.

WDC Fund Performance

The detail in the report demonstrates that the majority of the WDC's investment options met or exceeded established performance benchmarks. In the report, AAG notes the following:

- *EAFE Equity Index Fund* – In 2005, this fund tracked its benchmark index within 5 basis points, net of fees. This is an improvement over past performance; in the recent past, the fund experienced sizeable tracking errors.
- *Calvert Social Investment Fund – Equity Portfolio (Class I)* - This fund was added to the WDC in April 2003 to replace the Dreyfus Third Century Fund as the WDC's socially responsible investment fund option. This fund outperformed all benchmarks over five years, but continues to underperform most of its benchmarks over one and three years.
- *Vanguard Wellington* – The lead manager for the fund's bond portion, Paul Kaplan, will be retiring in June 2006. John Keogh, who has been with Wellington since 1983, will replace him. Vanguard does not expect many changes to the investment process with the new manager.
- *Federated US Government: 2-5 Year* -- This fund had a co-manager lead change in June 2005, when Don Ellenberger replaced Susan Nason. The fund had mixed results against its benchmarks, trailing two out of three benchmarks for the one and three year periods but outperforming two of three benchmarks for the five year period.
- *Vanguard Target Retirement ("Lifecycle") Funds* – The performance results for the new target retirement funds are included in a separate section of the report. Overall, the Vanguard Target Retirement Funds performed well against their composite indices, but underperformed against the Dow Jones Target Indices and have trailed their competitors for the three-month, six-month and one year time periods. AAG notes that benchmarking lifecycle funds is a challenge because of different equity exposures for similar target dated funds at competing fund houses. Consensus seems to be moving toward the use of composite indices.

To help provide Vanguard Target Retirement Funds' shareholders with broader equity diversification and higher return potential, Vanguard recently announced changes in the funds' asset allocation models to provide:

1. Greater exposure to equities of approximately ten to twenty percent more per fund over a longer period of time.
2. Broader international exposure for all funds. Vanguard Emerging Markets Stock Index Fund will be added to each of the funds, further diversifying their exposure to international markets. In addition, the Vanguard European Stock Index Fund and Pacific Stock Index Fund will be added to the fund mix for the Target Retirement Income Fund.

The table below provides information on WDC participant use of these funds as of December 31, 2005.

Vanguard Target Retirement Fund	WDC Participants	Total Asset Value
Income	92	\$2,025,734
2015	291	\$5,415,999
2025	335	\$3,166,401
2035	230	\$1,455,020
2045	136	\$823,033
Total	1,084	\$12,886,187

Conclusion

The WDC Program continues to experience growth as a result of both new deferrals and investment income, with approximately 42,800 participants holding assets at the end of 2005 exceeding \$1.8 billion.

Staff will be available at the Investment Committee meeting to discuss the report and answer any questions you may have regarding WDC investment options.

Attachments