



STATE OF WISCONSIN  
Department of Employee Trust Funds

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**CORRESPONDENCE MEMORANDUM**

**DATE:** May 3, 2007  
**TO:** Wisconsin Deferred Compensation Board  
**FROM:** Shelly Schueller, Director  
Wisconsin Deferred Compensation Program  
**SUBJECT:** 2006 Annual Investment Performance Report

The **2006 Annual Investment Performance Report**, prepared by Advised Assets Group (AAG), is presented to the Board for review and comment. This memo summarizes the findings of the 2006 report. Staff from AAG will be at the Board meeting to discuss the report.

In the report, AAG comments on the following funds:

- *Calvert Social Investment Fund – Equity Portfolio (Class I)* – This fund was added to the Wisconsin Deferred Compensation (WDC) Program in 2003 as the WDC’s socially responsible investment fund option. This fund continues to underperform most of its benchmarks over one and three years and has had mixed results over the five year period.
- *Federated US Government: 2-5 Year* – Because this fund carries longer duration bonds than most of its peers, this fund trails most of its benchmarks over the one, three and five year periods.
- *Vanguard Long-Term Bond* – This fund trails its benchmarks over the one year period, but posted strong returns over the three and five year periods. This fund’s average bond duration is longer than most of its peers, creating some inflation risk for investors.

The details in the report demonstrate that the Board has done a good job of selecting investment options; the majority of the WDC’s investment options continued to meet or exceed established performance benchmarks.

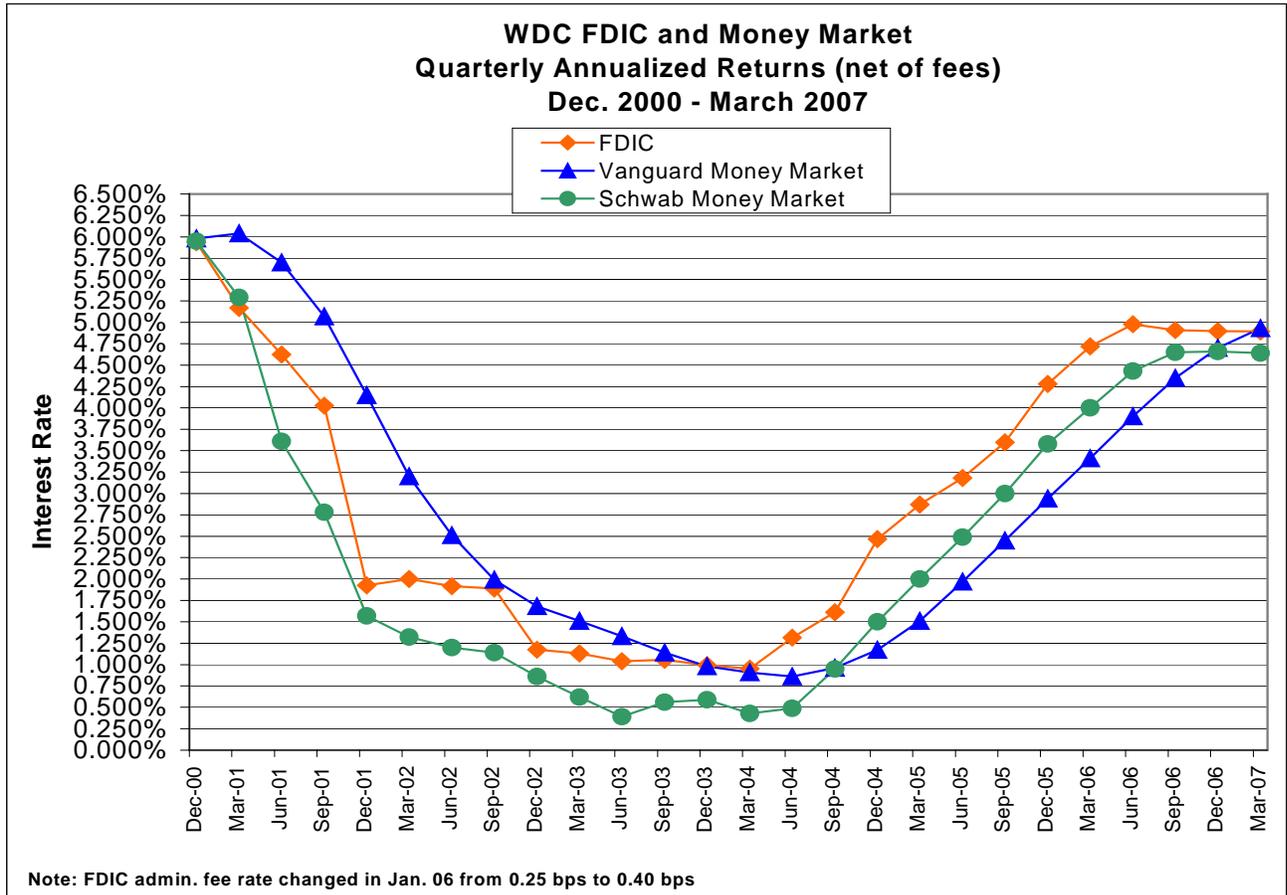
**Fixed Options Review**

At the Board’s request, staff continues to monitor performance of the WDC’s fixed options. In particular, the WDC 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. The Investment Committee has recommended that staff monitor the performance results of these funds in 2007. Depending on performance throughout 2007, the Board may consider consolidation of these options in one insured money market fund. A competitive bid process would be required to create a new fixed option.

Reviewed and approved by David Stella, Deputy Secretary	
_____	_____
Signature	Date

Board	Mtg Date	Item #
DC	05/15/2007	4

The graph below from December 2000 illustrates investment performance for these two options and the Schwab money market account through the first quarter of 2007. All three options provided investment returns within 0.37% of each other during the first quarter of 2007.



**Growth**

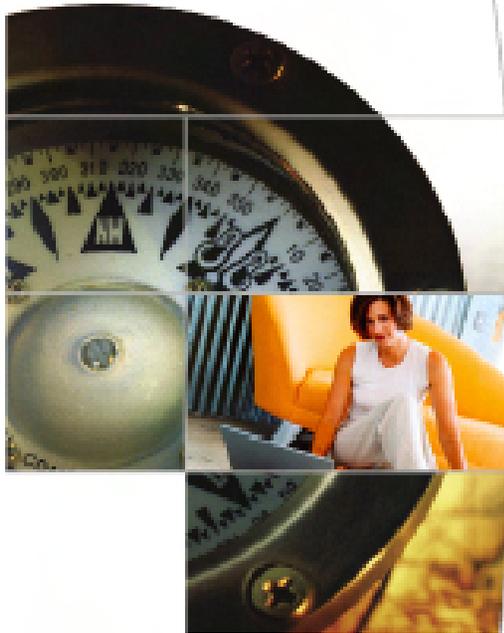
The WDC Program continues to experience growth as a result of both new deferrals and investment income, with approximately 44,100 participants and assets at the end of 2006 exceeding \$2 billion. In comparison, at the end of 2005 the WDC had approximately 42,800 participants and assets of over \$1.8 billion and at the end of 2004, there were 42,000 WDC participants and just over \$1.55 billion in assets.

Department staff and staff from AAG will be available at the meeting to discuss the report and answer any questions the Board may have regarding WDC investment options.

Attachment

**Wisconsin Deferred  
Compensation Program  
Fund Performance Review**

*December 31, 2006*



**AdvisedAssetsGroup**

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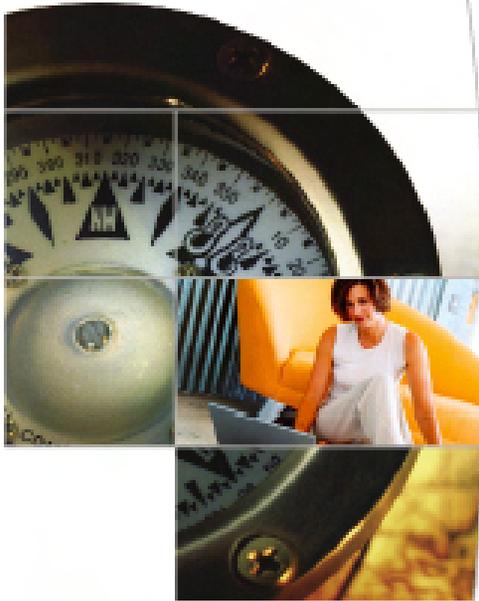
This document has been produced by Advised Assets Group, LLC and is not intended as a solicitation or offering of securities by GWFS Equities, Inc. The purpose of this document is to provide investment related information for the Plan Sponsor in their role as a fiduciary to the Plan, not as investment advice for Plan Participants. Although the data contained in this report is from reliable sources, Advised Assets Group, LLC cannot guarantee its completeness or accuracy. Risks associated with the investment options can vary significantly with each particular investment category and the relative risks of categories change under certain economic conditions. Please research the risks associated with each option carefully.

## **Section**

- I. 1<sup>st</sup> Quarter Update**
- II. Executive Summary**
  - Plan Compliance Report Card
  - Rolling 3 year Quartile Rankings
  - Assets Summary
  - Expense Ratio Summary
  - Weighted Average Return
- III. Fund Highlights and Observations**
- IV. Performance Benchmarking**
  - Risk, Style Drift and Portfolio Construction
- V. Lifecycle Options**
- VI. Economic Overview**
  - Morningstar Pages
- VII. Investment Policy Statement and Benchmarks**

**Appendix:** Glossary of Terms

# 1<sup>st</sup> Quarter Update



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

Name	Tot Ret	Tot Ret	Tot Ret	Tot Ret	Total Net Assets \$M	Expense Ratio
	1 Yr	3 Annlzd Yr	5 Annlzd Yr	10 Annlzd Yr		
American Funds EuroPacific Gr R5	16.91	19.71	15.78	11.41	104023.07	0.53
MSCI EAFE NDTR_D	20.20	19.83	15.68	8.31	--	--
Cat: Foreign Large Blend	17.61	18.60	13.69	7.60	3510.91	1.55
Barclay's EAFE Equity Index Fund W	20.31	19.92	15.48	--	--	0.10
MSCI EAFE Free Ndrtr_D	20.20	19.83	15.68	8.28	--	--
DFA U.S. Micro Cap	3.24	11.55	13.99	14.01	5128.60	0.53
Russell 2000	5.91	12.00	10.95	10.23	--	--
Cat: Small Blend	5.78	12.34	11.05	11.64	892.88	1.46
Barclay's Russell 2000 Index Fd	5.68	11.96	10.87	--	--	0.05
Russell 2000	5.91	12.00	10.95	10.23	--	--
T. Rowe Price Mid-Cap Growth	3.79	13.19	10.17	12.75	15616.11	0.80
Lipper Mid Cap Growth	3.58	10.46	7.21	8.83	--	--
Russell Midcap Growth	6.90	12.41	9.45	9.44	--	--
Standard & Poor's Midcap 400	8.44	13.35	10.70	14.28	--	--
Cat: Mid Growth	4.09	10.74	7.65	9.47	969.12	1.54
Barclay's Mid Cap Equity Index Fund W	8.47	13.48	10.76	--	--	0.04
Standard & Poor's Midcap 400	8.44	13.35	10.70	14.28	--	--
Calvert Social Investment Equity I	6.03	7.63	5.03	9.23	1289.77	0.67
Standard & Poor's 500	11.83	10.06	6.27	8.20	--	--
Calvert Social Index	7.97	7.37	4.61	--	84.25	0.24
Lipper MultiCap Core	9.35	9.94	6.69	8.87	--	--
Morningstar Socially Resp Large Cap Index	8.10	8.52	5.19	7.29	482.39	1.25
Fidelity Contrafund	7.98	13.40	11.20	11.34	68713.06	0.89
Standard & Poor's 500	11.83	10.06	6.27	8.20	--	--
Lipper Growth Fund Average	3.63	6.25	2.82	5.90	--	--
Cat: Large Growth	4.46	7.09	3.69	6.26	3070.59	1.43
Russell 3000	11.28	10.84	7.23	8.69	--	--

DATA SOURCE:  
Morningstar 12/31/2006

Gray bars indicate fund benchmarks; white indicates current funds

Note: BGI Index  
Funds are reported  
net of fees



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

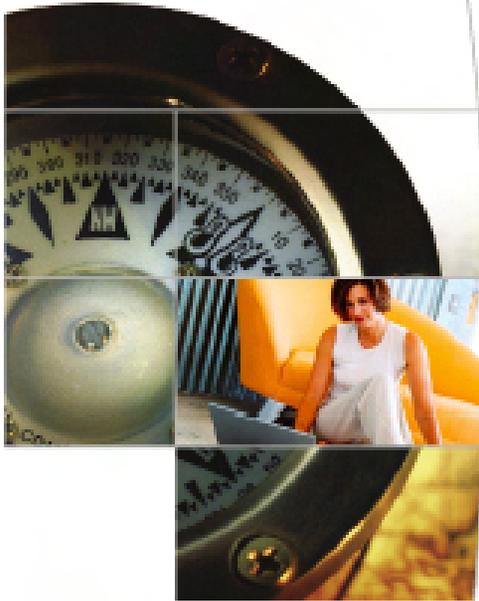
Name	Tot Ret	Tot Ret	Tot Ret	Total Net	Expense Ratio
	1 Yr	3 Yr	5 Yr	Assets \$M	
Vanguard Inst Index Plus Info	11.84	10.08	6.30	67486.80	0.03
Standard & Poor's 500	11.83	10.06	6.27	--	--
Vanguard Wellington Adm	13.02	10.69	8.62	46722.84	0.17
Lipper Balanced Fund	8.98	7.85	6.82	--	--
Cat: Moderate Allocation	9.14	8.08	6.45	3631.33	1.40
65% S&P Barra Value/35% Lehman Agg	12.44	9.71	8.02	--	--
Vanguard Long-Term Investment-Grade Adm	7.54	4.29	7.61	5792.76	0.12
Lehman Brothers LT Corp A or Better	7.78	4.26	7.60	--	--
Cat: Long-Term Bond	7.49	3.71	7.25	683.85	0.86
Barclay's US Debt Index	6.62	3.30	5.37	--	0.05
Lehman Brothers Aggregate Bond	6.59	3.31	5.35	--	--
Federated U.S. Govt: 2-5 Yr Instl	5.54	1.79	3.92	613.26	0.58
Merrill Lynch 3-5 Year Treasury	5.83	1.86	4.47	--	--
Lipper Short-Inter U.S.	5.49	2.64	4.78	--	--
Cat: Short Government	4.88	2.09	3.15	379.04	0.98
Vanguard Adm Money Market	4.93	3.28	2.45	18258.70	0.13
iMoneyNet Average Treasury MM	4.27	2.62	1.84	--	--

Gray bars indicate fund benchmarks; white indicates current funds

Note: BGI Index Funds are reported net of fees

DATA SOURCE: Morningstar  
12/31/2006

# Executive Summary



**AdvisedAssetsGroup**

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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	22.17	21.18	15.46	11.36	98,660.13	0.53
MSCI EAFE NDTR_D	26.34	19.93	14.98	7.71	--	--
Cat: Foreign Large Blend	23.78	17.96	12.54	6.85	3,351.20	1.69
Barclay's EAFE Equity Index Fund W	26.33	19.96	14.63	--	--	0.10
MSCI EAFE Ndr_D	26.34	19.93	14.98	7.71	--	--
DFA U.S. Micro Cap	16.16	13.27	15.16	13.48	4,880.72	0.55
Russell 2000	18.37	13.56	11.39	9.44	--	--
Cat: Small Blend	15.06	13.49	11.72	11.24	869.50	1.49
Barclay's Russell 2000 Index Fd	18.12	13.47	11.29	--	--	0.05
Russell 2000	18.37	13.56	11.39	9.44	--	--
T. Rowe Price Mid-Cap Growth	6.79	13.23	9.59	11.63	15,337.46	0.80
Lipper Mid Cap Growth	8.51	10.44	5.86	7.52	--	--
Russell Midcap Growth	10.66	12.73	8.22	8.62	--	--
Standard & Poor's Midcap 400	10.32	13.09	10.89	13.47	--	--
Cat: Mid Growth	9.01	10.85	6.48	8.31	909.38	1.58
Barclay's Mid Cap Equity Index Fund W	10.40	13.20	10.93	--	--	0.04
Standard & Poor's Midcap 400	10.32	13.09	10.89	13.47	--	--
Calvert Social Investment Equity I	10.77	7.58	5.54	9.22	1,297.85	0.67
Standard & Poor's 500	15.79	10.44	6.19	8.42	--	--
Calvert Social Index	11.94	7.80	4.26	--	--	--
Lipper MultiCap Core	13.29	10.26	6.61	8.71	--	--
Morningstar Socially Resp Large Cap Index	12.01	8.99	5.05	6.96	433.08	1.29
Fidelity Contrafund	11.52	14.26	11.52	11.01	68,565.23	0.88
Standard & Poor's 500	15.79	10.44	6.19	8.42	--	--
Lipper Growth Fund Average	5.60	6.28	2.15	5.53	--	--
Cat: Large Growth	6.93	7.15	2.88	5.88	2,972.70	1.45

DATA SOURCE:  
Morningstar 12/31/2006

Note: BGI Index  
Funds are reported  
net of fees

Gray 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	15.81	10.46	6.23	8.50	65,537.21	0.03
Standard & Poor's 500	15.79	10.44	6.19	8.42	--	--
Vanguard Wellington Adm	15.07	11.08	9.08	9.86	45,717.51	0.15
Lipper Balanced Fund	10.66	7.77	5.65	6.86	--	--
Cat: Moderate Allocation	11.26	8.36	6.09	7.12	3,641.31	1.42
65% S&P Barra Value/35% Lehman Agg	9.69	7.16	6.80	7.27	--	--
Vanguard Long-Term Investment-Grade Adm	2.99	5.74	7.34	7.36	5,711.48	0.12
Lehman Brothers LT Corp A or Better	3.31	5.69	7.23	7.28	--	--
Cat: Long-Term Bond	4.43	4.52	6.77	6.49	553.35	1.03
Barclay's US Debt Index	4.36	3.69	5.07	--	--	0.05
Lehman Brothers Aggregate Bond	4.33	3.70	5.06	6.24	--	--
Federated U.S. Govt: 2-5 Yr Instl	3.34	1.93	3.54	5.05	635.63	0.58
Merrill Lynch 3-5 Year Treasury	3.52	2.16	4.01	5.61	--	--
Lipper Short-Inter U.S.	4.07	2.87	3.84	5.06	--	--
Cat: Short Government	3.66	2.08	2.93	4.46	381.11	0.99
Vanguard Adm Money Market	4.70	2.93	2.29	3.67	16,592.13	0.13
iMoneyNet Average Treasury MM	4.04	2.29	1.69	3.10	--	--

Gray bars indicate fund benchmarks; white indicates current funds

Note: BGI Index Funds are reported net of fees

DATA SOURCE: Morningstar  
12/31/2006

# Rolling 3 Year Quartile Rankings

<u>Name</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>	<u>2004</u> <u>Q2</u>	<u>2004</u> <u>Q1</u>
American Funds EuroPacific Gr R5	88	86										
Calvert Social Investment Equity I	59	60										
DFA U.S. Micro Cap	48	55										
Federated U.S. Govt: 2-5 Yr Instl	40	34										
Fidelity Contrafund	98	99										
T. Rowe Price Mid-Cap Growth	77	83										
Vanguard Institutional Index Instl PI	74	67										
Vanguard Long-Term Inv Grade Adm	80	72										
Vanguard Wellington Adm	91	91										

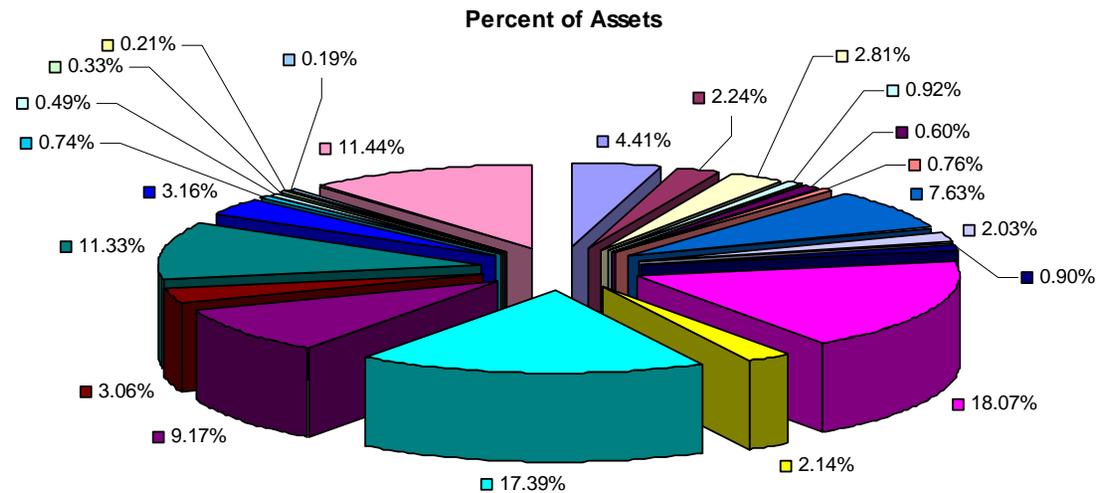
76-100	1st Quartile
51-75	2nd Quartile
26-50	3rd Quartile
1-25	4th Quartile

DATA SOURCE: Morningstar  
12/31/2006

# Plan Asset Summary

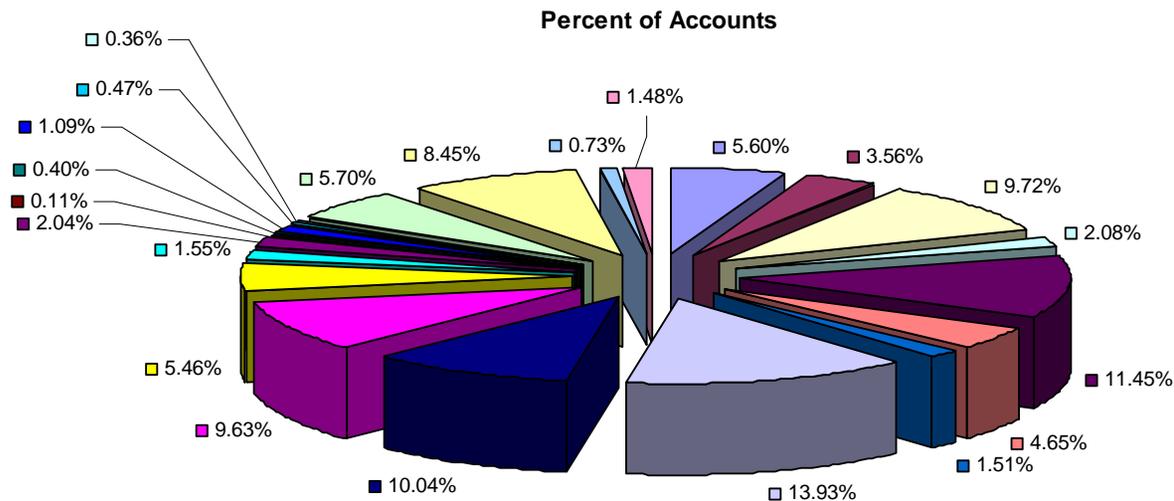
	Plan Inception Date	Fund Net Assets	WDC Assets in Fund	WDC as a Percentage of Fund Assets	Fund as a Percentage of WDC Assets	Number of Participants	Percentage of WDC Participants Utilizing Fund
American Funds EuroPacific Gr R5	01/28/2005	\$98,660,129,993	\$89,737,228.45	0.09%	4.41%	10,449	24.26%
Barclay's EAFE Equity Index Fund W	02/01/2001	N/A	\$45,513,421.93	N/A	2.24%	6,629	15.39%
DFA U.S. Micro Cap	02/01/1997	\$4,880,721,214	\$155,202,498.16	3.18%	7.63%	18,126	42.08%
Barclay's Russell 2000 Index Fd	02/20/2004	N/A	\$18,623,915.05	N/A	0.92%	3,883	9.01%
T. Rowe Price Mid-Cap Growth	02/01/1998	\$15,337,460,030	\$186,570,150.59	1.22%	9.17%	21,344	49.55%
Barclay's Mid Cap Equity Index Fund W	02/01/2001	N/A	\$57,155,863.86	N/A	2.81%	8,669	20.12%
Calvert Social Investment Equity I	04/18/2003	\$1,297,848,672	\$15,516,573.55	1.20%	0.76%	2,824	6.56%
Fidelity Contrafund	01/31/1994	\$68,565,227,650	\$367,754,263.47	0.54%	18.07%	25,977	60.30%
Vanguard Inst Index Plus Info	09/09/1990	\$65,537,209,288	\$230,584,229.90	0.35%	11.33%	18,711	43.44%
Vanguard Wellington Adm	10/26/2001	\$45,717,508,392	\$232,721,824.60	0.51%	11.44%	17,952	41.67%
Vanguard Long-Term Investment-Grade Adm	10/26/2001	\$5,711,483,615	\$64,361,100.70	1.13%	3.16%	10,178	23.63%
Barclay's US Debt Index	02/01/2001	N/A	\$12,175,932.18	N/A	0.60%	2,883	6.69%
Federated U.S. Govt: 2-5 Yr Instl	02/03/1992	\$635,627,284	\$18,310,389.18	2.88%	0.90%	3,800	8.82%
Vanguard Target Ret Income	07/29/2005	\$897,081,372	\$3,840,228.79	0.43%	0.19%	206	0.48%
Vanguard Target Ret 2015	07/29/2005	\$4,354,998,720	\$15,069,018.10	0.35%	0.74%	748	1.74%
Vanguard Target Ret 2025	07/29/2005	\$4,604,952,224	\$10,036,526.70	0.22%	0.49%	2025	4.70%
Vanguard Target Ret 2035	07/29/2005	\$3,050,016,251	\$6,644,839.85	0.22%	0.33%	870	2.02%
Vanguard Target Ret 2045	07/29/2005	\$1,445,780,853	\$4,244,754.89	0.29%	0.21%	676	1.57%
Vanguard Adm Money Market	10/01/1993	\$16,592,125,038	\$62,171,927.57	0.37%	3.06%	10,623	24.66%
Stable Value Fund	09/01/1996	N/A	\$353,847,606.69	N/A	17.39%	15,762	36.59%
Schwab PCRA	02/17/2000	N/A	\$43,453,547.33	N/A	2.14%	1365	3.17%
FDIC Option	12/31/1996	N/A	\$41,371,121.04	N/A	2.03%	2,756	6.40%

## Total WDC Assets (as of 12/31/2006): \$2,034,906,962.58



American Funds EuroPacific Gr R5 - 4.41%	Barclay's EAFE Equity Index Fund W - 2.24%	Barclay's Mid Cap Equity Index Fund W - 2.81%
Barclay's Russell 2000 Index Fd - 0.92%	Barclay's US Debt Index - 0.60%	Calvert Social Investment Equity I - 0.76%
DFA U.S. Micro Cap - 7.63%	FDIC Option - 2.03%	Federated U.S. Govt: 2-5 Yr Instl - 0.90%
Fidelity Contrafund - 18.07%	Schwab PCRA - 2.14%	Stable Value Fund - 17.39%
T. Rowe Price Mid-Cap Growth - 9.17%	Vanguard Adm Money Market - 3.06%	Vanguard Inst Index Plus Info - 11.33%
Vanguard Long-Term Investment-Grade Adm - 3.16%	Vanguard Target Ret 2015 - 0.74%	Vanguard Target Ret 2025 - 0.49%
Vanguard Target Ret 2035 - 0.33%	Vanguard Target Ret 2045 - 0.21%	Vanguard Target Ret Income - 0.19%
Vanguard Wellington Adm - 11.44%		

## Total Number of WDC Participant Accounts (as of 12/31/2006): 186,456



■ American Funds EuroPacific Gr R5 - 5.60%	■ Barclay's EAFE Equity Index Fund W - 3.56%	■ DFA U.S. Micro Cap - 9.72%
■ Barclay's Russell 2000 Index Fd - 2.08%	■ T. Rowe Price Mid-Cap Growth - 11.45%	■ Barclay's Mid Cap Equity Index Fund W - 4.65%
■ Calvert Social Investment Equity I - 1.51%	■ Fidelity Contrafund - 13.93%	■ Vanguard Inst Index Plus Info - 10.04%
■ Vanguard Wellington Adm - 9.63%	■ Vanguard Long-Term Investment-Grade Adm - 5.46%	■ Barclay's US Debt Index - 1.55%
■ Federated U.S. Govt: 2-5 Yr Instl - 2.04%	■ Vanguard Target Ret Income - 0.11%	■ Vanguard Target Ret 2015 - 0.40%
■ Vanguard Target Ret 2025 - 1.09%	■ Vanguard Target Ret 2035 - 0.47%	■ Vanguard Target Ret 2045 - 0.36%
■ Vanguard Adm Money Market - 5.70%	■ Stable Value Fund - 8.45%	■ Schwab PCRA - 0.73%
■ FDIC Option - 1.48%		

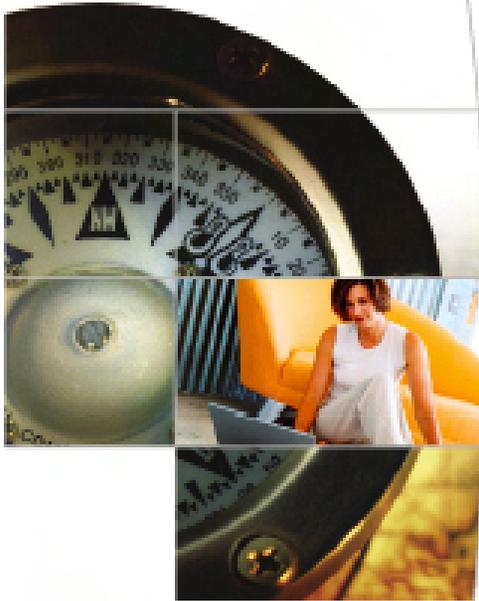
## Fund Expense v. Category

Name	Expense Ratio
American Funds EuroPacific Gr R5	0.53
Cat: Foreign Large Blend	1.56
Barclay's EAFE Equity Index Fund W	0.10
Morningstar Foreign Large Blend Index	0.91
DFA U.S. Micro Cap	0.55
Cat: Small Blend	1.49
Barclay's Russell 2000 Index Fd	0.05
Morningstar Small Cap Blend Index	0.81
T. Rowe Price Mid-Cap Growth	0.80
Cat: Mid Growth	1.58
Barclay's Mid Cap Equity Index Fund W	0.04
Morningstar Mid Cap Blend Index	0.75
Calvert Social Investment Equity I	0.67
Morningstar Socially Resp Large Cap Index	1.26

Name	Expense Ratio
Fidelity Contrafund	0.88
Cat: Large Growth	1.69
Vanguard Inst Index Plus Info	0.03
Morningstar Large Cap Blend Index	0.60
Vanguard Wellington Adm	0.15
Cat: Moderate Allocation	1.42
Vanguard Long-Term Investment-Grade Adm	0.12
Cat: Long-Term Bond	0.94
Barclay's US Debt Index	0.05
Morningstar Intermediate Bond Index	0.44
Federated U.S. Govt: 2-5 Yr Instl	0.58
Cat: Short Government	0.97
Vanguard Adm Money Market	0.13
Average US Money Market Fund	0.66

- The weighted average return for WDC participants as of 12/31/2006 was 11.35%
- Much of this can be attributed to a 18% weighting in the Fidelity Contrafund which returned 11.52%
- Other contributing factors were:
  - 6.6% exposure to international investments which had an average return of 24.25%
  - An 11% weighting to the Vanguard Index which returned 15.81%
  - A 17% weighting to the Wisconsin Stable Value Fund which returned 5.24%
- Note: Participant weighted average return excludes the self directed brokerage accounts

# Fund Highlights and Observations



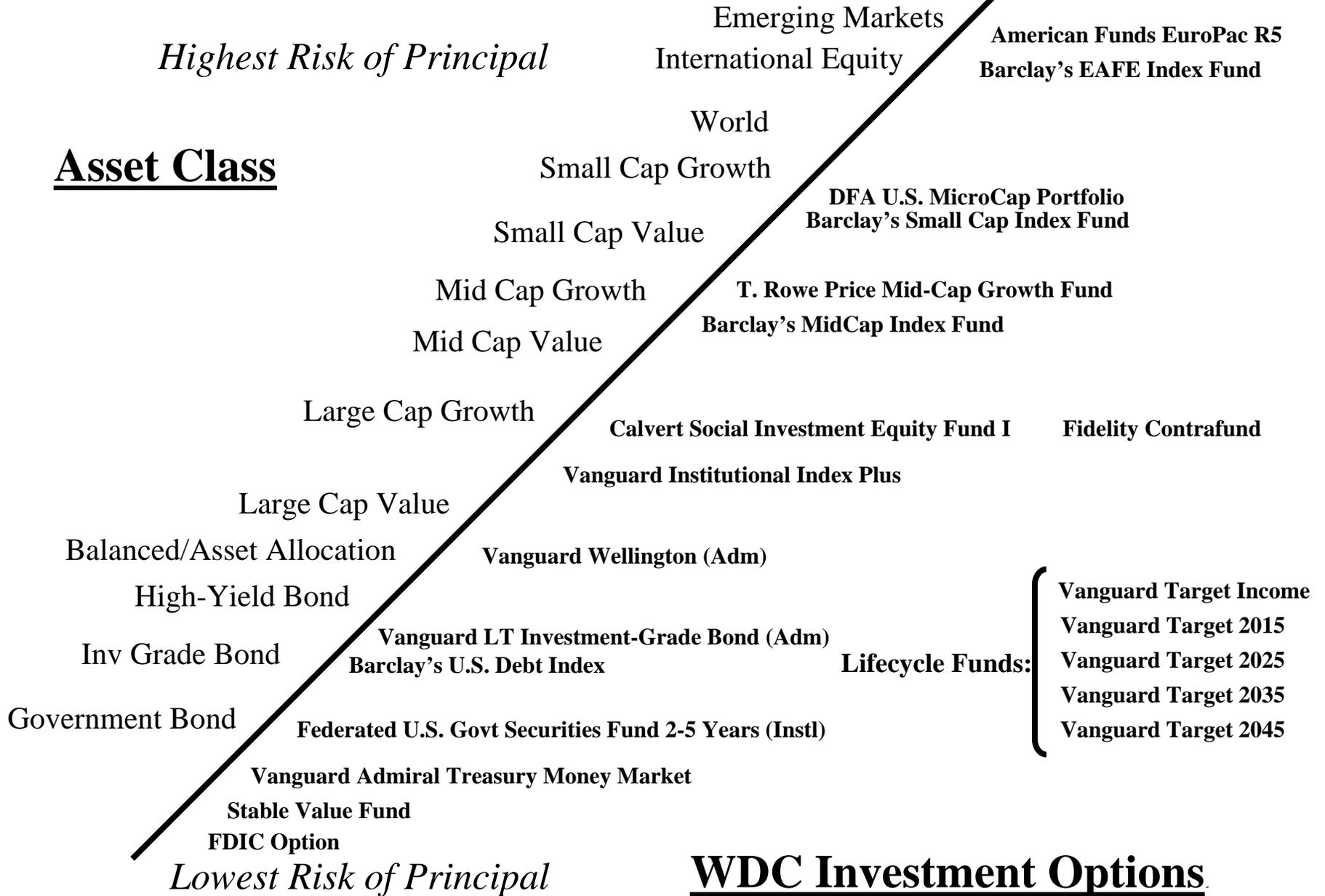
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# WDC Options

*Highest Risk of Principal*

## Asset Class

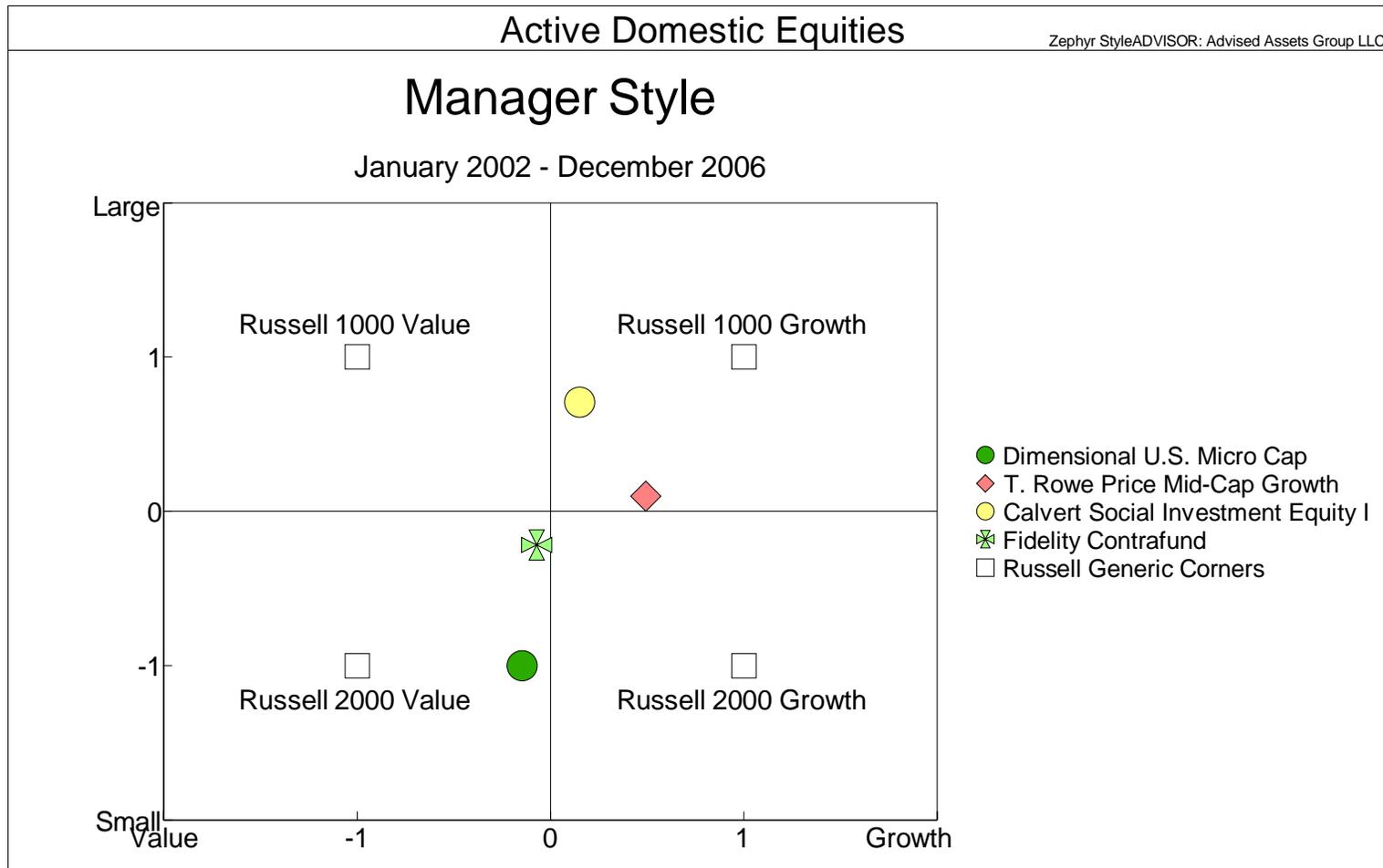


- Lifecycle Funds:**
- Vanguard Target Income
  - Vanguard Target 2015
  - Vanguard Target 2025
  - Vanguard Target 2035
  - Vanguard Target 2045

## WDC Investment Options

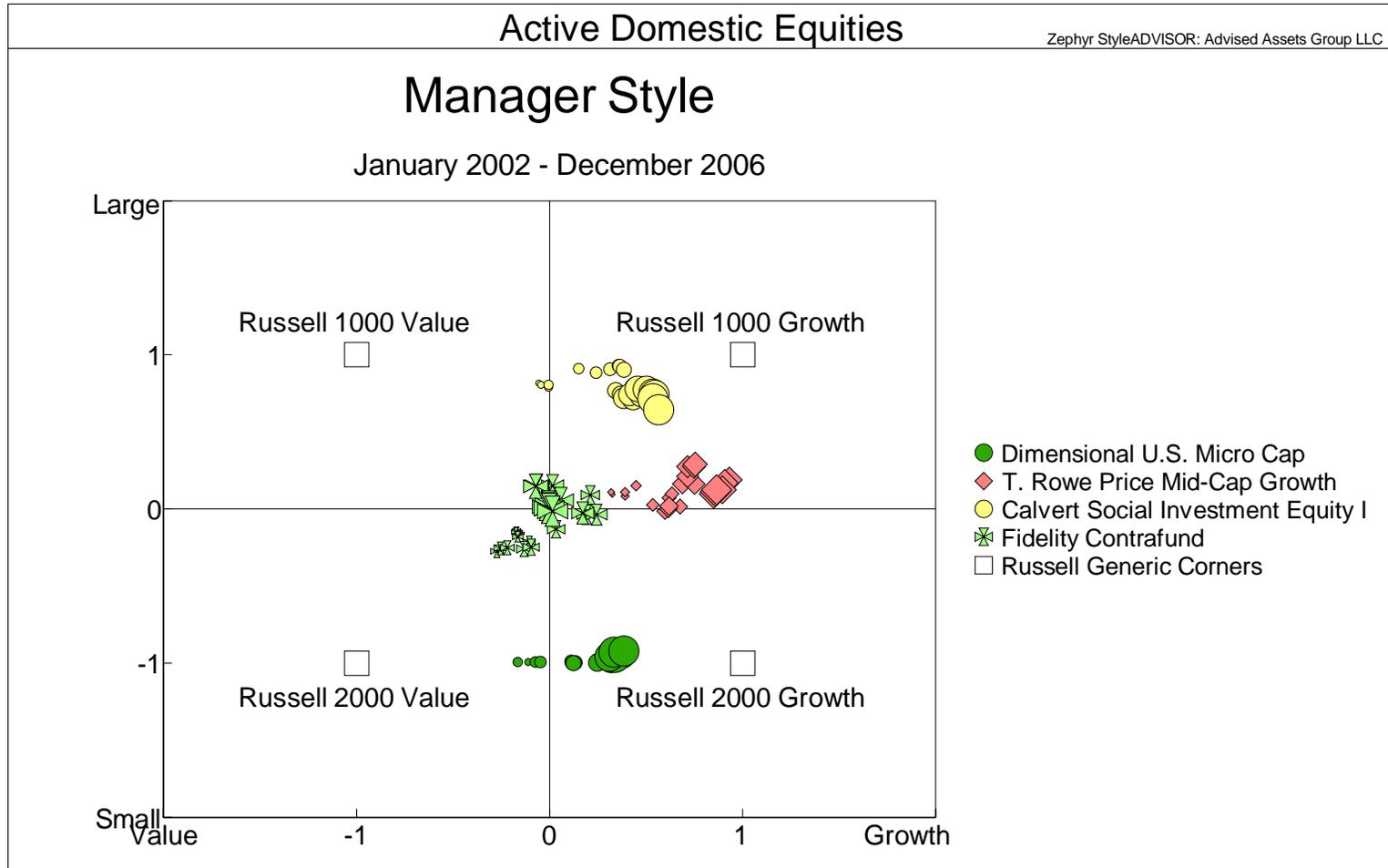
# Manager Style

**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 both its benchmarks over 3, 5, and 10 years. 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 12 bps (gross of fees) over the 1yr period.
- **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 slightly higher standard deviation than the Morningstar Category average over 3 and 5 years. Shareholders have been rewarded for the increased risk over the longer time periods of 5 and 10 years.
- **Barclay's Russell 2000 Index Fund** tracked within (18) bps (gross of fees) with the index over 1 year.

- **T. Rowe Price Mid Cap Growth** outperforms most of its benchmarks over 3, 5, and 10 years. The fund trailed only the S&P Midcap 400 over those time periods. 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 the fund outperform the category average while at the same time take on less risk.
- **Barclay's Mid-Cap Equity Index** tracks within 13 bps (gross of fees) of the index over 1 year.
- **Calvert Social Investment Equity** trails all of its benchmarks over the 1 and 3 year time periods, and has produced mixed results over 5 years. This concentrated socially conscious fund looks for companies with solid balance sheets and solid profit margins. Underweighting in telecom and pharmaceuticals hurt this fund's relative performance.
- **Fidelity Contrafund** beat most of its benchmarks across all time periods. This closed fund's lack of exposure in the telecom and pharmaceutical sector contributed to this fund trailing the S&P 500. That said, this fund continues to keep volatility down. However, the fund's large asset base does bear some watching.

- **Vanguard Instl Index Plus Fund** tracks within 2 bps (net of fees) over 1 year.
- **Vanguard Wellington** outperforms all of its benchmarks over all time periods. At over \$45 billion this fund is one of the largest in its space. Its size, combined with the fact the fund lifted its contribution limits in Nov. 2006 makes keeping an eye on asset bloat more important. Also, in June 2006, John Keogh assumed control of the bond portion replacing the retiring Paul Kaplan.
- **Vanguard Long-Term Bond** posted strong returns over 3 and 5 years, but trails its benchmarks over 1 year. 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 most of its peers. However, investors do face some interest rate risk given the fund's average duration is longer than most of its peers.
- **Barclay's US Debt Index** has tracks within 8 bps (gross of fees) over 1 year.

- **Federated U.S. Government: 2-5 Year Institutional** trails most of its benchmarks over 1, 3, and 5 years. This fund carries a higher duration than most of its peers, so rising interest rates in the early part of the year hurt the fund. Conversely, the pause in interest rate hikes helped the fund in the last part of the year. In a falling rate environment this fund has historically performed well returning 8% in 2001 and 10% in 2000.
- **Vanguard Admiral Treasury Money Market Fund** posted a 4.70% return over the 1 year period. It also beat its benchmark over all time periods.
- **FDIC Bank Option** return for the quarter ending 12/31/2006 was 5.01%. For 2007, the interest rate is calculated by taking 50% of 12 month LIBOR as of 1/1/2007 less 40 bps plus 50% of the 3 month LIBOR less 40 bps. This blended rate is calculated each quarter.
- **Wisconsin Stable Value Fund** has strong performance over the 1, 3, and 5 year periods returning 5.24%, 5.07%, and 5.27% respectively. The fund is managed by Galliard Capital who maintains a very good reputation throughout the industry as a top stable value manager.

## 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](http://www.fidelity.com)

*Wisconsin Deferred Compensation Program*

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# Performance Benchmarking of Active Options



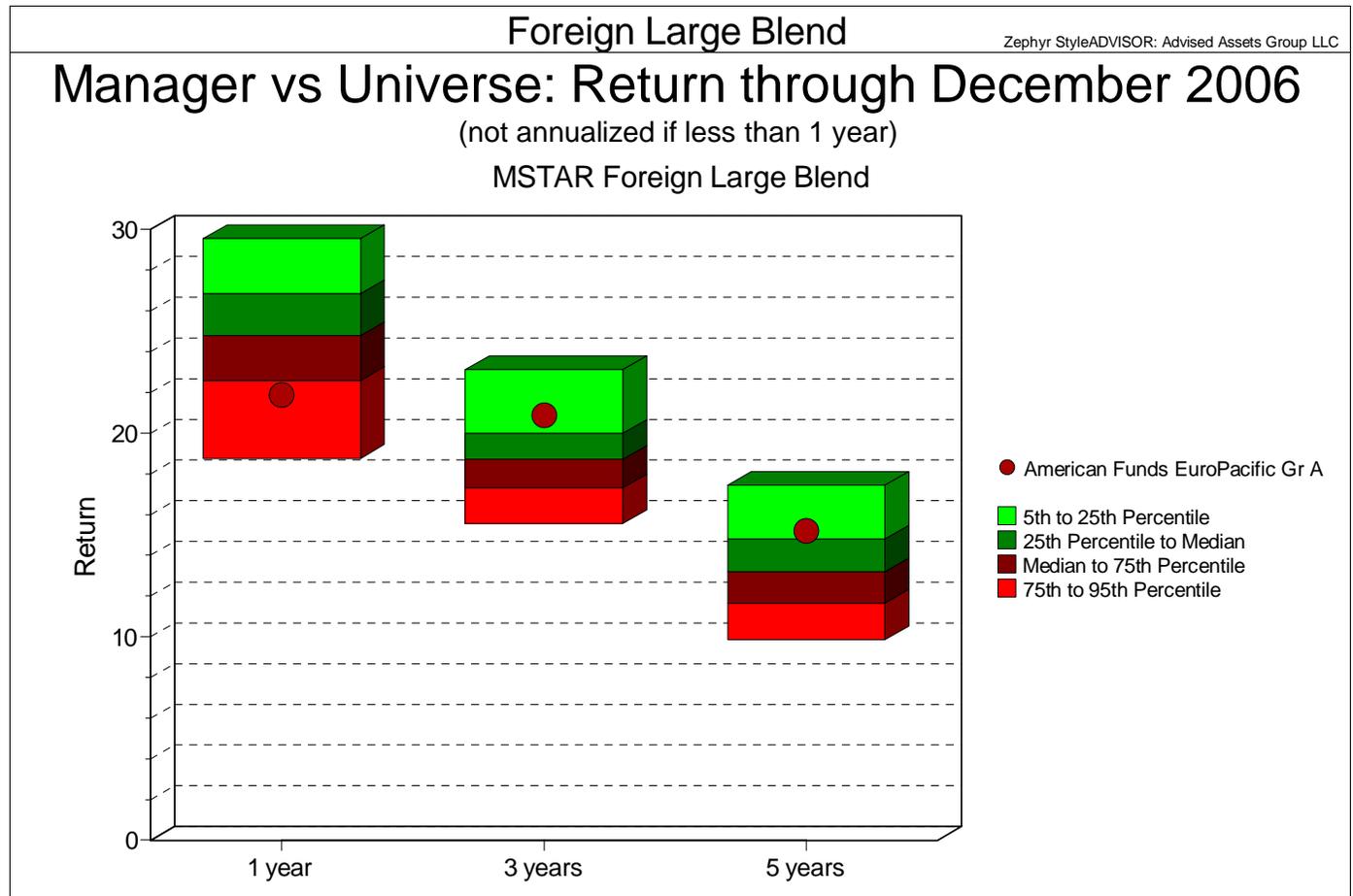
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# Performance Benchmarking

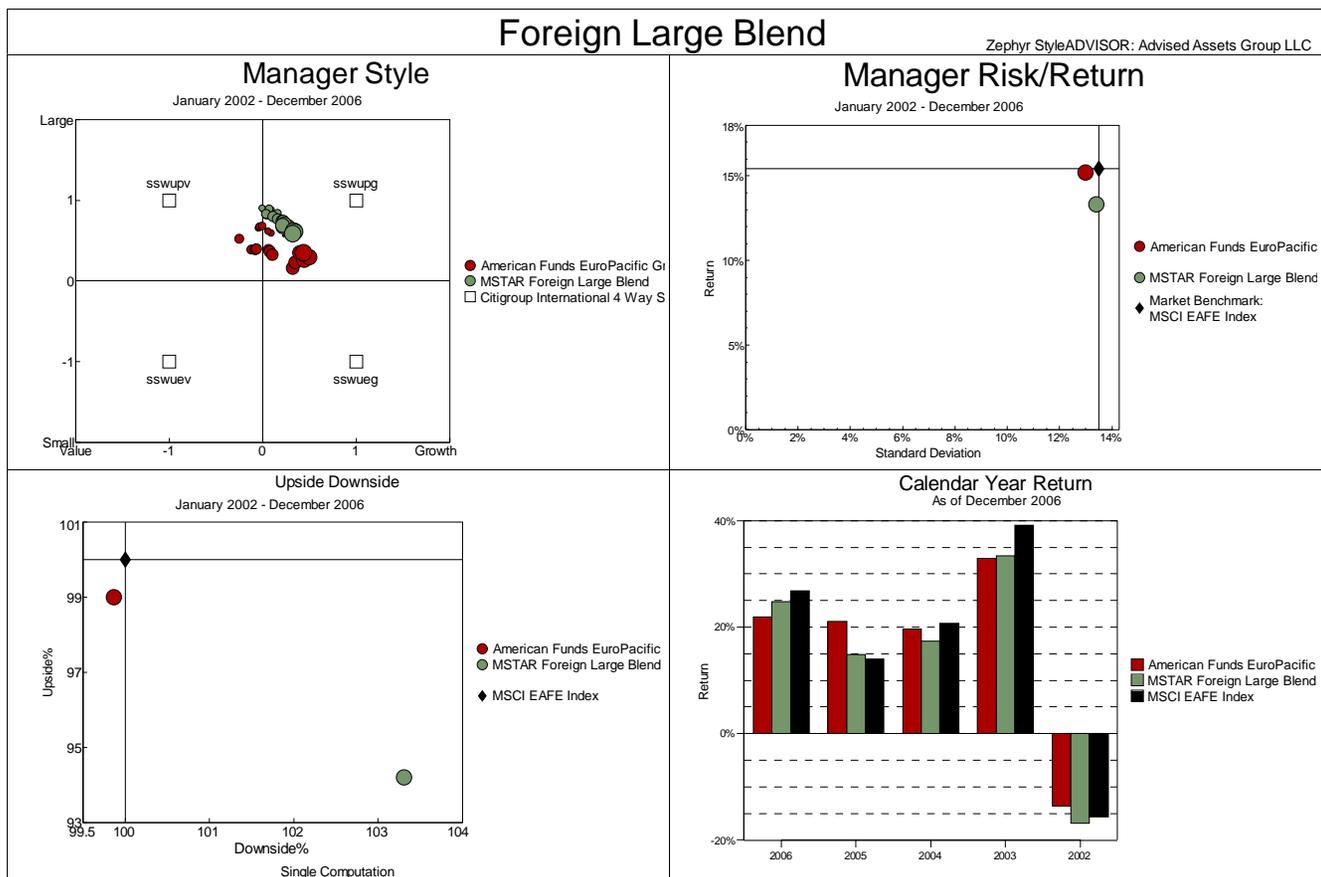
American Funds EuroPacific Growth Fund seeks long-term growth of capital. The fund normally invests at least 65% of assets in equity securities of issuers domiciled in Europe or the Pacific Basin. It may invest up to 20% of assets in securities issued in developing countries. Various factors will be 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  
12/31/2006



	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	22.17	21.18	15.46	12	15	22.17	21.39	19.98	33.24	
Cat: Foreign Large Blend	24.82	18.83	13.19	--	--	24.82	14.82	17.39	33.56	-16.86

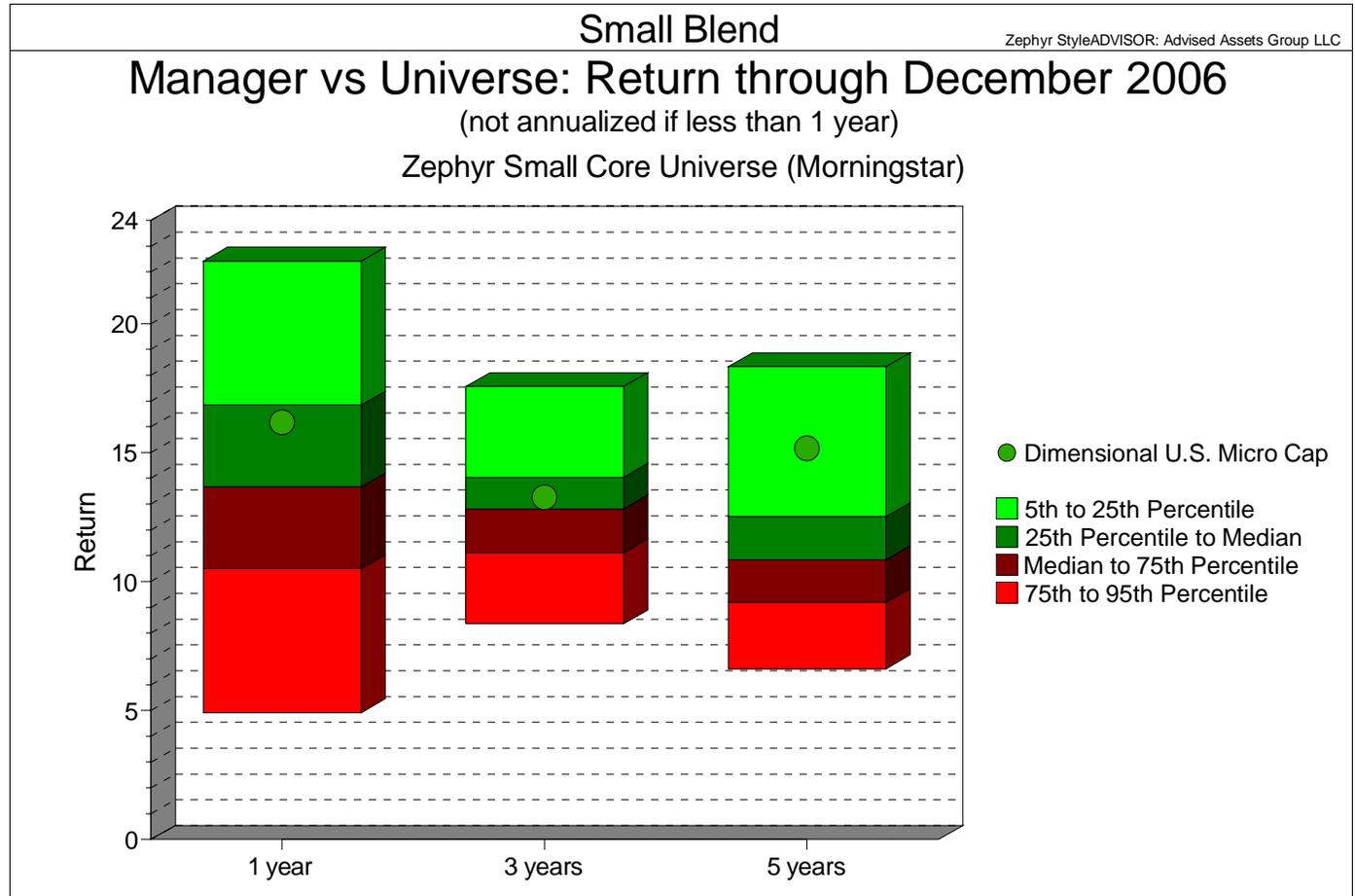
# Risk Analysis



Name	Morningstar		Total Net		% Assets			Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash	Total # of Holdings	in Top 10			
American Funds EuroPacific Gr R5	4	9.91	13.00	98660.13	7.83	426	16.10	35.00	23	0.53
Cat: Foreign Large Blend	3	1.70	2.11	381.10	19.44	160	61.11	154.60	--	0.98

# Performance Benchmarking

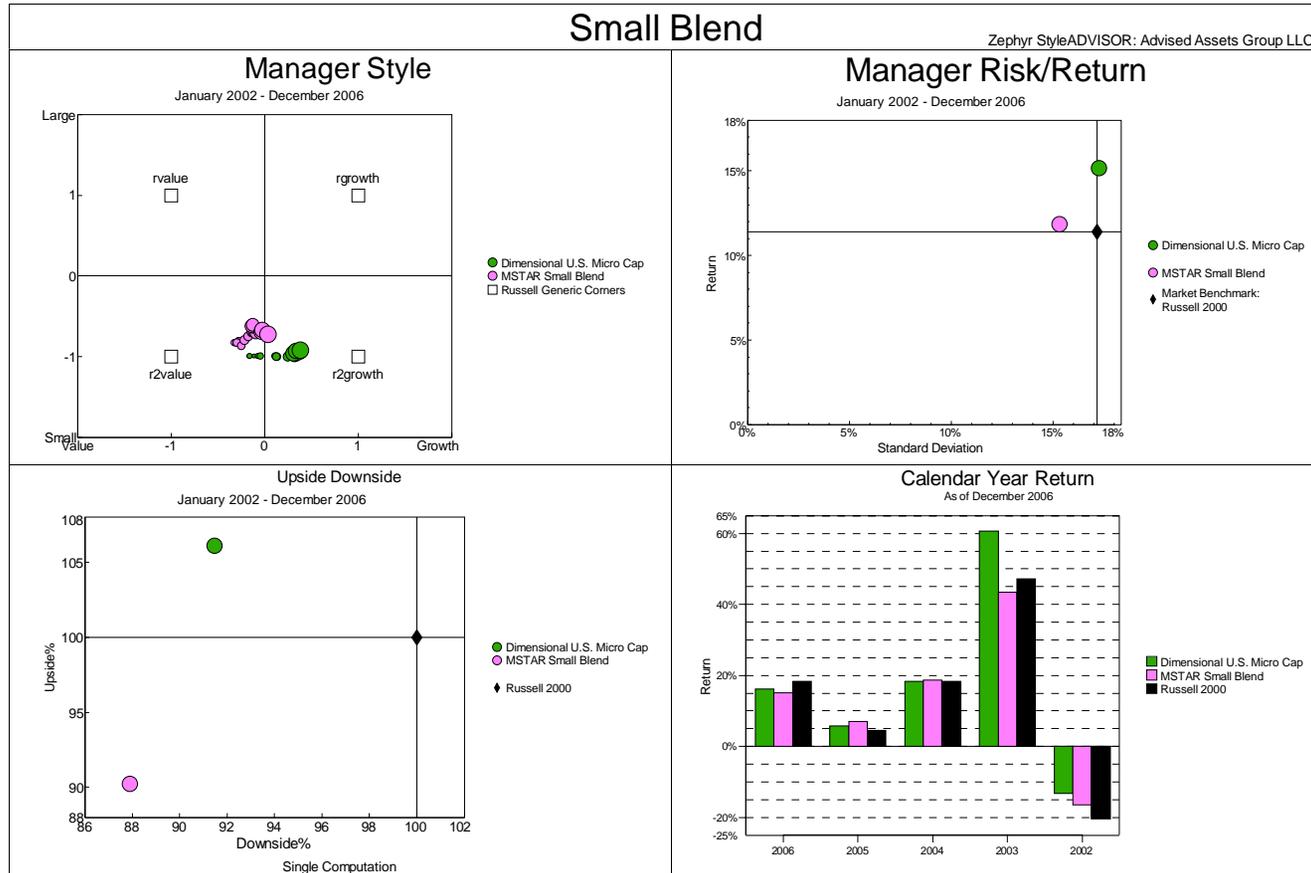
DFA U.S. Microcap seeks long-term capital appreciation. The fund invests in a diverse group of small companies with readily marketable securities. These companies may be traded on the NYSE, the AMEX, or over-the-counter market, but their market capitalizations must be comparable with those in the smallest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



DATA SOURCE:  
Morningstar  
12/31/2006

	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	16.16	13.27	15.16	52	16	16.16	5.69	18.39	60.72	-13.27
Cat: Small Blend	15.06	13.49	11.72	--	--	15.06	6.97	18.83	43.59	-16.44

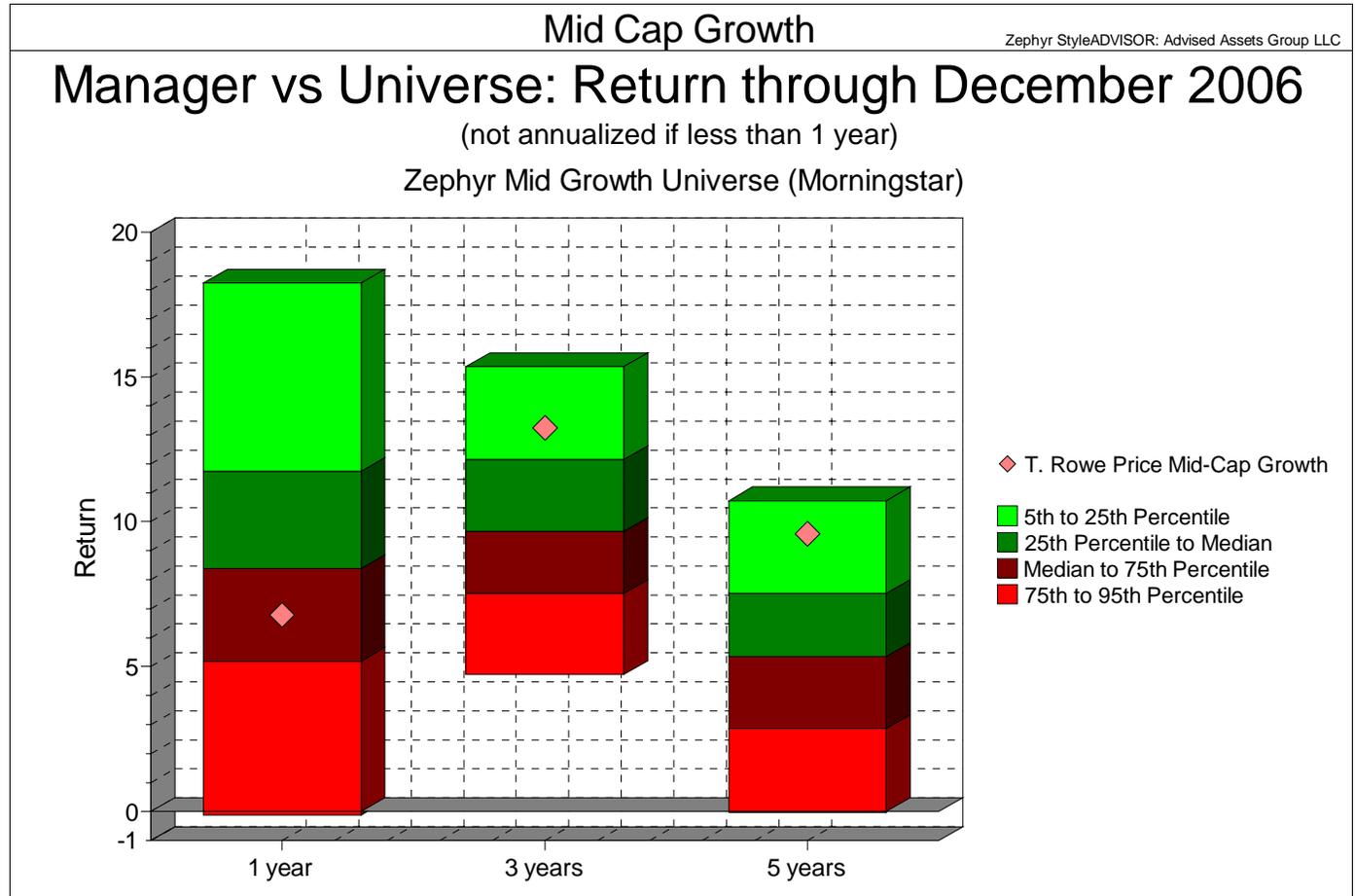
# Risk Analysis



Name	Morningstar		Total Net		% Assets			Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash	Total # of Holdings	in Top 10			
DFA U.S. Micro Cap	3	14.60	17.26	4880.72	0.50	1	100	37.00	12	0.55
Cat: Small Blend	3	13.02	16.05	869.19	4.98	365	22.84	81.16	--	1.47

# Performance Benchmarking

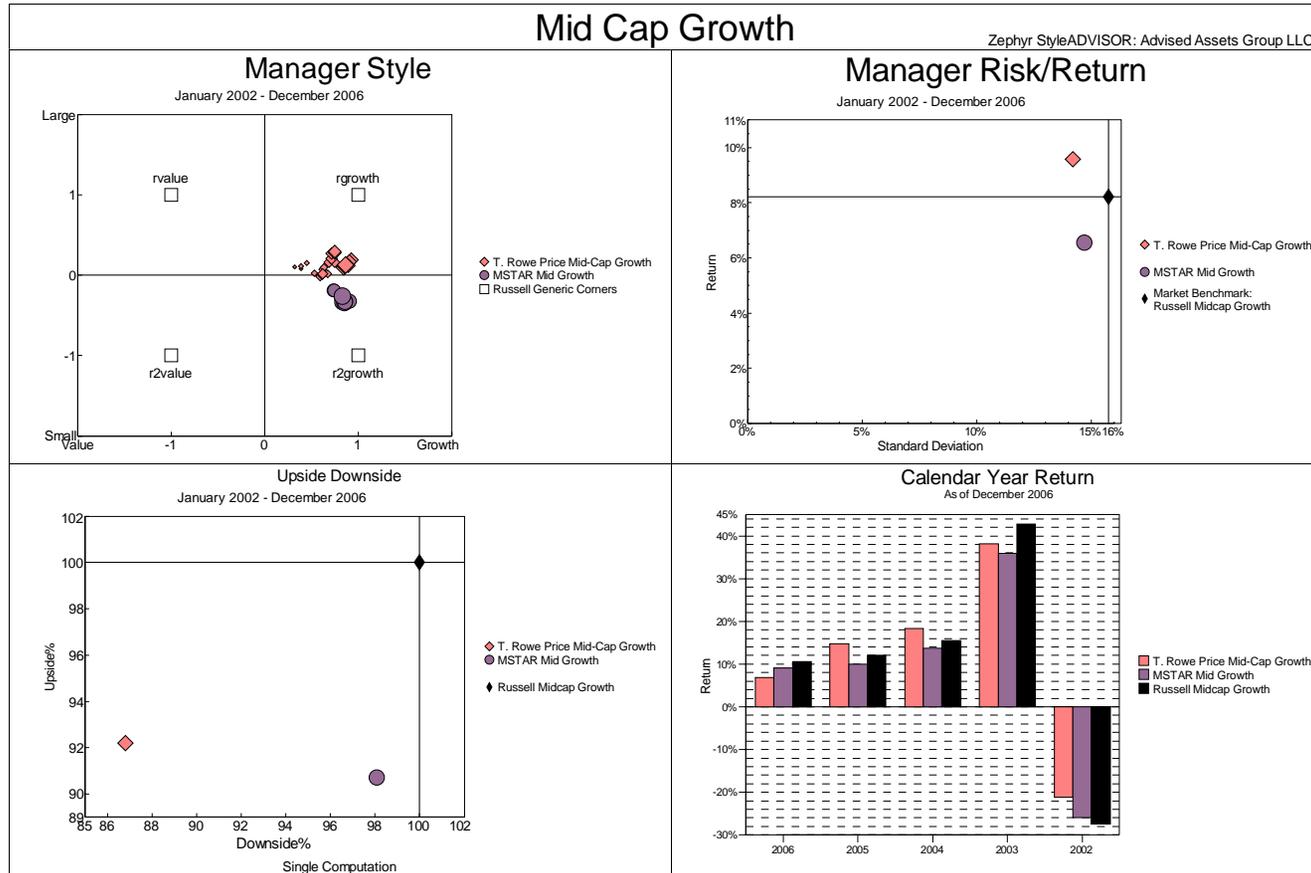
T. Rowe Price Mid Cap Growth Fund seeks long-term capital appreciation. The fund normally invests at least 80% of assets in mid-cap common stocks with above-average growth potential. The advisor seeks companies that offer proven products or services, have an above-average historical record of earnings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



DATA SOURCE:  
Morningstar  
12/31/2006

	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	6.79	13.23	9.59	23	16	6.79	14.82	18.39	38.21	-21.22
Cat: Mid-Cap Growth	9.01	10.85	6.48	--	--	9.01	10.03	13.87	36.19	-25.86

# Risk Analysis

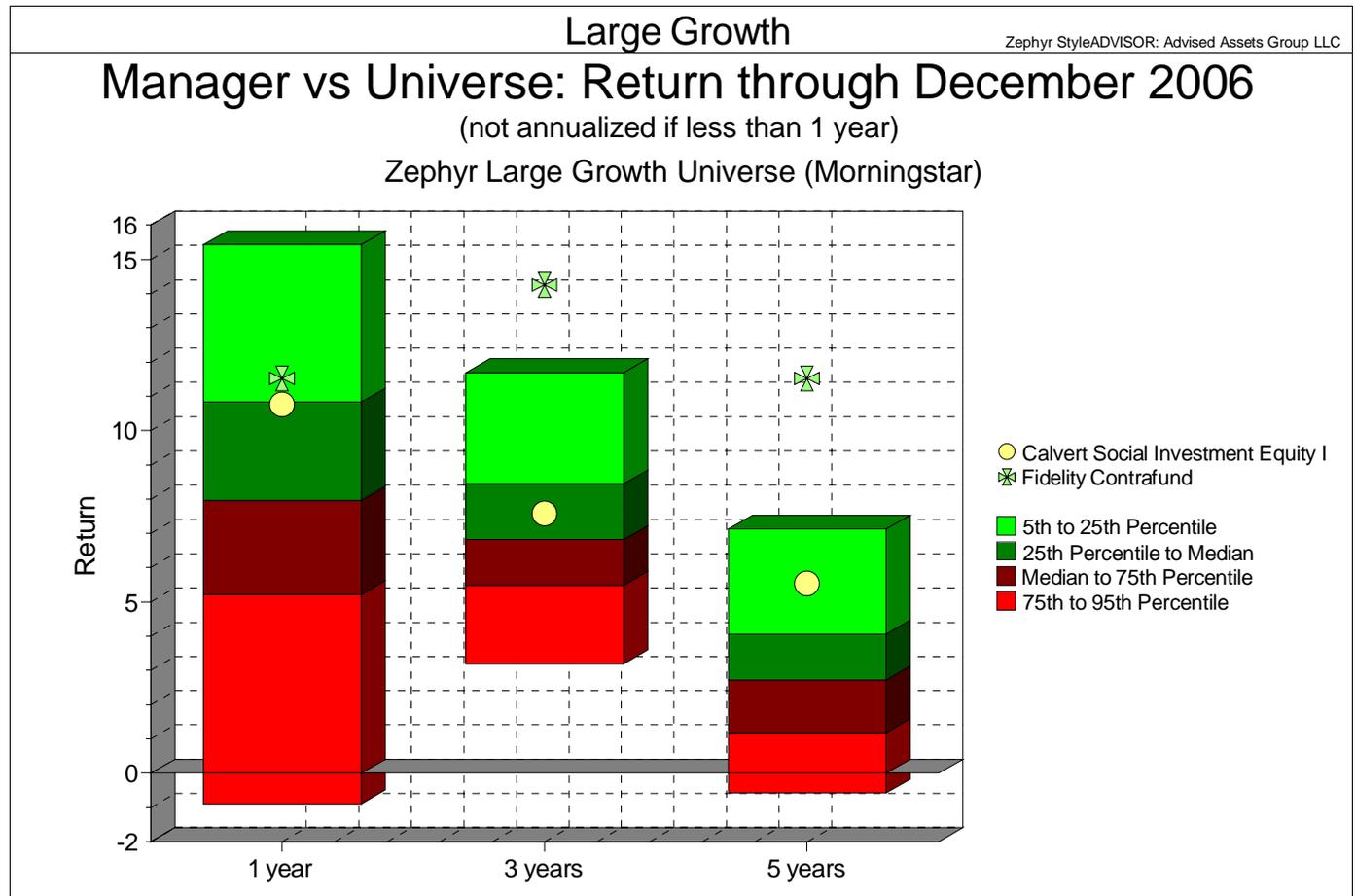


Name	Morningstar		Total Net		% Assets			Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash	Total # of Holdings	in Top 10			
T. Rowe Price Mid-Cap Growth	4	10.21	14.21	15337.46	3.78	153	15.85	29.00	15	0.80
Cat: Mid-Cap Growth	3	12.51	15.55	909.43	3.47	99	29.32	111.67	--	1.55

# 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.

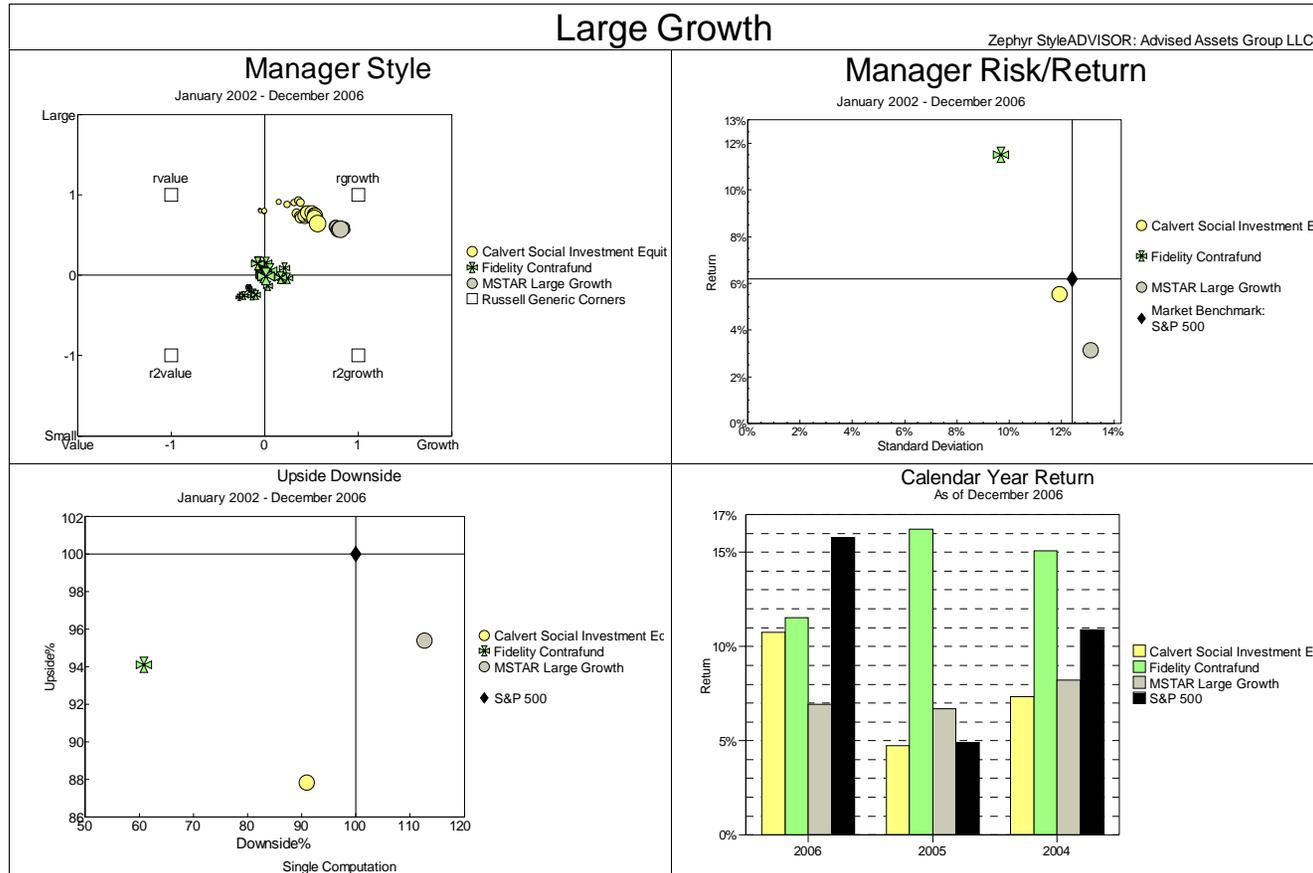
Fidelity Contrafund seeks capital appreciation. The fund invests primarily in the common stocks of companies believed to be undervalued. The types of companies in which the fund may invest include companies experiencing positive fundamental change such as new management team or product launch or companies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



DATA SOURCE: Morningstar 12/31/2006

	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)
Calvert Social Investment Equity I	10.77	7.58	5.54	41	16	10.77	4.74	7.33	23.00	-14.52
Fidelity Contrafund	11.54	14.26	11.52	2	1	11.54	16.23	15.07	27.96	-9.63
Cat: Large Growth	6.93	7.15	2.88	--	--	6.93	6.61	8.16	29.18	-26.82

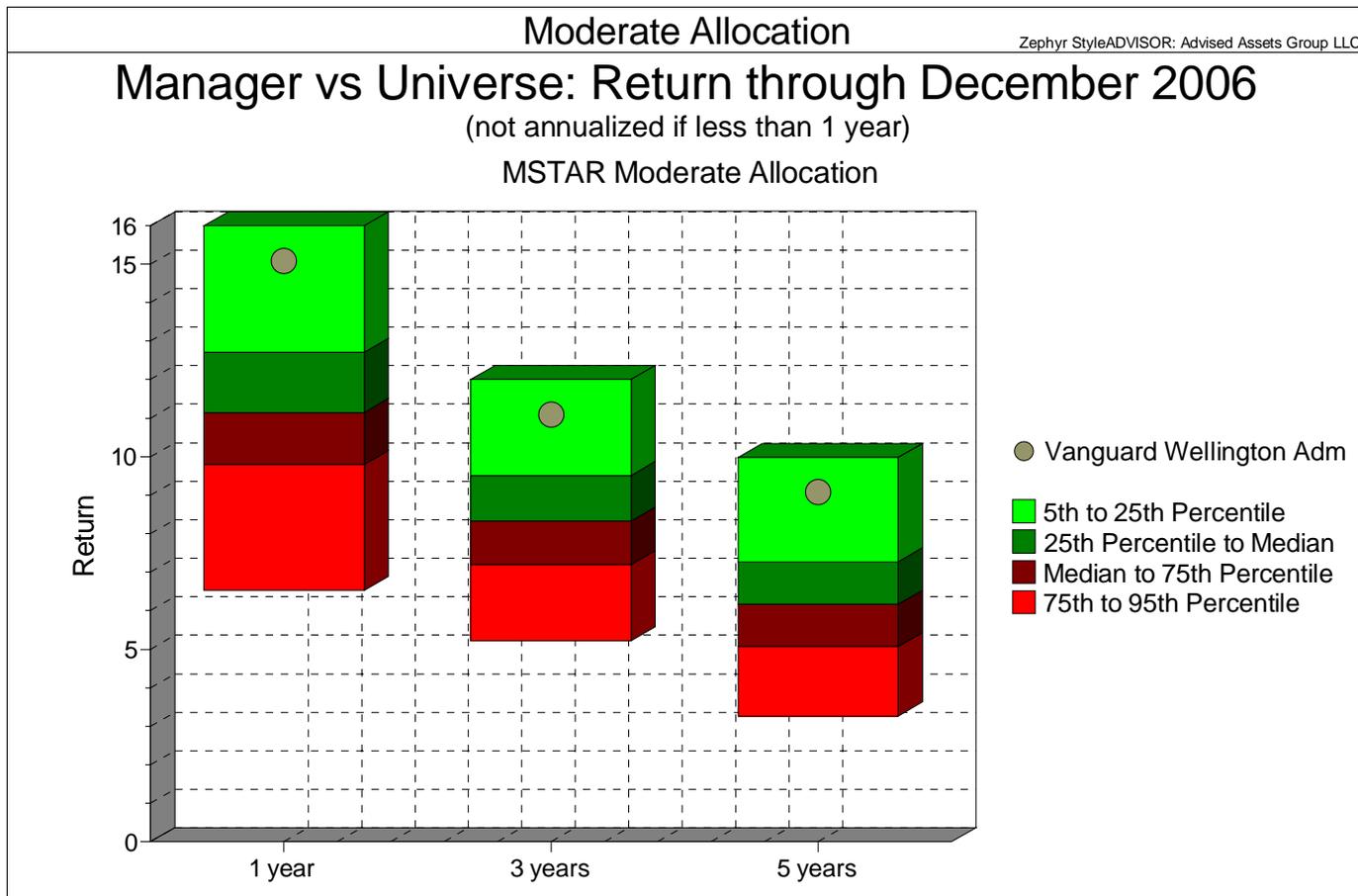
# Risk Analysis



Name	Morningstar Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets		% Assets			Turnover Ratio	Mgr Tenure	Expense Ratio
				\$M	% Cash	Total # of Holdings	in Top 10				
Calvert Social Investment Equity I	4	7.13	11.92	1297.85	3.89	65	32.85	35.00	8	0.67	
Fidelity Contrafund	5	8.95	9.69	68576.27	10.29	435	30.02	60.00	16	0.88	
Cat: Large Growth	3	9.88	13.94	2990.21	3.11	109	34.53	97.43	--	1.45	

# Performance Benchmarking

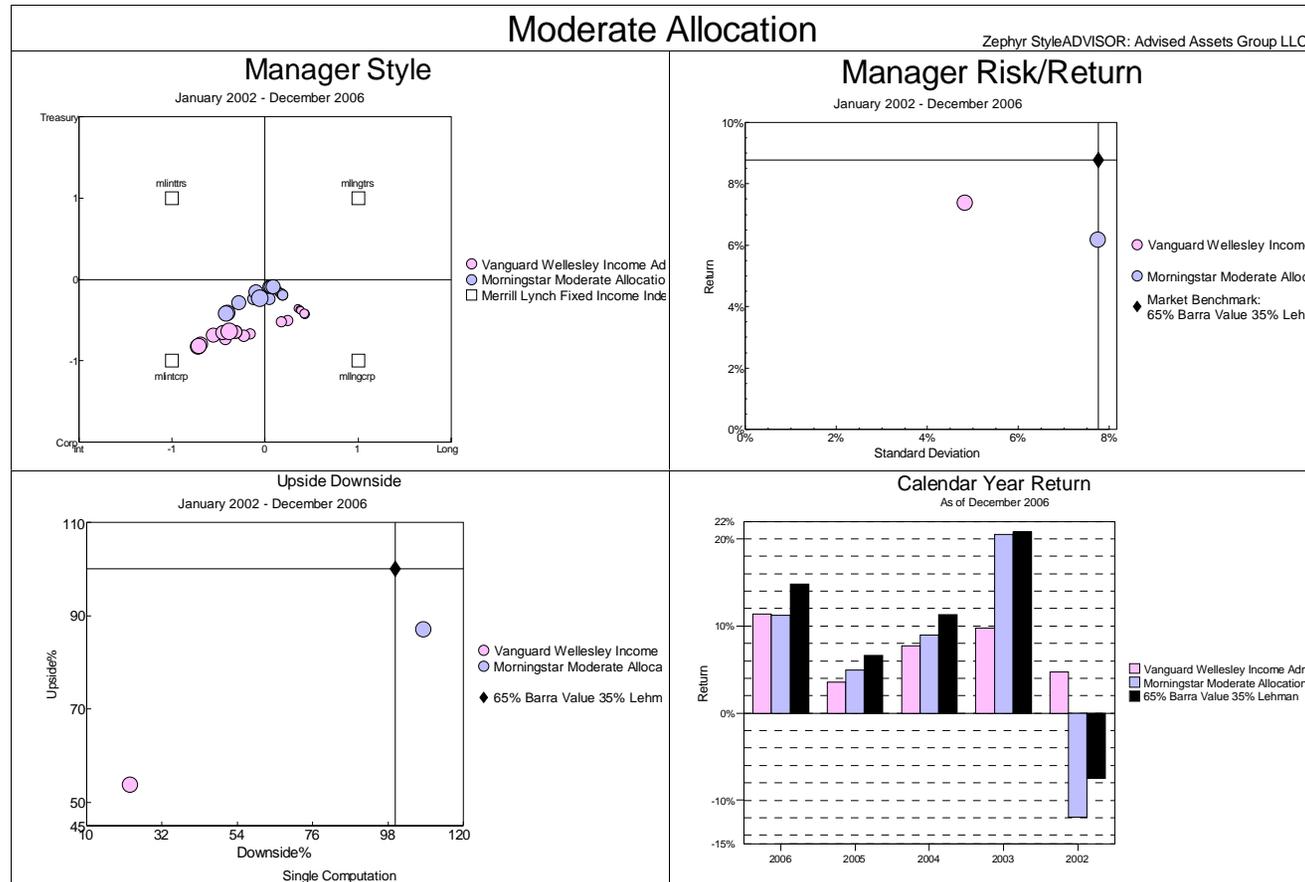
Vanguard Wellington seeks moderate long-term capital growth and current income. The fund invests at least 60-70% of assets in dividend-paying value stocks, and to a lesser extent, non-dividend paying stocks of established medium-size and large-size companies. It may also invest 30-40% of assets in the 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  
12/31/2006

	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)
Vanguard Wellington Adm	15.07	11.08	9.08	9	6	15.07	6.99	11.34	20.90	-6.81
Cat: Moderate Allocation	11.26	8.36	6.09	--	--	11.26	4.95	8.97	20.67	-12.05

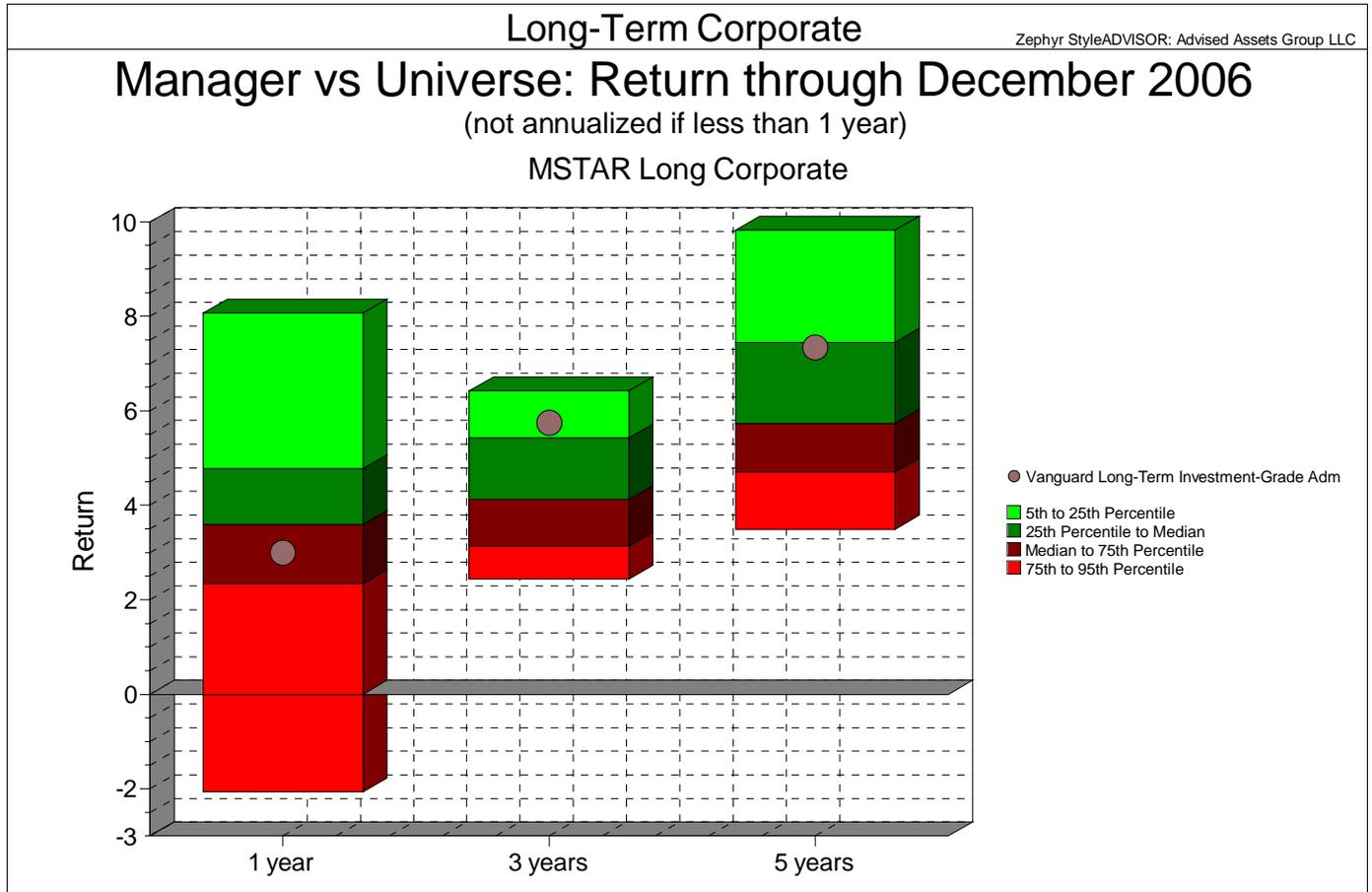
# Risk Analysis



Name	Morningstar		Total Net			Assets		Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash	Total # of Holdings	in Top 10			
Vanguard Wellington Adm	5	4.83	7.84	45717.51	4.58	2460	15.71	24.00	4	0.15
Cat: Moderate Allocation	3	5.45	8.11	3628.91	8.57	382	50.71	69.18	--	1.42

# Performance Benchmarking

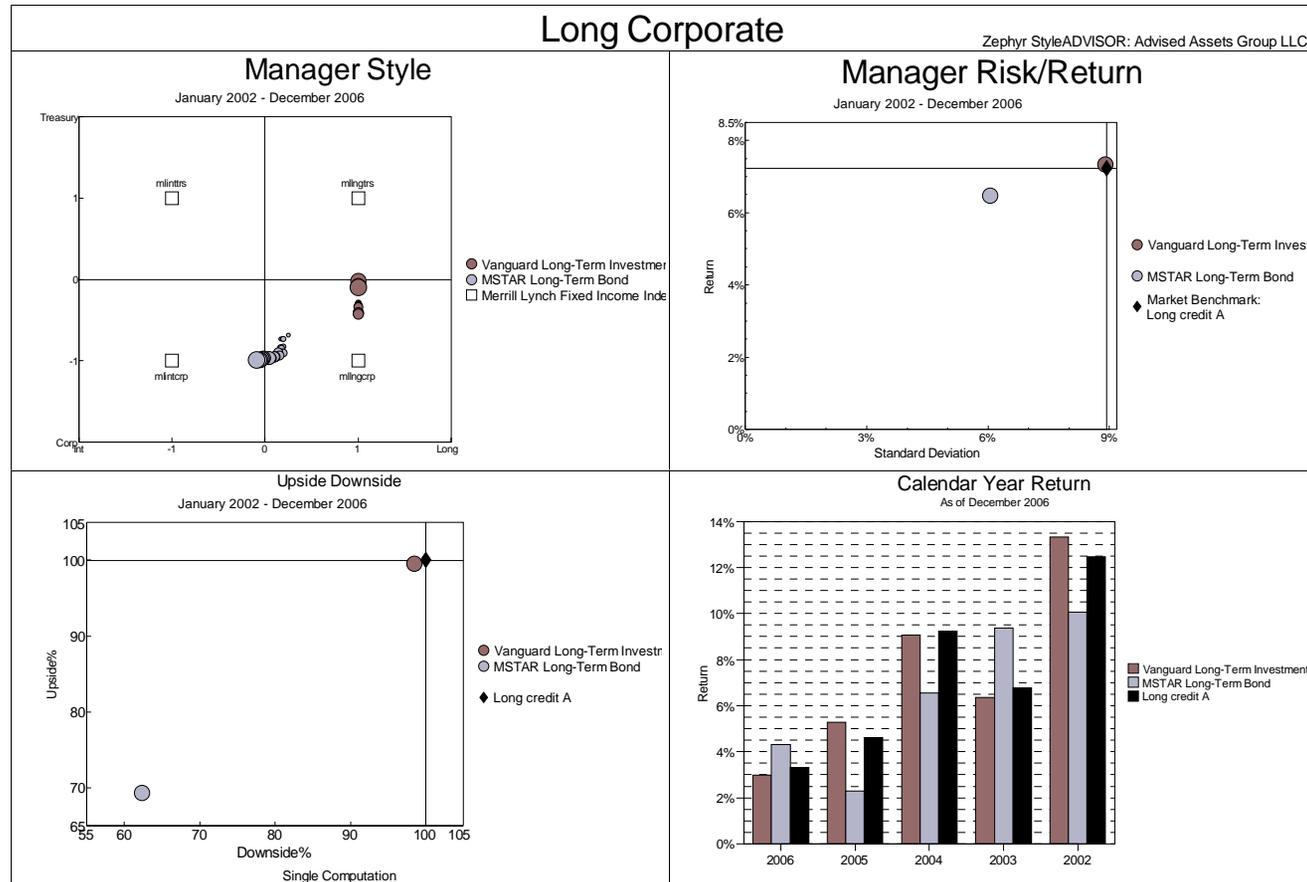
Vanguard Long-Term Investment-Grade Bond Fund seeks current income consistent with maintenance of principal and liquidity. The fund typically invests at least 80% of assets in high-quality corporate bonds; it invests at least 80% of assets in a combination of U.S. government securities and investment-grade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



DATA SOURCE:  
 Morningstar  
 12/31/2006

	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	2.99	5.74	7.34	20	31	2.99	5.27	9.06	6.36	13.32
Cat: Long-Term Bond	4.43	4.52	6.77	--	--	4.43	2.43	6.72	9.59	10.29

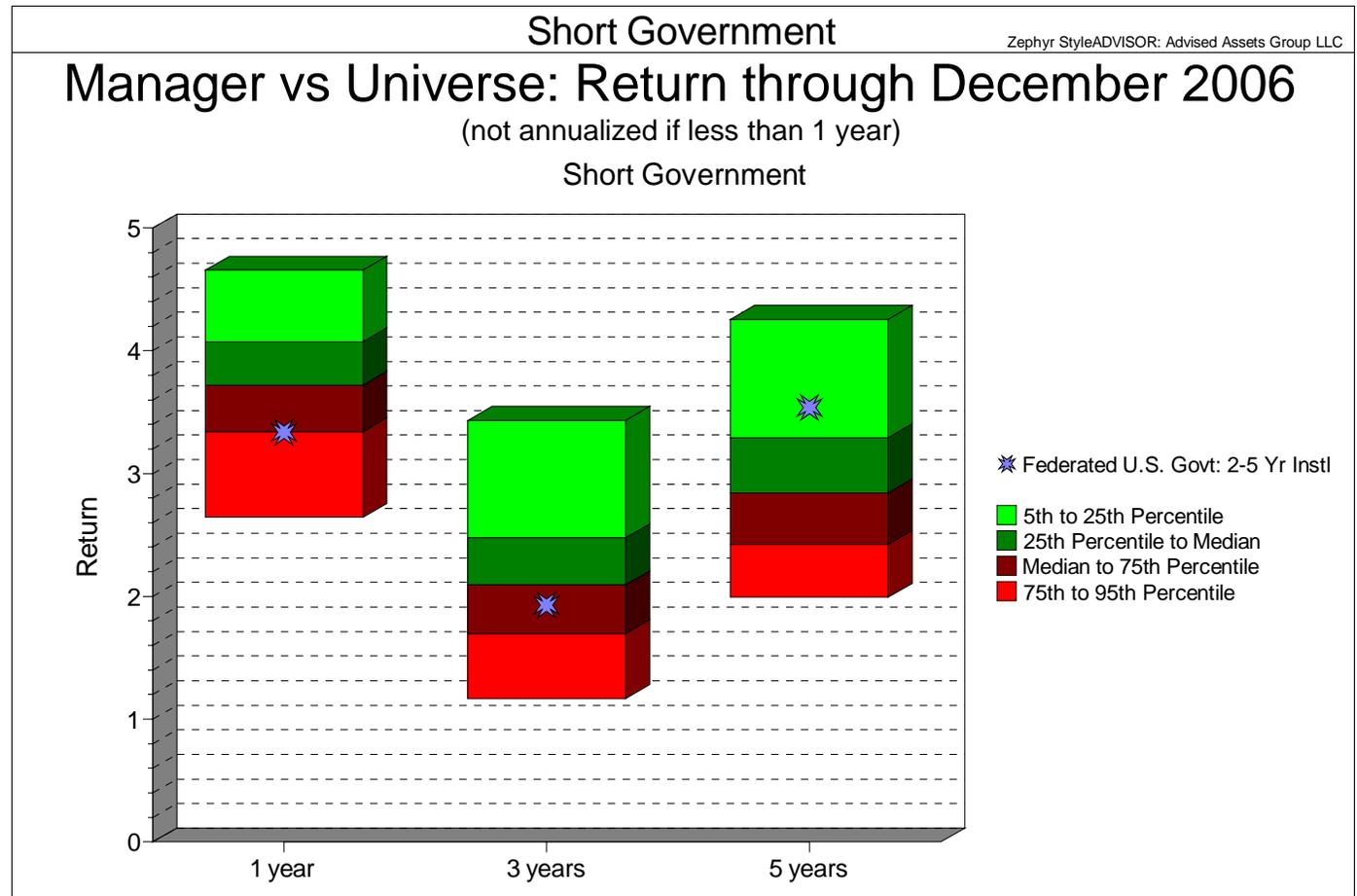
# Risk Analysis



Name	Morningstar		Total Net			% Assets			Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash	Total # of Holdings	in Top 10	Turnover Ratio		
Vanguard LT Investment-Grade Adm	3	7.59	8.90	5711.48	0.30	250	15.77	9.00	13	0.12
Cat: Long-Term Bond	3	5.14	6.55	553.35	14.91	171	47.16	144.27	--	0.99

# Performance Benchmarking

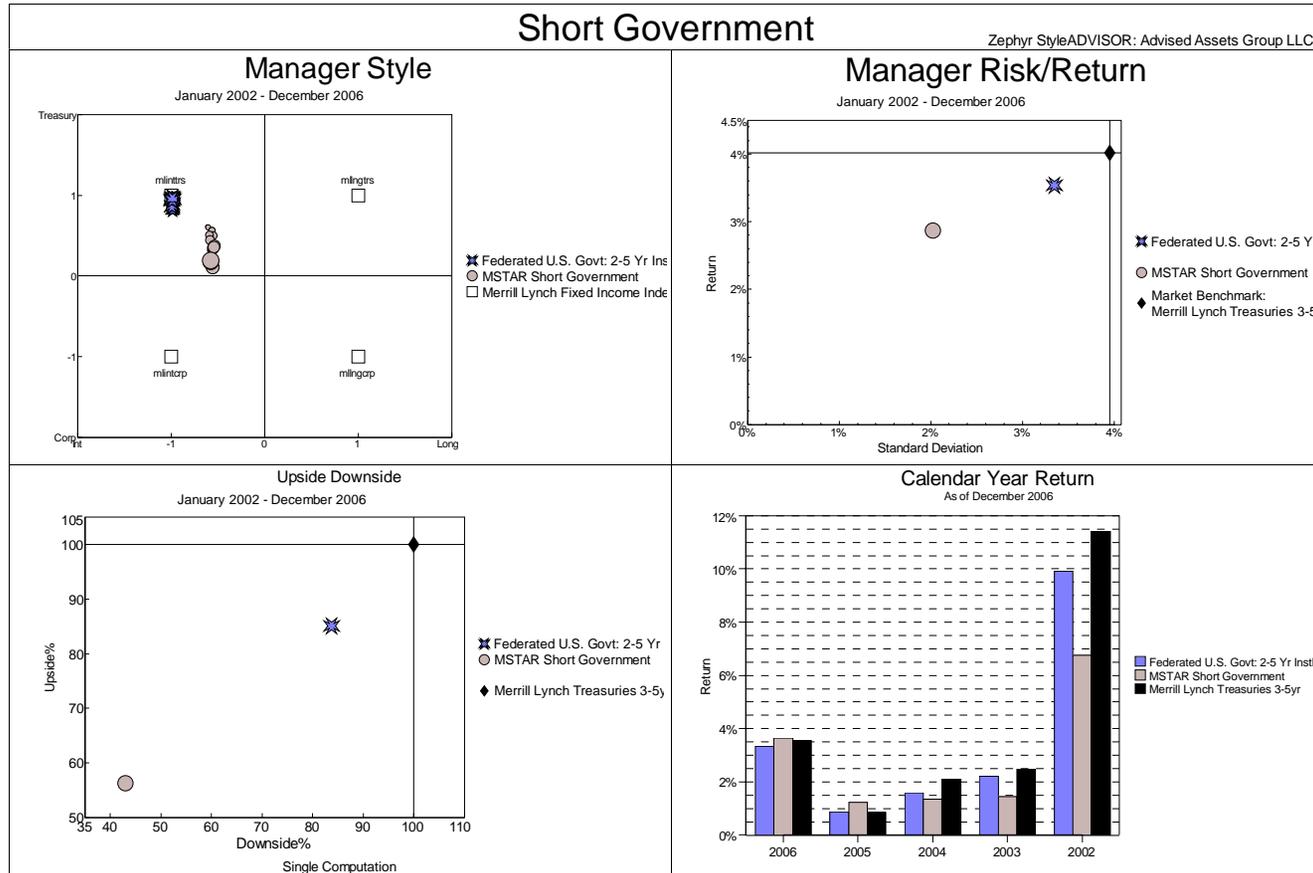
Federated U.S. Government Securities: 2-5 Year Trust seeks current income. The fund invests only in U.S. government securities with a dollar weighted duration between two and five years. It may enter into repurchase agreements.



DATA SOURCE: Morningstar 12/31/2006

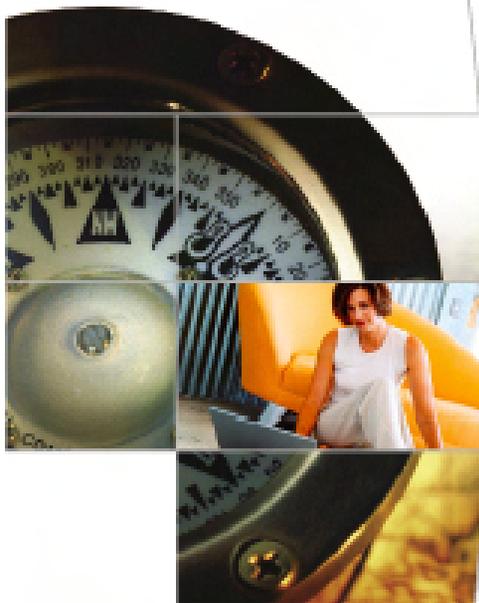
	Tot Ret Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)
Federated U.S. Govt: 2-5 Yr Instl	3.34	1.93	3.54	60	12	3.34	0.87	1.60	2.22	9.92
Cat: Short Government	3.66	2.08	2.93	--	--	3.66	1.23	1.36	1.45	6.95

# Risk Analysis



Name	Morningstar		Total Net			% Assets			Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash	Total # of Holdings	in Top 10	Turnover Ratio		
Federated U.S. Govt: 2-5 Yr Instl	4	2.67	3.35	635.63	4.02	21	61.38	113.00	2	0.58
Cat: Short Government	3	1.70	2.11	381.10	19.44	160	61.11	154.60	--	0.98

# Lifecycle Options



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# Lifecycle Option Report Card

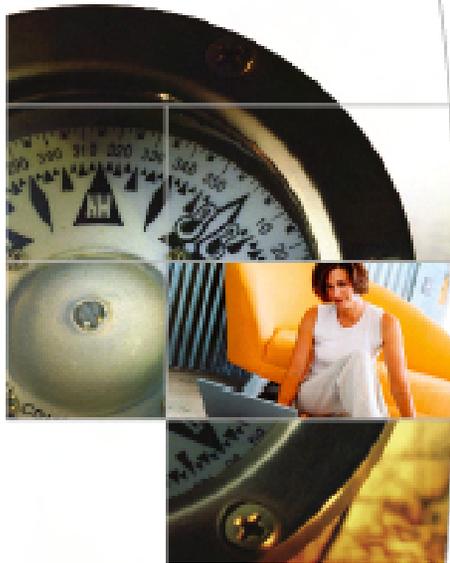
Name	Tot Ret		1 year	3 year	Annual Return (2006)	Annual Return (2005)	% Short Term	% US Stocks	% Non US Stocks	% Inv Grade Bond	% High Yield Bond
	3 Mo	6 Mo									
<b>Vanguard Target Retirement 2015</b>	<b>-1.11</b>	<b>1.31</b>	<b>11.42</b>	<b>8.43</b>	<b>11.42</b>	<b>4.94</b>	<b>0</b>	<b>53.3</b>	<b>13.4</b>	<b>33.3</b>	<b>0</b>
Fidelity Freedom 2015	-1.72	1.94	10.36	8.61	10.36	7.01	4.1	48.5	10.4	30.5	6.5
T. Rowe Price Retirement 2015	-1.54	2.76	13.73	--	13.73	6.69	3.5	62	10.75	15.75	8
Composite Returns*			11.50	8.48	11.50						
Dow Jones Target 2015	-0.29	2.26	9.65	8.98	9.65	5.31					
<b>Vanguard Target Retirement 2025</b>	<b>-1.32</b>	<b>1.87</b>	<b>13.24</b>	<b>9.55</b>	<b>13.24</b>	<b>5.45</b>	<b>0</b>	<b>66</b>	<b>16.5</b>	<b>17.5</b>	<b>0</b>
Fidelity Freedom 2025	-2.23	2.34	11.84	9.97	11.84	8.19	0	60.1	13.1	19.3	7.5
T. Rowe Price Retirement 2025	-1.74	3.31	15.44	--	15.44	7.42	0	73.5	12.75	7.75	6
Composite Returns*			13.38	9.61	13.38						
Dow Jones Target 2025	-1.44	3.99	14.28	12.53	14.28	8.71					
<b>Vanguard Target Retirement 2035</b>	<b>-1.41</b>	<b>3.02</b>	<b>15.24</b>	<b>11.10</b>	<b>15.24</b>	<b>6.30</b>	<b>0</b>	<b>72</b>	<b>18</b>	<b>10</b>	<b>0</b>
Fidelity Freedom 2035	-2.53	2.73	12.94	10.95	12.94	9.04	0	68.1	15.3	8.6	8
T. Rowe Price Retirement 2035	-1.95	3.61	16.18	--	16.18	8.05	0	78.5	13.75	4	3.75
Composite Returns*			15.44	11.21	15.44						
Dow Jones Target 2035	-2.11	4.87	16.95	14.59	16.96	10.71					
<b>Vanguard Target Retirement 2045</b>	<b>-1.44</b>	<b>3.74</b>	<b>15.98</b>	<b>11.88</b>	<b>15.98</b>	<b>6.95</b>	<b>0</b>	<b>72</b>	<b>18</b>	<b>10</b>	<b>0</b>
Fidelity Freedom 2045	--	--	--	--	--	--	0	69.2	19.5	1.3	10
T. Rowe Price Retirement 2045	-1.92	3.60	16.15	--	16.15	--	0	78.5	13.75	4	3.75
Composite Returns*			16.16	12.00	16.16						
Dow Jones Target 2045	-2.21	4.98	17.38	14.86	17.38	10.96					
<b>Vanguard Target Retirement Income</b>	<b>-0.47</b>	<b>-0.28</b>	<b>6.38</b>	<b>5.50</b>	<b>6.38</b>	<b>3.33</b>	<b>5</b>	<b>24</b>	<b>6</b>	<b>65</b>	<b>0</b>
Fidelity Freedom Income	-0.27	1.14	6.37	4.67	6.37	3.78	40	20	0	35	5
T. Rowe Price Retirement Income	-0.57	2.09	9.98	7.48	9.98	4.87	30	35.75	6.5	20.75	7
Composite Returns*			6.47	5.57	6.47						
Dow Jones Target Today	0.55	2.20	6.64	5.11	6.64	2.62					

\*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 mostly trail their composite indices over the 1 and 3 year time periods. Much of this can be attributed to fees.
- Vanguard trails 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 3 years.
- Vanguard's target allocations give them international exposure that is greater than most of their competitors.
- The allocation change in March 2006 has helped to narrow the gap in equity exposure between Vanguard and its peers. Vanguard believes that over the long run the increased equity exposure will produce higher returns without bringing too much risk into the portfolios.

# Economic Overview



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## Executive Summary:

The critical themes that shaped the U.S. economy in 2006: housing market, employment and inflation, will also define the economic landscape in 2007. Real GDP slowed to an expected rate of 3.2% last year, down modestly from 3.5% real growth in 2005. The U.S. economy is expected to slow further this year, with consensus expectations for real growth of 2.5%.

Inflation and inflation expectations continue to be a concern for the Federal Reserve Board. Though most commodities' prices have dropped significantly, such as prices for oil, gas, gold, copper and other commodities in the metals complex, the risk of spikes in oil prices is a chronic possibility, wage growth is at a six-year high, and the pool of available labor continues to contract. The ongoing slowdown in the housing sector remains a concern both because of the direct – depressed construction industry and indirect – slowdown of consumption, impacts to economic growth. Though the rate of job creation has slowed somewhat, it is still providing support to spending.

Consumer prices rose 2.5% in the last 12 months to December, while the core CPI, which excludes the effects of volatile food and energy costs, was up 2.6%. Average hourly earnings are rising at a faster pace than prices, increasing 4.2% over the past 12 months. The Federal Reserve Board's favorite inflation measure, core PCE, was up 2.2% over the 12-month period ending in November, which is slightly higher than its stated threshold, but down from the 2006 high of 2.4%. If the labor market remains tight, then inflation will likely remain above the Fed's comfort level. The global backdrop remains predominately disinflationary, with core consumer price inflation falling in most of the industrialized countries.

Nonfarm productivity growth was flat in 3Q, following a gain of 1.2% (ann.) in 2Q. This dropped the yoy trend to +1.4%, which is still about 2.5 times as fast as what is 'normal' for an economy in the fifth year of an expansion. Manufacturing productivity was up 6.7% (ann.) in 3Q following a gain of 2.7% (ann.) in 2Q. Greater efficiency has helped businesses to control labor costs and to withstand higher raw-material prices without resorting to large price increases.

Concerns have eased on the energy front, with oil and gas prices down significantly from their highs. The unwind of the open derivative oil position, along with lower demand, is driving the decline in oil prices. Consumer sentiment has remained solidly entrenched between 91 and 93 over the past several months. The measure has averaged 88.1 since monthly data were first compiled in 1978.

Firms added 1.838 million jobs in 2006, averaging 153,167 jobs per month - indicating a solid employment picture. The unemployment rate was unchanged at 4.5% in December. The data are now consistent with the Challenger hiring/firing data, the Conference Board job indicators, claims, the help-wanted index and manufacturing survey data. The December industrial production report showed a capacity utilization level of 81.8%, in line with its average throughout the year and suggesting little labor market slack.

# Economic Update

Despite expectations for a slowdown in consumption driven by the downturn in home prices, real consumer spending was up 3.8% yoy through November. The strength of the labor market is supporting consumer spending to date.

The housing market has slowed considerably and nominal house prices are expected to decline at the national level for the first time in the post-war period. The deceleration in the rate of home price appreciation is apparent in all regions of the country. There is over a 3 million-unit backlog of unsold housing inventory to work through, and 7.3-months supply in the resale market, though inventories have started to fall from record high levels. Sales of existing homes are down 10.7% yoy to the end of November, and new home sales are down 15.3% over the same period. Housing starts are down 18% to the end of December, (up from -28% at the end of October), and the index of builder confidence remains close to its lowest level in 15 years. In the past 5 decades, there have been 10 housing down-cycles. The three housing downturns that did not precede a recession did presage a discernible slowing in overall economic growth, which occurred within a year of the peak in housing starts. Housing starts peaked in January. The nation's banks are feeling the impact of the cooling housing market, in the form of declining loan demand, which has been one of the major drivers of strong earnings growth for the banks over the past several years. 4Q earnings releases from banks have been below estimates.

The January Beige Book indicated moderate growth, tightening labor markets, and moderate wage and price increases. Nearly all Districts reported "a continued softening in housing markets," but there was "strong activity" in commercial real estate markets in most Districts. Labor market conditions were described as "tightening," with "some businesses having difficulty finding qualified workers," especially to fill engineering, machinist, and financial and legal services positions. Overall prices were said to have increased "moderately," as energy and other materials prices have declined and "competition has kept prices for final goods in check." Contained inflation expectations and a still-uncertain growth path for the economy should be enough to keep the Fed on hold for the short- to intermediate-term.

## ECONOMIC DATA TABLE

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	52 Wk High/Low
Fed Funds	1.25%	1.00%	2.25%	4.25%	5.25%	5.25% / 4.25%
5 yr U.S. Treasury Yield	2.74%	3.25%	3.61%	4.35%	4.69%	5.23% / 4.27%
10 yr U.S. Treasury Yield	3.81%	4.25%	4.22%	4.39%	4.70%	5.24% / 4.33%
Benchmark "A" Intermediate Spread (10yr)	1.57%	1.06%	1.06%	0.89%	0.83%	0.95% / 0.70%
S&P 500	879.82	1111.92	1211.92	1248.49	1418.30	1427.09 / 1223.69
Operating EPS	\$46.44	\$54.69	\$67.68	\$76.64	\$81.37 E	
Real GDP (yoy)	2.4%	4.1%	3.8%	3.5%	3.0% (3Q)	4.5% / 3.0%
CPI (yoy)	2.4%	1.9%	3.3%	3.4%	2.5%	4.3% / 1.3%
Core CPI (yoy)	1.9%	1.1%	2.3%	2.2%	2.6%	2.9% / 2.1%
Core PCE Deflator (yoy)	1.6%	1.3%	2.3%	1.7%	2.2% (11/06)	2.4% / 2.0%
Factory Utilization	75.2%	76.8%	79.2%	80.0%	81.8% (11/06)	82.4% / 81.1%
Payroll Employment	-563,000	-61,000	2,231,000	2,019,000	1,838,000	
Unemployment Rate	6.0%	5.9%	5.4%	4.9%	4.5%	4.9% / 4.4%
Savings Rate	1.8%	1.9%	1.3%	-0.8%	-1.0% (11/06)	-0.3% / -1.6%
<b>ISM</b>						
Manufacturing	53.3%	63.4%	57.3%	54.2%	51.4%	57.3% / 49.5%
Nonmanufacturing	53.7%	58.0%	63.9%	59.8%	57.1%	63.0% / 52.9%
Prices Paid	56.9%	66.0%	72.0%	63.0%	47.5%	78.5% / 47.0%
New Orders	60.0%	73.1%	62.6%	55.5%	52.1%	61.9% / 48.7%
Nonfarm Productivity (yoy)	3.5%	5.5%	2.6%	2.7%	1.4% (3Q)	2.7% / 1.4%
Average Hourly Earnings	15.18	15.45	15.85	16.34	17.04	17.04 / 16.35
Average Work Week (hours)	33.8	33.6	33.7	33.7	33.9	34.20 / 33.50
Real Consumer Spending (yoy)	2.6%	3.7%	3.8%	3.2%	3.8% (11/06)	3.8% / 2.3%
<b>Retail Sales (yoy)</b>						
Bloomberg Same-Store Sales Index (yoy)	2.57%	2.34%	3.09%	3.20%	2.84%	6.58% / 1.53%
Discount (yoy)	5.03%	3.63%	3.11%	3.58%	2.12%	7.82% / 0.96%
Specialty (yoy)	-0.52%	2.16%	3.71%	2.36%	0.9%	5.91% / -2.15%
Department (yoy)	-2.13%	-1.26%	1.31%	3.58%	3.28%	8.44% / 1.11%
Wholesale (yoy)	2.24%	5.37%	6.30%	4.79%	6.31%	8.21% / 1.80%

## Economic Data Review:

Third quarter real GDP growth slowed to a rate of 1.6%, slower than expected. This followed 2Q real growth of 2.6%, and solid 1Q real growth of 5.6%. Economic activity picked up towards the end of 4Q, causing growth forecasts to be revised up for both 4Q06 and 1Q07. The expected real rate of economic growth for 2006 is now in the 3.0% - 3.4% range. Growth in 2007 is projected to slow modestly further to a real rate of 2.5% (up from earlier consensus of 1.9%). The slowdown remains a function of the correction in the housing sector which is ongoing. Recently, the pace of economic activity has in fact picked up, causing renewed inflation concerns and expectations for the Fed to remain on hold in the intermediate term.

U.S. economic growth remains more robust than that of many foreign economies, as a global slowdown does appear to be unfolding. The OECD has projected U.S. economic growth to be approximately 2.4%, the Eurozone to be 2.2%, and Japan to grow at a 2.0% pace in 2007. Consumer spending is expected to slow as a result of the housing market slowdown. Historical data indicate that as the wealth position of households gradually erodes, a consumer slowdown unfolds. The lead-time between a change in wealth and consumption varies, and depends significantly on the source of wealth. Based on past data, the consumer responds quickly to a drop in stock prices, while the timing of the effect of changes in housing wealth on spending is longer and more variable. Usually, deterioration in affordability takes more than one year to impact spending growth. Housing affordability has declined steadily over the past two years, and despite the slowdown in home price gains, remains low. Mortgage payments will increase in 2007, as adjustable rate originations will reset this year.

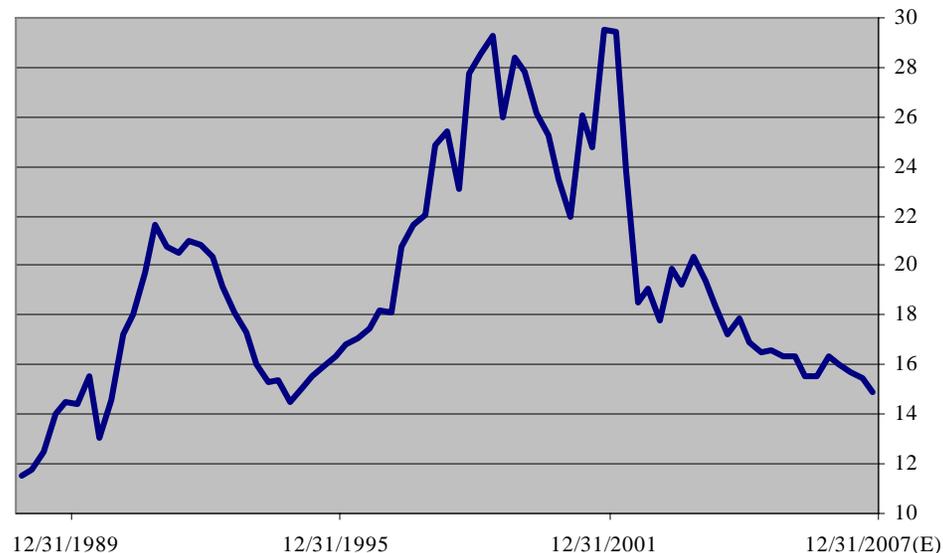
Housing markets have been critical to the strength of consumer spending and finances, and the impact has been felt through several channels. The housing sector has generated jobs and wage income, with home construction and housing-related industries, including the mortgage finance industry, creating nearly 35,000 new jobs per month in 2005 and 2006. Mortgage equity withdrawal has continued to support consumers through a period when fundamentals for spending are mixed; however, this has gradually slowed as the housing market has cooled, which in turn will slow spending growth.

The rate of home price appreciation continued to slow in 3Q, and as the housing sector slowdown persists the resulting decline in mortgage equity withdrawal is expected to be a drag on consumer spending. The overvaluation in home prices, particularly in the coastal markets, is expected to correct over the next several years through a flattening/decline in prices which began in the first quarter of 2006. Housing affordability has dropped to 16-year lows, suggesting that prices are still well above where they "should" be. The real-estate boom was sparked by rising homeownership and real per capita income (much like the 1970s), as well as the absolute low level of real mortgage rates. Peak to trough starts typically decline by 42% and last around two years on average. Housing starts in the U.S. peaked in January of this year, dropped 34%, bottoming in October, and have hooked back up since then. Year on year to December, housing starts are down 18%. Using history as a guide, housing starts could have further to fall; however, some economists believe housing market has in fact bottomed and is stabilizing.

## Markets:

Analysts expect earnings for S&P 500 companies to be up 15.6% in 2006. Economic conditions have provided a good backdrop to the stock market. The economy continues to expand, but not so rapidly that the Fed has to tighten further, margins are quite wide, and as long as a recession is avoided, the equity markets are poised to perform well. S&P earnings projections for 4Q have been revised down to 9.3% yoy, however, are still strong. Growth is mostly concentrated in two sectors including materials and financials. Financials as a group have had better earnings than expected because of the very strong results from the brokerages. The few banks that have reported have disappointed on average. Insurance companies have not yet started reporting, but earnings are expected to be strong. Materials companies earnings are expected to be strong again in 4Q, while energy, utilities and consumer discretionary are expected to see earnings fall in 4Q. Corporate guidance has not been great with the majority of earnings pre-announcements (65% of S&P companies issue pre-announcements), being more negative than positive. Overall, earnings expectations for 2007 indicate growth of approximately 9.8%.

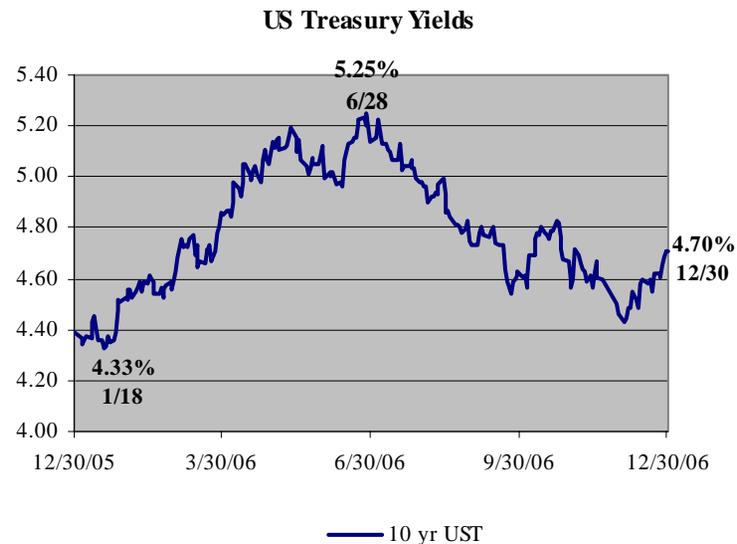
S&P Operating Earnings P/E Multiple



The broad equity indices generated solid performance in 2006. Through 12/31/06, the S&P is up 15.70%, the Dow Industrial is up 18.89%, and the NASDAQ is up 10.38%. A downturn in June/July represented a price bottom in 2006 and those months would have been decent buying opportunities.

Fixed income returns to 12/31/2006, are positive with the Lehman Aggregate Index up 4.33%. Coupon income, reinvestment of cash flow, corporate sector allocation and spread drove positive annual total returns.

Currently, the 10-year U.S. Treasury yield is at 4.76%. Yields increased through the first half of 2006, reflecting solid economic activity – particularly in 1Q. The economy slowed through the second half of the year, though, led by a marked decline in the housing market, and yields dropped from a 4.5 year high of 5.25% on the 10-year UST to about 4.50%. The economy though did pick up through December, leading economists to revise up real GDP projections for 4Q06 and 1Q07. If 2007 is indeed going to be a transition year for the economy, the transition to slower growth has been delayed to mid-year. Based on the most recent economic data, we anticipate the continuation of the range trade that has dominated portfolio management over the past year, while the growth trajectory for the economy, and for inflation, unfolds. The Federal Reserve Board will remain on hold through 1Q and possibly 2Q. Our expectation for the short term is that the 10-year U.S. Treasury yield will trade in a range of 4.50% - 4.85%. Yields at the short end of the yield curve will likely increase closer to the Fed Funds rate of 5.25%. At close of business, December 31, 2-year Treasury yields were at 4.81%; 44 bp lower than the Fed Funds rate.



# DFA U.S. Micro Cap

**Ticker** DFSCX **Load** None **NAV** \$15.70 **Yield** 1.8% **Total Assets** \$4,881 mil **Mstar Category** Small Blend

## Governance and Management

**Stewardship Grade:** B

### 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	6.99	-3.92	-20.70	6.39	-13.27
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

Trailing	Total Return%	+/- S&P 500	+/- Russ 2000	%Rank Cat	Growth of \$10,000
3 Mo	9.55	2.85	0.65	16	10,955
6 Mo	9.32	-3.42	-0.06	22	10,932
1 Yr	16.16	0.37	-2.21	36	11,616
3 Yr Avg	13.27	2.83	-0.29	52	14,533
5 Yr Avg	15.16	8.97	3.77	16	20,254
10 Yr Avg	13.48	5.06	4.04	27	35,415
15 Yr Avg	15.45	4.81	3.98	8	86,280

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	11.68	46	1.40	41
5 Yr (estimated)	13.94	16	1.06	48
10 Yr (estimated)	11.26	27	1.96	72

Potential Capital Gain Exposure: 28% of assets

## Morningstar's Take by Sonya Morris 12-22-06

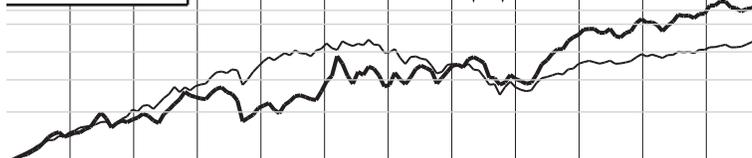
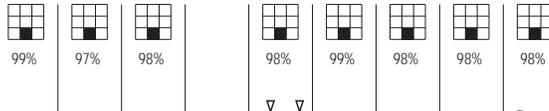
This fund is a respectable choice, but only for those who can accept its risks.

DFA U.S. Micro Cap focuses on the tiniest stocks in the market. Its passively managed portfolio consists of those stocks that make up the smallest 5% of the U.S. stock market, as measured by market capitalization. As a result, the fund's aggregate market cap is a fraction of the small-value category norm. That positioning makes this a fairly racy offering because small companies can be risky investments. Their fortunes may be tied to a small menu of products or services, and many of these firms may also be dependent on a limited number of customers. And some may have taken on substantial debt to finance growth. As a result, micro-cap stocks can be extremely volatile, and this fund has experienced its share of turbulence. As measured by standard deviations of returns (a statistical measure of volatility), it has been more volatile than 80% of its category peers.

But this fund's advisor, Dimensional Fund

## Historical Profile

**Return** Above Avg  
**Risk** Above Avg  
**Rating** ★★★ Neutral



Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
NAV	10.53	11.20	11.78	10.76	12.61	9.64	10.01	8.53	13.32	15.12	14.77	15.70
Total Return %	34.48	17.65	22.78	-7.32	29.79	-3.60	22.77	-13.27	60.72	18.39	5.69	16.16
+/-S&P 500	-3.10	-5.31	-10.58	-35.90	8.75	5.50	34.66	8.83	32.04	7.51	0.78	0.37
+/-Russ 2000	6.03	1.16	0.42	-4.77	8.53	-0.58	20.28	7.21	13.47	0.06	1.14	-2.21
Income Return %	0.51	0.26	0.23	1.28	3.49	3.89	0.51	0.16	2.42	2.04	2.38	2.02
Capital Return %	33.97	17.39	22.55	-8.60	26.30	-7.49	22.26	-13.43	58.30	16.35	3.31	14.14
Total Rtn % Rank Cat	15	80	72	69	18	92	10	29	5	55	61	36
Income \$	0.04	0.03	0.03	0.15	0.38	0.49	0.05	0.02	0.21	0.27	0.36	0.30
Capital Gains \$	0.84	1.16	1.89	0.00	0.89	1.99	1.71	0.14	0.18	0.36	0.84	1.13
Expense Ratio %	0.62	0.61	0.60	0.59	0.61	0.56	0.56	0.56	0.56	0.16	0.55	—
Income Ratio %	0.45	0.22	0.21	0.18	0.30	0.34	0.41	0.24	0.25	0.64	0.48	—
Turnover Rate %	25	24	28	26	23	37	—	—	—	—	—	—
Net Assets \$mil	946	1,187	1,437	1,360	1,452	1,378	1,663	1,533	2,685	3,380	3,912	4,881

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
NAV	10.53	11.20	11.78	10.76	12.61	9.64	10.01	8.53	13.32	15.12	14.77	15.70
Total Return %	34.48	17.65	22.78	-7.32	29.79	-3.60	22.77	-13.27	60.72	18.39	5.69	16.16
+/-S&P 500	-3.10	-5.31	-10.58	-35.90	8.75	5.50	34.66	8.83	32.04	7.51	0.78	0.37
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Capital Return %	33.97	17.39	22.55	-8.60	26.30	-7.49	22.26	-13.43	58.30	16.35	3.31	14.14
Total Rtn % Rank Cat	15	80	72	69	18	92	10	29	5	55	61	36
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Capital Gains \$	0.84	1.16	1.89	0.00	0.89	1.99	1.71	0.14	0.18	0.36	0.84	1.13
Expense Ratio %	0.62	0.61	0.60	0.59	0.61	0.56	0.56	0.56	0.56	0.16	0.55	—
Income Ratio %	0.45	0.22	0.21	0.18	0.30	0.34	0.41	0.24	0.25	0.64	0.48	—
Turnover Rate %	25	24	28	26	23	37	—	—	—	—	—	—
Net Assets \$mil	946	1,187	1,437	1,360	1,452	1,378	1,663	1,533	2,685	3,380	3,912	4,881

## Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	16.16			
3 Yr	13.27	Avg	+ Avg	★★★
5 Yr	15.16	+ Avg	+ Avg	★★★★
10 Yr	13.48	+ Avg	+ Avg	★★★
Incept	14.01			

## Other Measures

	Standard Index	Best Fit Index
Alpha	-2.5	-0.5
Beta	1.83	1.03
R-Squared	74	97
Standard Deviation	14.60	
Mean	13.27	
Sharpe Ratio	0.71	

## Portfolio Analysis 08-31-06

Share change since 05-06: Total Stocks:0 Sector PE Tot Ret% % Assets

Dimensional U.S. Micro C	—	—	—	100.00
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Advisors, doesn't necessarily try to avoid risk. Instead, the firm uses years of academic research to identify those risks that stand the best chance of being adequately compensated over time, and it positions its portfolios accordingly. The fund's results lend credence to this approach: Its five-year returns rank in the category's top 15%.

This offering has other attractive traits. Its passive approach means it can handle asset growth more than competing small-cap funds. And even though it traffics in the market's smallest, least liquid stocks, the firm has developed a trading expertise that focuses on minimizing the market impact of trades, which should also help it manage its girth. Finally, its modest 0.55% expense ratio adds to its appeal.

Despite these strengths, this fund isn't for everyone. Risk-averse investors should steer clear. And those who do decide to hop aboard here should limit this fund to no more than 5% of their portfolios.

## Current Investment Style

Value	Blind	Growth	Market Cap	%
Large	0.0	0.0	Giant	0.0
Mid	0.2	0.2	Large	0.0
Small	38.6	38.6	Mid	0.2
Micro	61.2	61.2	Small	38.6
Avg \$mil:	289	289	Micro	61.2

Value Measures	Rel Category
Price/Earnings	17.08 1.02
Price/Book	1.72 0.80
Price/Sales	0.71 0.72
Price/Cash Flow	4.27 0.60
Dividend Yield %	0.57 0.54
Growth Measures	% Rel Category
Long-Term Erngs	14.78 1.06
Book Value	0.22 0.03
Sales	0.75 0.09
Cash Flow	-24.01 NMF
Historical Erngs	1.16 0.07

Sector Weightings	% of Stocks	Rel S&P 500	3 Yr High Low
Info	18.66	0.93	
Software	5.61	1.63	6 6
Hardware	10.17	1.10	10 10
Media	1.40	0.37	1 1
Telecom	1.48	0.42	1 1
Service	50.45	1.09	
Health	15.15	1.26	15 15
Consumer	10.36	1.35	10 10
Business	11.77	2.78	12 12
Financial	13.17	0.59	13 13
Mfg	30.89	0.91	
Goods	7.29	0.85	7 7
Ind Mtrls	17.06	1.43	17 17
Energy	5.12	0.52	5 5
Utilities	1.42	0.41	1 1

## Composition

Cash	0.5
Stocks	98.4
Bonds	0.0
Other	1.1
Foreign	0.1
(% of Stock)	

Profitability	% Rel Category
Return on Equity	3.29 0.25
Return on Assets	0.21 0.03
Net Margin	2.89 0.30

Address:	1299 Ocean Ave Santa Monica CA 90401	Minimum Purchase:	\$2000000	Add: \$0	IRA: \$0
Web Address:	www.dfafunds.com	Min Auto Inv Plan:	\$0	Add: —	
Inception:	12-22-81	Sales Fees:	No-load		
Advisor:	Dimensional Fund Advisors Ltd	Management Fee:	0.50%		
Subadvisor:	None	Actual Fees:	Mgt:0.50%	Dist: —	
NTF Plans:	N/A	Expense Projections:	3Yr:\$176	5Yr:\$307	10Yr:\$689
		Income Distrib:	Annually		

# Amer Funds EuroPac A

## Governance and Management

Stewardship Grade: A

### 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	1.56	-4.32	-17.58	7.87	-13.61
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

Trailing	Total Return%	+/- MSCI EAFE	+/- MSCI Wd xUS	%Rank Cat	Growth of \$10,000
3 Mo	8.67	-1.68	-1.45	87	10,867
6 Mo	14.10	-0.59	-0.12	59	11,410
1 Yr	21.87	-4.47	-3.84	82	12,187
3 Yr Avg	20.89	0.96	0.79	14	17,667
5 Yr Avg	15.20	0.22	-0.05	16	20,289
10 Yr Avg	11.23	3.52	3.27	6	28,988
15 Yr Avg	11.96	4.10	3.92	1	54,443

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	17.27	53	1.06	56
5 Yr (estimated)	12.94	37	0.79	62
10 Yr (estimated)	9.27	9	1.18	60

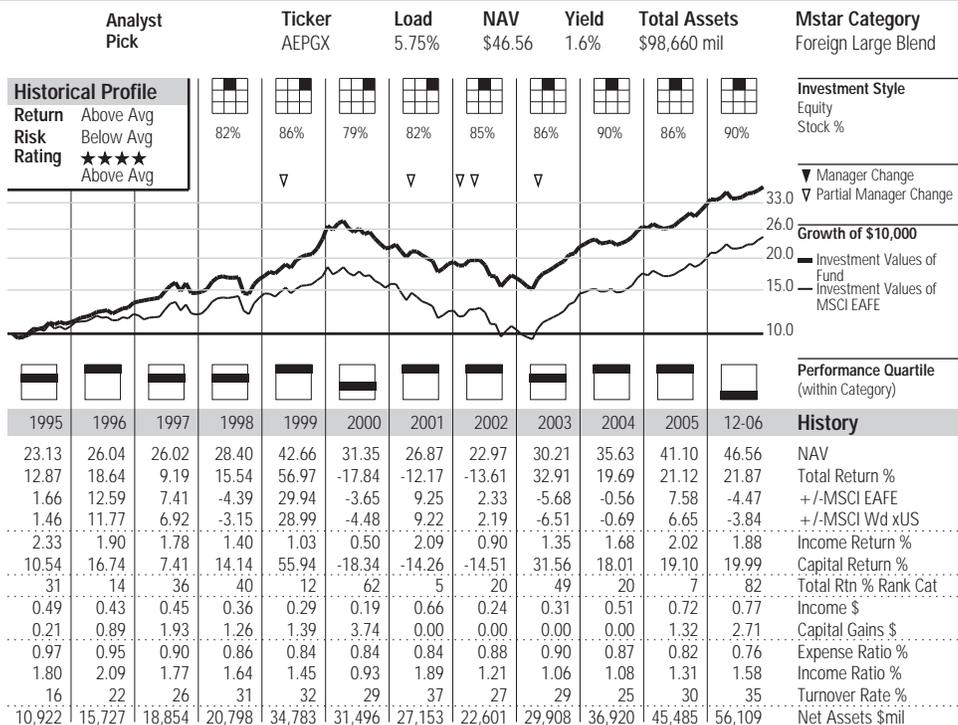
Potential Capital Gain Exposure: 33% of assets

### Morningstar's Take by Kai Wiecking 12-27-06

Recent results are an indication that this fund's glorious past will be hard to repeat.

There's no denying the fact that American Funds EuroPacific has been a terrific pick for its many shareholders and made them a lot of money in recent years. The fund's track record is outstanding, both on an absolute and a relative basis. But the worry persists that this fund's increasing girth will eventually limit its maneuverability, as the fund has delivered uncharacteristically weak performance so far in 2006. Its 20.4% return through Dec. 19 may look impressive at first glance, yet it trails what 85% of its rivals in the foreign large-blend category have achieved.

We're not saying by any means that this fund is doomed to deliver mediocre results going forward. Its vastly experienced team of portfolio managers consists of excellent stockpickers--although American Funds won't disclose who did what--and the shop's ability to train and retain talent is unmatched in the industry. But each talent pool is



### Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	14.86			
3 Yr	18.53	Avg	Avg	★★★★
5 Yr	13.84	Avg	-Avg	★★★★
10 Yr	10.57	+Avg	-Avg	★★★★★
Incept	13.81			

### Other Measures

	Standard Index MSCI EAFE	Best Fit Index MSCI Wd xUS
Alpha	0.9	0.9
Beta	1.00	0.98
R-Squared	91	91
Standard Deviation	9.91	
Mean	20.89	
Sharpe Ratio	1.66	

### Portfolio Analysis 09-30-06

Share change since 06-06	Total Stocks:278	Sector	Country	% Assets
+	Roche Holding	Health	Switzerland	3.03
	Nestle	Goods	Switzerland	1.88
+	Bayer	Ind Mtrls	Germany	1.68
	Samsung Electronics	Goods	Korea	1.57
	America Movil SA ADR	Telecom	Mexico	1.53
-	Kookmin Bank	Financial	Korea	1.45
	AstraZeneca	Health	U.K.	1.34
	Novo-Nordisk A S	Health	Denmark	1.27
+	Hon Hai Precision Indust	Hardware	Taiwan	1.19
+	ING Groep	Financial	Netherlands	1.17
+	AXA	Financial	France	1.17
	Inditex Grp	Goods	Spain	1.00
+	Continental	Ind Mtrls	Germany	0.98
	Taiwan Semiconductor Mfg	Hardware	Taiwan	0.95
-	Koninklijke Ahold	Consumer	Netherlands	0.92
+	BNP Paribas	Financial	France	0.90
-	Sun Hung Kai Properties	Financial	Hong Kong	0.85
	Hynix Semiconductor	Hardware	Korea	0.85
	Royal Dutch Shell	Energy	U.K.	0.81
+	Mitsubishi UFJ Financial	Financial	Japan	0.80

### Current Investment Style

Value	Blnd	Growth	Market Cap %	Sector Weightings	% of Rel MSCI Stocks	3 Year EAFE High Low
Large	Blnd	Growth	Giant 56.1	Info 19.22	1.63	
Large	Blnd	Growth	Large 38.0	Software 0.51	0.91	1 0
Large	Blnd	Growth	Mid 5.7	Hardware 8.96	2.32	9 4
Large	Blnd	Growth	Small 0.0	Media 2.38	1.30	4 2
Large	Blnd	Growth	Micro 0.1	Telecom 7.37	1.32	17 7
Avg \$mil: 28,170				Service 43.09	0.91	
Value Measures				Health 9.86	1.38	12 9
Price/Earnings 9.82				Consumer 4.72	0.95	6 4
Price/Book 2.10				Business 3.61	0.71	4 1
Price/Sales 1.16				Financial 24.90	0.83	26 19
Price/Cash Flow 7.65				Mfg 37.69	0.92	
Dividend Yield % 2.59				Goods 18.59	1.42	20 15
Growth Measures				Ind Mtrls 10.65	0.69	11 8
Long-Term Erngs 11.72				Energy 6.45	0.90	9 5
Book Value 11.29				Utilities 2.00	0.38	3 1
Sales 6.53				Regional Exposure % Stock		
Cash Flow 7.09				UK/W. Europe 50	N. America	3
Historical Erngs 8.51				Japan 16	Latin America	5
				Asia X Japan 23	Other	3

Value Measures	Rel Category	Country Exposure	% Stock
Price/Earnings 9.82	0.73	Japan 16	Latin America 5
Price/Book 2.10	0.96	Asia X Japan 23	Other 3
Price/Sales 1.16	0.99	Country Exposure % Stock	
Price/Cash Flow 7.65	0.91	Japan 16	Switzerland 8
Dividend Yield % 2.59	0.90	U.K. 9	Germany 8
Growth Measures	% Rel Category	South Korea 9	
Long-Term Erngs 11.72	0.99		
Book Value 11.29	1.23		
Sales 6.53	1.00		
Cash Flow 7.09	0.85		
Historical Erngs 8.51	0.41		

### Composition

Category	Value	Percentage
Cash	7.8	0.0
Stocks	90.4	1.8
Foreign (% of Stock)	99.5	

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Web Address:	www.americanfunds.com	Min Auto Inv Plan:	\$250	Add: \$50	
Inception:	04-16-84	Sales Fees:	5.75%L, 0.25%S		
Advisor:	Capital Research and Management Company	Management Fee:	0.69% mx./0.40% mn.		
Subadvisor:	None	Actual Fees:	Mgt:0.43% Dist:0.25%		
NTF Plans:	Federated Tr NTF	Expense Projections:	3Yr:\$819 5Yr:\$999 10Yr:\$1519		
		Income Distrib:	Annually		



# Calvert Soc Inv Equity A

Ticker: CSIEX Load: 4.75% NAV: \$37.30 Yield: 0.0% Total Assets: \$1,298 mil Mstar Category: Large Growth

## Governance and Management

Stewardship Grade: B

### Portfolio Manager(s)

Dan Boone is a manager for subadvisor Atlanta Capital Management, and he has run this offering since September 1998. Boone is assisted by three other portfolio managers, as well as a team of industry-specific analysts at his firm. In addition to this offering, he runs \$5 billion in nonsocially screened private accounts using an otherwise identical style. Earlier in his career, Boone worked at Lazard Freres. Calvert does the fund's social screening.

### Strategy

Lead manager Dan Boone and his team invest in 40-60 stocks with solid earnings histories and business franchises, as well as healthy balance sheets. Such firms tend to fetch a high price, but Boone attempts to buy them when they're trading at below-average valuations relative to their histories. He tends to keep a large stake in mid-cap stocks. The portfolio is screened according to Calvert's social-investment criteria, which eliminate alcohol, tobacco, gambling, and weapons companies, as well as firms with poor environmental records and poor labor practices.

### Performance 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	1.80	-10.03	-16.20	10.84	-14.93
2003	-4.28	14.25	1.94	9.72	22.31
2004	-0.81	2.12	-3.30	8.92	6.69
2005	-2.21	2.49	2.46	1.42	4.16
2006	3.80	-2.46	3.92	4.71	10.16

Trailing	Total Return%	+/- S&P 500	+/- Russ 1000Gr	%Rank Cat	Growth of \$10,000
3 Mo	4.71	-1.99	-1.22	68	10,471
6 Mo	8.81	-3.93	-1.29	43	10,881
1 Yr	10.16	-5.63	1.09	21	11,016
3 Yr Avg	6.98	-3.46	0.11	49	12,244
5 Yr Avg	4.96	-1.23	2.27	20	12,739
10 Yr Avg	8.84	0.42	3.40	10	23,328
15 Yr Avg	8.34	-2.30	0.32	50	33,253

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	4.95	71	0.29	19
5 Yr (estimated)	3.76	27	0.17	18
10 Yr (estimated)	7.45	12	0.79	36

Potential Capital Gain Exposure: 23% of assets

### Morningstar's Take by Greg Carlson 11-12-06

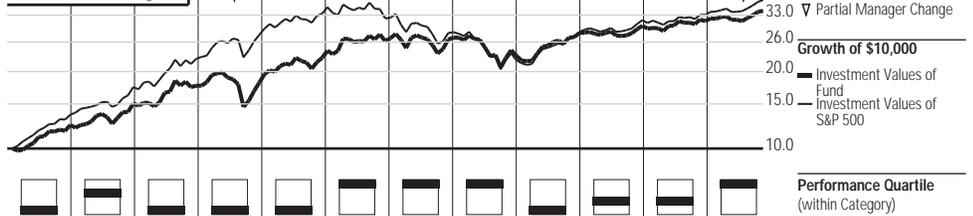
We expected a bit more from Calvert Social Investment Equity this year, but its sensible approach is unchanged.

This large-growth fund plies a relatively conservative tack. Lead manager Dan Boone likes firms with hefty competitive advantages, long histories of profit growth, and little debt that also pass Calvert's social screens. He tends to eschew many of the racy names favored by category rivals, such as Internet darlings Google and Yahoo and smaller biotech firms.

The fund struggled for three years as economically sensitive fare led the post-bear-market rally, but Boone's relatively cautious approach is now paying off. Top holding Cisco Systems, which is still boosting its dominant position in the networking industry, has gained more than 50% for the year to date through Nov. 10, 2006, and consumer products giant Colgate-Palmolive is up more than 20%. All told, the fund is ahead of more than 80% of its rivals thus far in 2006. That said, we're a bit disappointed

## Historical Profile

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



Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	19.65	22.43	23.28	25.80	29.88	31.72	31.06	26.40	32.29	34.45	35.30	37.30	NAV
Total Return %	20.29	21.68	19.33	10.89	23.17	11.61	0.67	-14.93	22.31	6.69	4.16	10.16	Total Return %
+/- S&P 500	-17.29	-1.28	-14.03	-17.69	2.13	20.71	12.56	7.17	-6.37	-4.19	-0.75	-5.63	+/- S&P 500
+/- Russ 1000Gr	-16.89	-1.44	-11.16	-27.82	-9.99	34.03	21.09	12.95	-7.44	0.39	-1.10	1.09	+/- Russ 1000Gr
Income Return %	0.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Income Return %
Capital Return %	19.95	21.68	19.33	10.89	23.17	11.61	0.67	-14.93	22.31	6.69	4.16	10.16	Capital Return %
Total Rtn % Rank Cat	97	33	80	94	76	3	2	4	85	63	69	21	Total Rtn % Rank Cat
Income \$	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Income \$
Capital Gains \$	1.81	1.50	3.36	0.01	1.83	1.63	0.88	0.02	0.00	0.00	0.59	1.59	Capital Gains \$
Expense Ratio %	1.36	1.27	1.20	1.16	1.22	1.13	1.24	1.29	1.29	1.24	1.25	1.23	Expense Ratio %
Income Ratio %	0.32	0.15	0.03	-0.14	-0.28	-0.20	-0.07	-0.12	-0.26	-0.32	0.08	-0.06	Income Ratio %
Turnover Rate %	35	118	93	110	51	49	43	28	29	17	31	35	Turnover Rate %
Net Assets \$mil	92	109	111	157	203	253	312	380	619	783	883	948	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	4.93			
3 Yr	5.26	-Avg	Low	★★★★
5 Yr	3.94	+Avg	-Avg	★★★★★
10 Yr	8.31	+Avg	-Avg	★★★★★
Incept	8.21			

### Other Measures

	Standard Index S&P 500	Best Fit Index Russ 1000Gr
Alpha	-2.9	0.7
Beta	0.96	0.81
R-Squared	86	92
Standard Deviation	7.12	
Mean	6.98	
Sharpe Ratio	0.54	

### Portfolio Analysis 12-31-06

Share change since 11-06	Total Stocks:47	Sector	PE	Tot Ret%	% Assets
		Cisco Systems, Inc.	28.8	59.64	4.84
		Medtronic, Inc.	23.7	-6.29	3.50
		Kohl's Corporation	23.4	40.80	3.11
		Colgate-Palmolive Compan	27.4	21.51	3.01
		Motorola, Inc.	13.0	-8.17	3.01
		Sysco Corporation	26.1	20.96	2.97
		Procter & Gamble Company	24.2	13.36	2.97
		Amgen, Inc.	28.0	-13.38	2.89
		Johnson & Johnson	17.4	12.44	2.79
		SEI Investments Company	26.8	61.73	2.52
		Aflac, Inc.	15.3	0.30	2.48
		FMC Technologies, Inc.	21.2	43.59	2.47
		Emerson Electric Company	19.7	20.68	2.37
		American Express Company	21.2	19.09	2.33
		Microsoft Corporation	23.7	15.83	2.30
		Dover Corporation	16.9	22.85	2.26
		Varian Medical Systems,	26.4	-5.50	2.20
		Target Corporation	19.1	4.65	2.19
		Staples, Inc.	20.4	18.58	2.16
		Zebra Technologies Corpo	30.8	-18.81	2.14

### Current Investment Style

Value	Blind	Growth	Market Cap	%	Sector Weightings	% of Stocks	Rel S&P 500	3 Year High Low
			Giant	27.0	Info	15.81	0.79	
			Large	45.7	Software	3.66	1.06	4 2
			Mid	27.3	Hardware	12.15	1.31	15 9
			Small	0.0	Media	0.00	0.00	0 0
			Micro	0.0	Telecom	0.00	0.00	2 0
			Avg \$mil:	25,964	Service	60.80	1.32	
					Health	17.39	1.44	21 17
					Consumer	19.40	2.54	21 16
					Business	9.56	2.26	12 9
					Financial	14.45	0.65	15 11
					Mfg	23.37	0.69	
					Goods	6.27	0.73	6 4
					Ind Mtrls	11.25	0.94	17 9
					Energy	5.85	0.60	8 2
					Utilities	0.00	0.00	2 0

### Value Measures

Value Measures	Rel Category
Price/Earnings	19.39 1.00
Price/Book	3.73 1.11
Price/Sales	1.76 0.90
Price/Cash Flow	4.92 0.42
Dividend Yield %	1.01 0.99

### Growth Measures

Growth Measures	Rel Category
Long-Term Erngs	13.63 0.95
Book Value	11.61 1.00
Sales	13.09 1.13
Cash Flow	37.50 2.26
Historical Erngs	20.44 0.89

### Profitability

Profitability	Rel Category
Return on Equity	22.76 1.12
Return on Assets	13.10 1.19
Net Margin	13.46 0.94



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800-368-2748 4.75%L, 0.25%S, 2.00%R  
Sales Fees: 4.75%L, 0.25%S, 2.00%R  
Management Fee: 0.50%, 0.20%A  
Actual Fees: Mgt:0.70% Dist:0.25%  
Expense Projections: 3Yr:\$853 5Yr:\$1129 10Yr:\$1915  
Income Distrib: Annually

# Federated US 2-5 Instl

Ticker: FIGTX Load: None NAV: \$10.86 Yield: 4.3% SEC Yield: — Total Assets: \$636 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	-0.23	3.97	5.01	0.91	9.92
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

Trailing	Total Return%	+/- LB Aggr 1-5 YR GOVT	+/- LB %Rank Cat	Growth of \$10,000
3 Mo	0.66	-0.58	-0.28	92
6 Mo	3.53	-1.56	0.19	26
1 Yr	3.34	-0.99	-0.67	72
3 Yr Avg	1.93	-1.77	-0.41	60
5 Yr Avg	3.54	-1.52	0.19	12
10 Yr Avg	5.05	-1.19	-0.04	12
15 Yr Avg	5.26	-1.24	-0.11	12

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	0.56	61	1.34	64
5 Yr (estimated)	2.11	10	1.38	65
10 Yr (estimated)	3.24	7	1.72	49

Potential Capital Gain Exposure: -4% of assets

## Morningstar's Take by Marta Norton 11-13-06

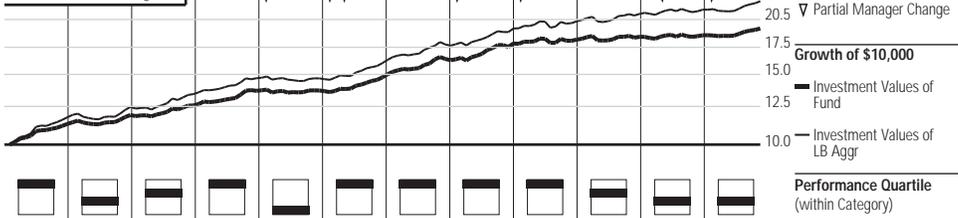
Federated U.S. Government: 2-5 Year is worth keeping in mind.

This fund has made a comeback in the last few months. Its 2.24% return for the three months ending Oct. 31, 2006, outpaced 82% of its short-term government peers. That stands in sharp contrast with the fund's lagging performance for the past year and a half. But the about-face shouldn't catch anyone off guard, given the fund's profile. Its higher-than-average duration (a measure of interest-rate sensitivity) means added interest-rate exposure. So with rates rising in 2005 and in the early part of this year, the fund suffered. And conversely, when rates stopped their climb in mid-July, it recovered nicely.

This kind of interest-rate sensitivity means higher volatility for the fund. And in fact, as of Oct. 31, 2006, its 10-year standard deviation of returns was the second highest of its peer group. And it certainly doesn't help matters that the fund has less diversification than many of its peers. Manager Don

## Historical Profile

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



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	10.69	10.49	10.63	10.91	10.35	10.77	11.09	11.67	11.52	11.30	10.97	10.86	NAV
Total Return %	13.57	3.58	7.12	8.11	-0.52	10.16	8.33	9.92	2.22	1.60	0.87	3.34	Total Return %
+/-LB Aggr	-4.90	-0.05	-2.53	-0.58	0.30	-1.47	-0.11	-0.33	-1.88	-2.74	-1.56	-0.99	+/-LB Aggr
+/-LB 1-5 YR GOVT	0.91	-1.02	0.01	0.46	-2.48	1.07	-0.31	2.23	0.06	-0.61	-0.67	-0.67	+/-LB 1-5 YR GOVT
Income Return %	6.62	5.44	5.71	5.40	4.71	5.91	5.33	4.56	3.53	3.54	3.83	4.34	Income Return %
Capital Return %	6.95	-1.86	1.41	2.71	-5.23	4.25	3.00	5.36	-1.31	-1.94	-2.96	-1.00	Capital Return %
Total Rtn % Rank Cat	23	68	31	4	87	7	11	3	13	29	72	72	Total Rtn % Rank Cat
Income \$	0.64	0.57	0.58	0.56	0.50	0.60	0.56	0.50	0.41	0.40	0.43	0.47	Income \$
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	Capital Gains \$
Expense Ratio %	0.54	0.54	0.54	0.54	0.55	0.56	0.57	0.57	0.57	0.57	0.59	0.58	Expense Ratio %
Income Ratio %	5.16	6.07	5.42	5.58	5.13	4.80	6.23	4.29	4.29	3.44	3.55	3.82	Income Ratio %
Turnover Rate %	163	117	99	71	126	172	77	66	31	52	66	113	Turnover Rate %
Net Assets \$mil	856	783	702	723	627	538	603	764	828	740	666	544	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	3.34			
3 Yr	1.93	Avg	High	★★★★
5 Yr	3.54	+Avg	High	★★★★★
10 Yr	5.05	+Avg	High	★★★★★
Incept	7.01			

Other Measures	Standard Index	Best Fit Index
Alpha	-1.6	-0.4
Beta	0.78	1.01
R-Squared	93	99
Standard Deviation	2.67	
Mean	1.93	
Sharpe Ratio	-0.48	

## Portfolio Analysis 09-30-06

	Date of Maturity	Amount \$000	Value \$000	% Net Assets
Total Fixed-Income: 19				
US Treasury Note 4.875%	05-31-08	60,000	60,111	9.00
US Treasury Note 4.5%	02-28-11	45,000	44,840	6.72
US Treasury Note 4.75%	03-31-11	42,000	42,263	6.33
US Treasury Note 4.875%	04-30-11	40,000	40,451	6.06
FHLMC 5%	11-01-10	40,000	39,632	5.94
US Treasury Note 4.25%	11-15-14	40,000	39,010	5.84
US Treasury Note 4.375%	12-15-10	37,000	36,697	5.50
US Treasury Note 4.25%	01-15-11	37,000	36,502	5.47
US Treasury Note 4%	11-15-12	37,000	35,848	5.37
FNMA 6%	05-15-11	33,000	34,473	5.16
US Treasury Note 3.625%	07-15-09	31,000	30,200	4.52
US Treasury Note 3.625%	01-15-10	31,000	30,089	4.51
US Treasury Note 4.5%	02-15-09	30,000	29,893	4.48
US Treasury Note 3.875%	05-15-10	30,000	29,296	4.39
FHLBA 5.375%	08-19-11	27,000	27,525	4.12
US Treasury Note 3%	07-15-12	26,033	27,014	4.05
US Treasury Note 2.375%	04-15-11	25,120	25,151	3.77
FHLMC 4.11%	02-16-10	20,000	19,452	2.91
US Treasury Note 5.125%	05-15-16	12,000	12,448	1.86

Current Investment Style	Sector Breakdown	% of assets
Duration: Short Int Long	US Treasuries	74
Quality: High Med Low	TIPS	4
	US Agency	18
	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
	<b>Composition</b>	
	Cash	4.0
	Bonds	96.0
	Stocks	0.0
	Other	0.0

Coupon Range	% of Bonds	Rel Cat	Credit Analysis	% bonds 09-30-06	Special Securities
0% PIK	0.0	0.0	AAA	100	BB
0% to 6%	100.0	0.0	AA	0	B
6% to 8%	0.0	0.0	A	0	Below B
8% to 10%	0.0	0.0	BBB	0	NR/NA
More than 10%	0.0	0.0			

Address:	5800 Corporate Drive Pittsburgh PA 15237-7000 800-341-7400	Minimum Purchase:	\$25000	Add: \$0	IRA: \$25000
Web Address:	www.federatedinvestors.com	Min Auto Inv Plan:	\$0	Add: —	
Inception:	02-18-83	Sales Fees:	No-load		
Advisor:	Federated Investment Management Corp.	Management Fee:	0.40%		
Subadvisor:	None	Actual Fees:	Mgt: 0.40%	Dist: —	
NTF Plans:	Schwab OneSource	Expense Projections:	3Yr: \$227	5Yr: \$395	10Yr: \$883
		Income Distrib:	Monthly		



# Fidelity Contrafund

## 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	2.88	-3.68	-9.86	1.18	-9.63
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

Trailing	Total Return%	+/- S&P 500	+/- Russ 1000Gr	%Rank Cat	Growth of \$10,000
3 Mo	6.46	-0.24	0.53	24	10,646
6 Mo	7.30	-5.44	-2.80	68	10,730
1 Yr	11.54	-4.25	2.47	14	11,154
3 Yr Avg	14.26	3.82	7.39	2	14,917
5 Yr Avg	11.52	5.33	8.83	1	17,249
10 Yr Avg	11.01	2.59	5.57	4	28,420
15 Yr Avg	13.38	2.74	5.36	4	65,773

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	13.50	2	0.67	44
5 Yr (estimated)	11.06	1	0.41	43
10 Yr (estimated)	9.48	4	1.38	69

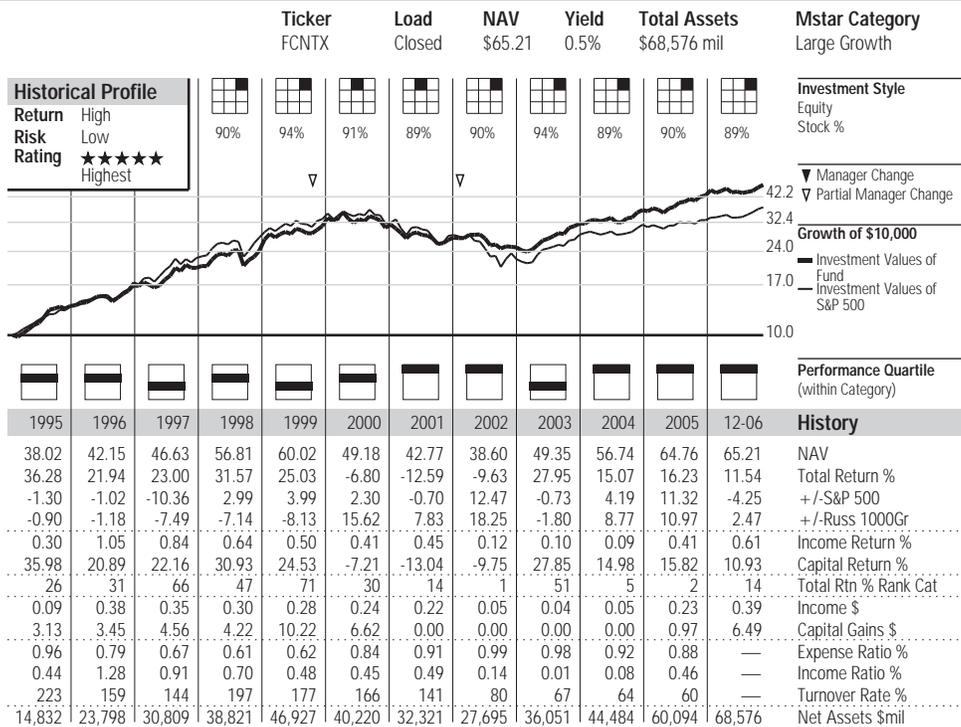
Potential Capital Gain Exposure: 26% of assets

### Morningstar's Take by Greg Carlson 11-10-06

Fidelity Contrafund's size isn't to blame for a subpar 2006, but we expect it to weigh on future returns.

It's been a tough year for this fund. Sure, it's well ahead of its typical large-growth rival for the year to date through Nov. 8, 2006. However, the fund--which previously resided in the large-blend category--trails its benchmark, the S&P 500 Index, by nearly 3 percentage points. (The fund's management fee is adjusted annually based on its three-year performance versus the S&P.)

What has been the source of the fund's underperformance? It's tempting to blame manager Will Danoff's enormous asset load--between this fund and Fidelity Advisor New Insights (both of which closed to new investors earlier this year), as well as variable-annuity accounts, he runs more than \$80 billion and has been forced to trade at a much slower pace than he did in the past. However, we'd argue that this year's stumble would have occurred with a far smaller asset base. Danoff, despite this fund's name, isn't a hard-core



### Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	11.54			
3 Yr	14.26	High	Avg	★★★★★
5 Yr	11.52	High	Low	★★★★★
10 Yr	11.01	High	Low	★★★★★
Incept	13.32			

Other Measures	Standard Index S&P 500	Best Fit Index S&P Mid 400
Alpha	3.0	2.7
Beta	1.09	0.81
R-Squared	69	88
Standard Deviation	8.94	
Mean	14.26	
Sharpe Ratio	1.18	

### Portfolio Analysis 09-30-06

Share change since 06-06	Total Stocks:423	Sector	PE	Tot Ret%	% Assets	
+		Google, Inc.	Business	58.6	11.00	3.77
+		Berkshire Hathaway Inc.	Financial	—	—	2.40
+		Genentech, Inc.	Health	47.2	-12.29	2.37
+		Hewlett-Packard Company	Hardware	18.9	45.21	2.14
+		Procter & Gamble Company	Goods	24.2	13.36	1.92
+		Wells Fargo Company	Financial	14.7	16.82	1.86
+		America Movil SA ADR	Telecom	28.0	55.53	1.85
+		EnCana Corporation	Energy	11.9	2.55	1.81
+		Roche Holding	Health	—	—	1.61
+		Apple Computer, Inc.	Hardware	37.4	18.01	1.59
+		Schlumberger, Ltd.	Energy	24.0	31.07	1.39
+		PepsiCo, Inc.	Goods	21.4	7.86	1.38
+		Walt Disney Company	Media	20.9	44.26	1.31
+		ExxonMobil Corporation	Energy	11.7	39.07	1.22
+		Bank of America Corporat	Financial	12.4	20.68	1.09
+		American Express Company	Financial	21.2	19.09	0.98
+		Valero Energy Corporatio	Energy	6.5	-0.33	0.97
+		Metropolitan Life Insura	Financial	15.8	21.67	0.97
+		Samsung Electronics	Goods	—	—	0.95
+		Danaher Corporation	Ind Mtrls	22.2	30.02	0.95

### Current Investment Style

Value	Blind	Growth	Market Cap	%
			Giant	48.9
			Large	32.1
			Mid	15.9
			Small	2.9
			Micro	0.2
Avg \$mil:				33,161

Value Measures	Rel Category
Price/Earnings	17.73 0.91
Price/Book	3.07 0.92
Price/Sales	1.81 0.92
Price/Cash Flow	10.53 0.90
Dividend Yield %	1.25 1.23
Growth Measures	% Rel Category
Long-Term Erngs	12.75 0.89
Book Value	11.26 0.97
Sales	12.40 1.07
Cash Flow	21.69 1.31
Historical Erngs	22.24 0.97

Sector Weightings	% of Stocks	Rel S&P 500	3 Year High Low
Info	19.40	0.97	
Software	2.26	0.66	3 2
Hardware	9.07	0.98	10 5
Media	2.68	0.71	4 2
Telecom	5.39	1.54	5 4
Service	49.30	1.07	
Health	12.08	1.00	17 11
Consumer	5.77	0.75	14 5
Business	8.95	2.12	10 5
Financial	22.50	1.01	23 14
Mfg	31.30	0.93	
Goods	10.33	1.21	12 7
Ind Mtrls	10.24	0.86	19 10
Energy	9.31	0.95	17 5
Utilities	1.42	0.41	1 0

### Composition

Cash	10.3
Stocks	89.3
Bonds	0.0
Other	0.4
Foreign	22.0

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

Minimum Purchase: Closed  
Min Auto Inv Plan: Closed  
Sales Fees: No-load  
Management Fee: 0.71%  
Actual Fees: Mgt:0.71%  
Expense Projections: 3Yr:\$290 5Yr:\$504 10Yr:\$1120  
Income Distrib: Semi-Annually  
Add: — IRA: —  
Add: —

# T. Rowe Price Mid Gr

**Ticker** RPMGX **Load** Closed **NAV** \$53.69 **Yield** 0.1% **Total Assets** \$15,337 mil **Mstar Category** Mid-Cap Growth

## Governance and Management

**Stewardship Grade:** B

### 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 deep analyst bench.

## 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	0.53	-10.96	-18.88	8.49	-21.22
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

Trailing	Total Return%	+/- S&P 500	+/- Russ MG	%Rank Cat	Growth of \$10,000
3 Mo	5.54	-1.16	-1.41	70	10,554
6 Mo	5.49	-7.25	-2.41	55	10,549
1 Yr	6.79	-9.00	-3.87	65	10,679
3 Yr Avg	13.23	2.79	0.50	23	14,517
5 Yr Avg	9.59	3.40	1.37	16	15,807
10 Yr Avg	11.63	3.21	3.01	14	30,048
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	12.33	20	0.79	40
5 Yr (estimated)	9.07	15	0.47	33
10 Yr (estimated)	10.97	10	0.59	15

Potential Capital Gain Exposure: 32% of assets

## Morningstar's Take by Karen Wallace 12-18-06

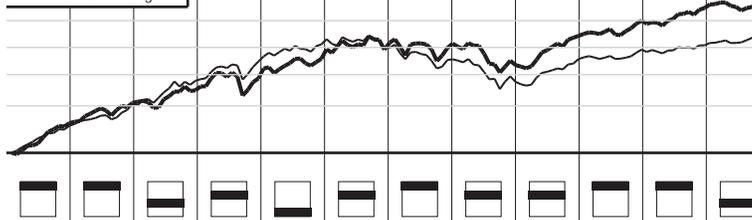
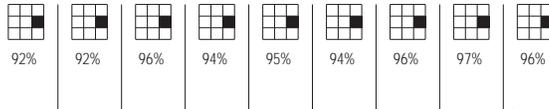
A slow year for T. Rowe Price Mid Cap Growth isn't cause for alarm.

The fact that this closed fund is on pace to finish 2006 in the mid-cap growth category's bottom third might be jarring to some investors, especially given manager Brian Berghuis's long-term record of beating his peers. But we think investors should put this year's relative return in perspective. First, and most importantly for shareholders, the fund's 7.4% return through Dec. 19, 2006, is fairly solid in absolute terms. And secondly, Berghuis is taking the same sensible tack he always has.

Berghuis tends to run the portfolio with a quality bias, and that has held the fund back this year as the market has rewarded lower-quality, more-speculative fare. He favors companies with solid management teams, a sound strategy, solid balance sheets, and strong cash flows. Although many category peers claim to do the same, Berghuis sets himself apart by taking a contrarian view at times, which often leads him away from the

## Historical Profile

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



Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06
NAV	20.13	24.43	28.60	34.08	40.13	39.79	39.40	31.04	42.90	49.88	54.14	53.69
Total Return %	40.95	24.84	18.33	22.00	23.78	7.43	-0.98	-21.22	38.21	18.39	14.82	6.79
+/-S&P 500	3.37	1.88	-15.03	-6.58	2.74	16.53	10.91	0.88	9.53	7.51	9.91	-9.00
+/-Russ MG	6.97	7.36	-4.21	4.14	-27.51	19.18	19.17	6.19	-4.50	2.91	2.72	-3.87
Income Return %	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15
Capital Return %	40.95	24.84	18.33	22.00	23.78	7.43	-0.98	-21.22	38.21	18.39	14.82	6.64
Total Rtn % Rank Cat	20	10	59	31	82	31	11	29	34	15	16	65
Income \$	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08
Capital Gains \$	0.79	0.69	0.30	0.73	1.88	3.27	0.00	0.00	0.00	0.90	3.15	4.07
Expense Ratio %	1.25	1.04	0.95	0.91	0.87	0.86	0.89	0.88	0.87	0.83	0.80	—
Income Ratio %	-0.01	-0.11	-0.14	-0.14	-0.09	-0.09	-0.35	-0.50	-0.44	-0.39	-0.12	—
Turnover Rate %	58	38	43	47	53	54	43	36	30	30	29	—
Net Assets \$mil	264	1,021	1,839	3,310	5,243	6,589	6,739	5,713	9,869	12,651	15,187	14,629

## Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	6.79			
3 Yr	13.23	+ Avg	Low	★★★★
5 Yr	9.59	+ Avg	-Avg	★★★★
10 Yr	11.63	+ Avg	-Avg	★★★★
Incept	15.75			

Other Measures	Standard Index S&P 500	Best Fit Index Russ MG
Alpha	0.8	1.5
Beta	1.29	0.87
R-Squared	74	93
Standard Deviation	10.21	
Mean	13.23	
Sharpe Ratio	0.96	

## Portfolio Analysis 09-30-06

Share change since 06-06	Total Stocks:152	Sector	PE	Tot Ret%	% Assets
Roper Industries, Inc.		Ind Mtrls	25.6	27.83	1.55
Crown Castle Internation		Telecom	—	20.94	1.47
Rockwell Collins, Inc.		Ind Mtrls	23.2	37.70	1.37
Manor Care, Inc.		Health	24.6	19.65	1.34
EOG Resources		Energy	10.1	-14.62	1.31
Cephalon, Inc.		Health	28.3	8.76	1.29
Lamar Advertising Compan		Business	—	41.75	1.29
BJ Services Company		Energy	11.6	-19.55	1.26
DST Systems, Inc.		Business	13.8	4.54	1.19
Manpower, Inc.		Business	20.6	62.53	1.18
American Tower Corporati		Telecom	—	37.56	1.17
XTO Energy, Inc.		Energy	9.2	12.16	1.15
Smith International, Inc		Energy	18.6	11.59	1.15
Rogers Communications, I		Telecom	—	41.45	1.15
MedImmune, Inc.		Health	—	-7.57	1.14
International Game Tech.		Consumer	34.5	52.07	1.13
Ametek, Inc.		Ind Mtrls	19.4	12.94	1.12
Southwest Airlines, Co.		Business	22.5	-6.65	1.07
Amazon.com, Inc.		Consumer	58.0	-16.31	1.03
Assurant, Inc.		Financial	12.0	28.01	1.03

## Current Investment Style

Value	Blind	Growth	Market Cap	%
			Giant	0.0
			Large	19.0
			Mid	71.8
			Small	9.1
			Micro	0.1
Avg \$mil:				5,256

Value Measures	Rel Category
Price/Earnings	20.70 1.00
Price/Book	3.07 0.94
Price/Sales	1.79 1.01
Price/Cash Flow	11.53 1.00
Dividend Yield %	0.55 0.89
Growth Measures	% Rel Category
Long-Term Erngs	16.55 1.02
Book Value	12.38 0.98
Sales	14.48 1.51
Cash Flow	17.18 0.94
Historical Erngs	26.66 1.07

Sector Weightings	% of Stocks	Rel S&P 500	3 Year High Low
Info	27.67	1.38	
Software	6.13	1.78	7 6
Hardware	12.73	1.38	13 9
Media	2.43	0.64	5 2
Telecom	6.38	1.82	6 3
Service	51.79	1.12	
Health	18.58	1.54	20 18
Consumer	10.96	1.43	13 10
Business	14.95	3.53	18 13
Financial	7.30	0.33	10 7
Mfg	20.55	0.61	
Goods	1.74	0.20	3 2
Ind Mtrls	9.77	0.82	12 10
Energy	9.04	0.92	10 7
Utilities	0.00	0.00	0 0

## Composition



Address:	100 East Pratt Street Baltimore MD 21202 800-638-5660	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: \$129.59 Yield: 1.7% Total Assets: \$65,537 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	0.27	-13.41	-17.18	8.43	-22.03
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

Trailing	Total Return%	+/- S&P 500	+/- Russ 1000	%Rank Cat	Growth of \$10,000
3 Mo	6.69	-0.01	-0.26	44	10,669
6 Mo	12.73	-0.01	0.37	19	11,273
1 Yr	15.78	-0.01	0.32	21	11,578
3 Yr Avg	10.43	-0.01	-0.55	36	13,467
5 Yr Avg	6.20	0.01	-0.62	37	13,509
10 Yr Avg	8.47	0.05	-0.17	28	22,547
15 Yr Avg	10.67	0.03	-0.13	31	45,756

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	10.07	28	0.33	15
5 Yr (estimated)	5.80	32	0.38	25
10 Yr (estimated)	7.91	19	0.52	19

Potential Capital Gain Exposure: 22% of assets

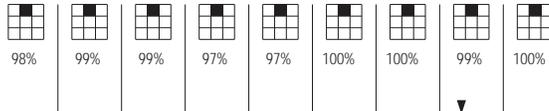
## Morningstar's Take by Dan Culloton 10-23-06

Vanguard Institutional Index still has a big edge. This fund has taken some hits recently. Rivals and observers have attacked its benchmark index, the S&P 500, as flawed because it overemphasizes pricey stocks by ranking its constituents by their market capitalizations. Observers, Morningstar included, also have noted that traders front-running changes to the S&P 500 can increase transaction costs and erode the returns of funds tracking the index.

Despite these legitimate concerns, this fund remains a competitive core holding. Its index's construction methodology isn't perfect, but it's still a simple, low-turnover way to track the market. Furthermore, new alternative schemes, such as ranking stocks by dividends, cash flow, book value, or sales, have short real-world track records. The fundamental indexes' back-tested results look great, but also have been influenced by a market that in recent years has favored smaller, more value-oriented stocks.

## Historical Profile

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



Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	57.93	68.86	89.56	112.85	134.01	120.72	104.89	80.45	101.78	110.70	114.01	129.59	NAV
Total Return %	37.60	23.06	33.36	28.79	21.17	-8.94	-11.93	-22.03	28.66	10.86	4.91	15.78	Total Return %
+/-S&P 500	0.02	0.10	0.00	0.21	0.13	0.16	-0.04	0.07	-0.02	-0.02	0.00	-0.01	+/-S&P 500
+/-Russ 1000	-0.17	0.61	0.51	1.77	0.26	-1.15	0.52	-0.38	-1.23	-0.54	-1.36	0.32	+/-Russ 1000
Income Return %	2.96	2.37	2.03	1.59	1.35	1.05	1.14	1.35	1.91	2.00	1.86	1.98	Income Return %
Capital Return %	34.64	20.69	31.33	27.20	19.82	-9.99	-13.07	-23.38	26.75	8.86	3.05	13.80	Capital Return %
Total Rtn % Rank Cat	13	29	14	15	34	64	51	48	33	41	58	21	Total Rtn % Rank Cat
Income \$	1.27	1.36	1.39	1.42	1.51	1.40	1.38	1.41	1.53	2.02	2.05	2.24	Income \$
Capital Gains \$	0.16	0.99	0.71	0.90	0.96	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	0.06	0.05	0.05	0.05	0.05	0.05	—	Expense Ratio %
Income Ratio %	2.49	2.18	1.77	1.46	1.25	1.10	1.27	1.57	1.74	2.00	1.87	—	Income Ratio %
Turnover Rate %	4	9	7	11	14	11	8	10	13	5	9	—	Turnover Rate %
Net Assets \$mil	6,674	11,426	15,348	22,338	28,918	26,406	24,165	20,361	29,458	34,990	39,154	45,243	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	15.78			
3 Yr	10.43	Avg	-Avg	★★★★
5 Yr	6.20	Avg	Avg	★★★★
10 Yr	8.47	+Avg	Avg	★★★★★
Incept	11.09			

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	6.92	
Mean	10.43	
Sharpe Ratio	1.02	

## Portfolio Analysis 09-30-06

Share change since 06-06	Total Stocks:508	Sector	PE	Tot Ret%	% Assets
⊖ ExxonMobil Corporation		Energy	11.7	39.07	3.31
⊕ General Electric Company		Ind Mtrls	19.8	9.35	3.02
⊕ Citigroup, Inc.		Financial	13.3	19.55	2.04
⊕ Bank of America Corporat		Financial	12.4	20.68	2.01
⊖ Microsoft Corporation		Software	23.7	15.83	1.96
⊕ Pfizer Inc.		Health	15.1	15.22	1.72
⊕ Procter & Gamble Company		Goods	24.2	13.36	1.63
⊖ Johnson & Johnson		Health	17.4	12.44	1.58
⊕ American International G		Financial	17.1	6.05	1.43
⊕ J.P. Morgan Chase & Co.		Financial	13.7	25.60	1.35
⊕ Altria Group, Inc.		Goods	15.9	19.87	1.33
⊕ Chevron Corporation		Energy	9.3	33.75	1.18
⊕ Cisco Systems, Inc.		Hardware	28.8	59.64	1.16
⊕ AT&T, Inc.		Telecom	19.2	53.16	1.05
⊖ IBM		Hardware	16.8	19.77	1.03
⊕ Wells Fargo Company		Financial	14.7	16.82	1.01
⊖ Wal-Mart Stores, Inc.		Consumer	16.6	0.13	1.01
⊕ Intel Corporation		Hardware	20.3	-17.18	0.98
⊕ Verizon Communications		Telecom	16.1	34.88	0.89
⊕ PepsiCo, Inc.		Goods	21.4	7.86	0.89

## Current Investment Style

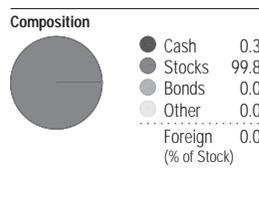
Value	Blind	Growth	Market Cap %
Large	51.2		51.2
Large	38.0		38.0
Mid	10.7		10.7
Small	0.1		0.1
Micro	0.0		0.0
Avg \$mil:			50,541

Value Measures	Rel Category
Price/Earnings	15.18 0.98
Price/Book	2.56 0.99
Price/Sales	1.44 1.02
Price/Cash Flow	7.11 0.82
Dividend Yield %	1.92 1.11

Growth Measures	% Rel Category
Long-Term Erngs	11.17 0.94
Book Value	8.61 0.95
Sales	9.76 1.02
Cash Flow	9.11 0.90
Historical Erngs	17.21 0.93

Profitability	% Rel Category
Return on Equity	19.63 1.00
Return on Assets	10.79 1.04
Net Margin	14.04 1.04

Sector Weightings	% of Stocks	Rel S&P 500	3 Yr High Low
Info	19.98	1.00	
Software	3.49	1.01	5 3
Hardware	9.53	1.03	11 9
Media	3.46	0.91	4 3
Telecom	3.50	1.00	4 3
Service	46.77	1.01	
Health	12.71	1.05	13 12
Consumer	7.72	1.01	9 8
Business	4.06	0.96	5 4
Financial	22.28	1.00	22 20
Mfg	33.25	0.98	
Goods	8.64	1.01	10 8
Ind Mtrls	11.88	0.99	13 12
Energy	9.32	0.95	10 6
Utilities	3.41	0.97	4 3



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:	Vanguard Advisers, 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: \$9.25 Yield: 5.6% SEC Yield: 5.65% Total Assets: \$5,711 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, 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	-0.59	4.29	7.96	1.16	13.22
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

Trailing	Total Return%	+/- LB Aggr	+/- LB LongTerm	%Rank Cat	Growth of \$10,000
3 Mo	1.42	0.18	0.37	52	10,142
6 Mo	8.77	3.68	0.83	19	10,877
1 Yr	2.86	-1.47	0.15	90	10,286
3 Yr Avg	5.61	1.91	0.10	24	11,779
5 Yr Avg	7.22	2.16	-0.16	35	14,170
10 Yr Avg	7.30	1.06	-0.42	17	20,230
15 Yr Avg	7.79	1.29	-0.28	1	30,809

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	3.59	16	1.91	64
5 Yr (estimated)	5.06	35	2.01	61
10 Yr (estimated)	4.74	16	2.39	90

Potential Capital Gain Exposure: 4% of assets

### Morningstar's Take by Lawrence Jones 12-20-06

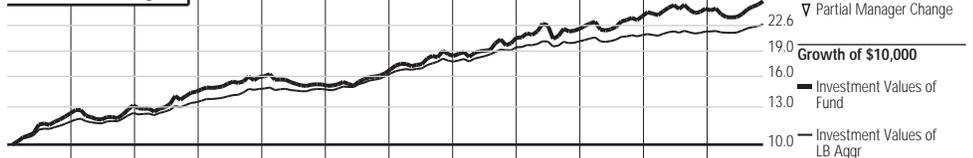
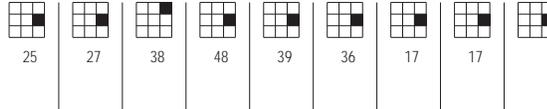
Vanguard Long-Term Investment-Grade faces challenges, but low costs ensure it a fighting chance.

This fund gains part of its edge from its low expense ratio. At just 0.25%, the fund's expense ratio is much lower than its typical no-load long-term bond-category peer's 0.93%. One significant benefit of owning a lower-fee fund is that costs don't eat away at much of the fund's yield. As a result the fund is able to provide more income and return than its typical peer.

The lower expense ratio also means that the fund has less reason to take on much credit risk. Because manager Earl McEvoy gains a sizable edge from the fund's low fees, he can buy mostly high-quality bonds without sacrificing return; currently, the fund dedicates just 15% of its assets to bonds rated BBB (just a notch above junk-bond level) and lower, compared with 35% for its average competitor. We like this distinction, as it gives the fund an uncommon profile--a high-quality portfolio

## Historical Profile

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



Performance Quartile (within Category): History

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	History
NAV	9.48	8.79	9.26	9.29	8.11	8.45	8.68	9.23	9.27	9.55	9.52	9.25	NAV
Total Return %	26.40	1.20	13.78	9.21	-6.23	11.76	9.57	13.22	6.26	8.94	5.13	2.86	Total Return %
+/-LB Aggr	7.93	-2.43	4.13	0.52	-5.41	0.13	1.13	2.97	2.16	4.60	2.70	-1.47	+/-LB Aggr
+/-LB LongTerm	-3.55	1.06	-0.74	-2.56	1.42	-4.40	2.29	-1.59	0.39	0.38	-0.20	0.15	+/-LB LongTerm
Income Return %	8.05	6.79	7.21	6.56	6.25	7.30	6.86	6.60	5.85	5.77	5.53	5.61	Income Return %
Capital Return %	18.35	-5.59	6.57	2.65	-12.48	4.46	2.71	6.62	0.41	3.17	-0.40	-2.75	Capital Return %
Total Rtn % Rank Cat	56	55	42	9	58	5	34	16	68	20	17	90	Total Rtn % Rank Cat
Income \$	0.63	0.62	0.61	0.59	0.56	0.57	0.56	0.56	0.53	0.52	0.52	0.52	Income \$
Capital Gains \$	0.00	0.15	0.07	0.21	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	0.32	0.31	0.28	0.32	0.30	0.30	0.30	0.32	0.31	0.28	0.25	0.25	Expense Ratio %
Income Ratio %	7.37	7.03	7.06	6.87	6.26	6.59	7.02	6.48	6.24	5.64	5.58	5.35	Income Ratio %
Turnover Rate %	43	49	30	33	43	7	17	39	33	11	16	9	Turnover Rate %
Net Assets \$mil	3,356	3,412	3,637	4,153	3,724	3,704	3,550	3,753	3,851	4,213	4,224	4,187	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	2.86			
3 Yr	5.61	+ Avg	High	★★★★
5 Yr	7.22	+ Avg	+ Avg	★★★★
10 Yr	7.30	+ Avg	+ Avg	★★★★
Incept	8.83			

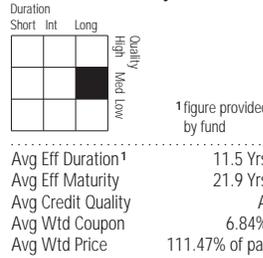
## Other Measures

	Standard Index	Best Fit Index
Alpha	1.5	0.1
Beta	2.25	1.01
R-Squared	93	99
Standard Deviation	7.59	
Mean	5.61	
Sharpe Ratio	0.33	

## Portfolio Analysis 09-30-06

	Date of Maturity	Amount \$000	Value \$000	% Net Assets
Total Fixed-Income:249				
Illinois St Go Bds 5.1%	06-01-33	129,625	124,196	2.23
FHLMC 6.25%	07-15-32	95,400	110,757	1.99
General Elec Cap 6.75%	03-15-32	95,975	110,157	1.98
FNMA 6.625%	11-15-30	83,925	101,062	1.81
Deutsche Telekom Intl Fi	06-15-30	79,000	96,047	1.72
France Telecom Sa 8.5%	03-01-31	63,175	82,505	1.48
At&T Wireless Svcs 8.75%	03-01-31	52,725	67,543	1.21
Natl Rural Utils Coop Fi	03-01-32	50,000	64,380	1.15
FHLBA 5.5%	07-15-36	60,000	63,194	1.13
New York Life Ins 144A 5	05-15-33	57,775	59,082	1.06
President&Fellow Harvard	10-01-37	55,000	59,034	1.06
Hartford Life 7.375%	03-01-31	47,500	57,072	1.02
Intl Busn Machs 7%	10-30-25	50,000	57,003	1.02
Hydro-Quebec 9.4%	02-01-21	40,000	56,321	1.01
Wal Mart Stores 7.55%	02-15-30	45,000	55,416	0.99
Intl Bk For Recon&Dev 7.	01-19-23	43,320	54,389	0.98
Aluminum 6.75%	01-15-28	45,000	50,490	0.91
Hbos Plc Medium Tm Sb Nt	11-01-33	46,500	47,452	0.85
Dow Chem 7.375%	11-01-29	40,000	46,776	0.84
Bellsouth 6%	11-15-34	49,000	46,102	0.83

## Current Investment Style



	Avg Eff Duration <sup>1</sup>	11.5 Yrs
Avg Eff Maturity	21.9 Yrs	
Avg Credit Quality	A	
Avg Wtd Coupon	6.84%	
Avg Wtd Price	111.47% of par	

Coupon Range	% of Bonds	Rel Cat
0% PIK	0.0	0.0
0% to 6%	25.2	0.6
6% to 8%	61.8	1.4
8% to 10%	13.0	1.2
More than 10%	0.1	0.1

Credit Analysis	% bonds 09-30-06
AAA	13
AA	24
A	48
BBB	13

Sector Breakdown	% of assets
US Treasuries	0
TIPS	0
US Agency	6
Mortgage Pass-Throughs	0
Mortgage CMO	0
Mortgage ARM	0
US Corporate	83
Asset-Backed	0
Convertible	0
Municipal	4
Corporate Inflation-Protected	0
Foreign Corporate	6
Foreign Govt	1

Composition		
Cash	0.3	Bonds 99.7
Stocks	0.0	Other 0.0

Special Securities	
Restricted/Illiquid Secs	6
Exotic Mortgage-Backed	0
Emerging-Markets Secs	0
Options/Futures/Warrants	No

Address:	PO Box 2600 Valley Forge PA 19482 800-997-2798	Minimum Purchase:	\$3000	Add: \$100	IRA: \$3000
Web Address:	www.vanguard.com	Min Auto Inv Plan:	\$3000	Add: \$50	
Inception:	07-09-73	Sales Fees:	No-load		
Advisor:	Wellington Management Company, LLP	Management Fee:	0.26%		
Subadvisor:	None	Actual Fees:	Mgt:0.22%	Dist: —	
NTF Plans:	Vanguard NTF	Expense Projections:	3Yr:\$80	5Yr:\$141	10Yr:\$318
		Income Distrib:	Monthly		

# Vanguard Target Rtmt 2015

Analyst Pick

Ticker VTXVX

Load None

NAV \$12.46

Yield 2.5%

Total Assets \$4,355 mil

Mstar Category Target-Date 2015-2029

## Governance and Management

Stewardship Grade: B

### Portfolio Manager(s)

A team led by experienced index-fund managers Duane Kelly and George Sauter 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. Initially, it invests 33.3% of assets in Vanguard Total Bond Market Index, 53.3% in Vanguard Total Stock Market Index, 7.9% in Vanguard European Stock Index, 3.7% in Vanguard Pacific Stock Index, and 1.8% in Vanguard Emerging Markets Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

### Performance 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	—	—	—	—	—
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

Trailing	Total Return%	+/- DJ Mod	+/- DJ Tgt 2025	%Rank Cat	Growth of \$10,000
3 Mo	5.53	-0.06	-1.09	65	10,553
6 Mo	9.98	1.19	0.09	43	10,998
1 Yr	11.42	-0.88	-2.86	61	11,142
3 Yr Avg	8.43	-2.29	-4.10	59	12,748
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	7.73	43	0.65	36
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 7% of assets

### Morningstar's Take by Marta Norton 09-12-06

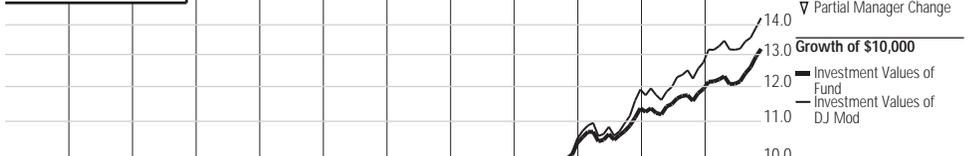
Vanguard Target Retirement 2015's bigger equity stake should propel it to the head of the class.

Since its inception, we have generally been favorable of this all-in-one fund. It offers investors aiming to retire in or around 2015 a broadly diversified portfolio for a very low price. It limits its investments to Vanguard's signature line of index funds, and scales back its equity allocation gradually. Five to 10 years after 2015, the fund's asset allocation should resemble the 30% stock, 70% bond mix of Vanguard Target Retirement Income. This format provides investors with a reasonably managed portfolio without much work.

Still, the fund's old 50/50 split between stocks and bonds had weighed on its returns. It has consistently trailed its Target Date 2015-2029 category peers, which allocate, on average, 62% of their assets to equity investments. Vanguard recently made efforts to make this offering more mainstream, though. It now stakes nearly 67% of its assets in stocks, with about 1.8% devoted to

## Historical Profile

Return Average  
Risk Low  
Rating ★★★ Neutral



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	—	—	—	—	—	—	—	—	10.43	11.17	11.46	12.46	NAV
Total Return %	—	—	—	—	—	—	—	—	—	9.04	4.94	11.42	Total Return %
+/-DJ Mod	—	—	—	—	—	—	—	—	—	-3.93	-2.05	-0.88	+/-DJ Mod
+/-DJ Tgt 2025	—	—	—	—	—	—	—	—	—	-5.67	-3.77	-2.86	+/-DJ Tgt 2025
Income Return %	—	—	—	—	—	—	—	—	—	1.92	2.33	2.71	Income Return %
Capital Return %	—	—	—	—	—	—	—	—	—	7.12	2.61	8.71	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	—	46	78	61	Total Rtn % Rank Cat
Income \$	—	—	—	—	—	—	—	—	—	0.06	0.20	0.31	Income \$
Capital Gains \$	—	—	—	—	—	—	—	—	—	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.20	Expense Ratio %
Income Ratio %	—	—	—	—	—	—	—	—	—	2.69	3.11	—	Income Ratio %
Turnover Rate %	—	—	—	—	—	—	—	—	—	—	1	—	Turnover Rate %
Net Assets \$mil	—	—	—	—	—	—	—	—	50	707	2,293	4,355	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	11.42	—	—	—
3 Yr	8.43	Avg	Low	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	9.58	—	—	—

Other Measures	Standard Index	Best Fit Index
Alpha	0.1	0.1
Beta	0.69	0.69
R-Squared	90	90
Standard Deviation	4.29	—
Mean	8.43	—
Sharpe Ratio	1.18	—

### Portfolio Analysis 09-30-06

Total Stocks:0	Share change since 06-30-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
+	Vanguard Total Stock Mkt	—	—	—	50.55
+	Vanguard European Stock I	—	—	—	7.76
+	Vanguard Pacific Stock In	—	—	—	3.69
+	Vanguard Total Stock Mark	—	—	—	1.77
+	Vanguard Emerging Mkts St	—	—	—	1.61

Total Fixed-Income:0	Date of Maturity	Amount \$000	Value \$000	% Net Assets
Vanguard Total Bond Marke	—	129,055,287,972	—	34.62

Equity Style	Style: Blend	Size: Large-Cap	Fixed-Income Style	Duration: Interm-Term	Quality: High
Value Measures	Price/Earnings	14.09	Rel Category	Avg Eff Duration 1	4.6 Yrs
Price/Book	2.37	0.99		Avg Eff Maturity	7.1 Yrs
Price/Sales	1.29	0.99		Avg Credit Quality	AAA
Price/Cash Flow	7.24	0.98		Avg Wtd Coupon	5.43%
Dividend Yield %	2.07	1.05		*figure provided by fund as of 09-30-06	
Growth Measures	% Rel Category		Sector Weightings	% of Stocks	Rel DJ Mod
Long-Term Erngs	11.49	0.97	Info	18.18	—
Book Value	8.19	0.94	Software	3.03	4 3
Sales	8.69	1.09	Hardware	8.22	9 8
Cash Flow	8.70	0.91	Media	3.11	4 3
Historical Erngs	13.14	0.73	Telecom	3.82	4 4
Market Cap %			Service	48.04	—
Giant	43.5	5.0	Health	11.54	12 11
Large	31.5	1.7	Consumer	7.46	9 7
Mid	18.3	26,626	Business	5.29	6 5
			Financial	23.75	24 22
Composition			Mfg	33.79	—
● Cash	0.7		Goods	8.91	10 9
● Stocks	64.8		Ind Mtrls	12.35	13 11
● Bonds	34.3		Energy	8.82	10 6
● Other	0.3		Utilities	3.71	4 3
Foreign	19.7	(% of Stock)			

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-997-2798	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:	Vanguard NTF	Expense Projections:	3Yr:\$64	5Yr:\$113	10Yr:\$255
		Income Distrib:	Quarterly		

# Vanguard Target Rtmt 2025

Analyst Pick

Ticker VTTVX

Load None

NAV \$13.04

Yield 2.2%

Total Assets \$4,605 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 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. Initially, it invests 17.5% of assets in Vanguard Total Bond Market Index, 66% in Vanguard Total Stock Market Index, 9.7% in Vanguard European Stock Index, 4.6% in Vanguard Pacific Stock Index, and 2.2% in Vanguard Emerging Markets Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

## Performance 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	—	—	—	—	—
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

Trailing	Total Return%	+/- DJ Mod	+/- DJ Tgt 2025	%Rank Cat	Growth of \$10,000
3 Mo	6.55	0.96	-0.07	32	10,655
6 Mo	11.17	2.38	1.28	30	11,117
1 Yr	13.24	0.94	-1.04	31	11,324
3 Yr Avg	9.55	-1.17	-2.98	28	13,147
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	8.96	20	0.54	14
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 9% of assets

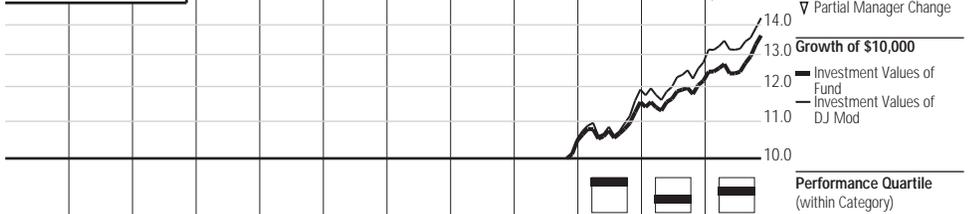
## Morningstar's Take by Marta Norton 12-19-06

Vanguard Target Retirement 2025's changes make us like it even more.

This fund has several strong points. It offers investors planning to retire in or around 2025 a broadly diversified portfolio of Vanguard index funds. We like that much of the fund's equity exposure comes from Vanguard Total Stock Market Index, which covers the entire domestic universe, including the often-underweighted small-cap market. We also like Vanguard Total Bond Market Index, whose management does an exemplary job of tracking Lehman Brothers Aggregate Bond Index. The fund's gradual transition to a more conservative profile (approximately five years after its target year it should offer the same 30/70 stock/bond exposure as Vanguard Target Retirement Income) should make the fund attractive to investors who want to take a hands-off approach to asset allocation. And because the fund limits its investments to Vanguard index funds, it offers a hard-to-beat 0.20% expense ratio.

## Historical Profile

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



Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	—	—	—	—	—	—	—	—	10.51	11.39	11.77	13.04	NAV
Total Return %	—	—	—	—	—	—	—	—	—	10.11	5.45	13.24	Total Return %
+/-DJ Mod	—	—	—	—	—	—	—	—	—	-2.86	-1.54	0.94	+/-DJ Mod
+/-DJ Tgt 2025	—	—	—	—	—	—	—	—	—	-4.60	-3.26	-1.04	+/-DJ Tgt 2025
Income Return %	—	—	—	—	—	—	—	—	—	1.71	2.11	2.46	Income Return %
Capital Return %	—	—	—	—	—	—	—	—	—	8.40	3.34	10.78	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	—	23	66	31	Total Rtn % Rank Cat
Income \$	—	—	—	—	—	—	—	—	—	0.06	0.18	0.24	Income \$
Capital Gains \$	—	—	—	—	—	—	—	—	—	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.20	Expense Ratio %
Income Ratio %	—	—	—	—	—	—	—	—	—	—	—	—	Income Ratio %
Turnover Rate %	—	—	—	—	—	—	—	—	—	—	—	—	Turnover Rate %
Net Assets \$mil	—	—	—	—	—	—	—	—	—	3	2	—	Net Assets \$mil
	—	—	—	—	—	—	—	—	—	30	708	2,529	4,605

## Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	13.24	—	—	—
3 Yr	9.55	Avg	-Avg	★★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	10.91	—	—	—

Other Measures	Standard Index	Best Fit Index
Alpha	0.3	0.3
Beta	0.81	0.81
R-Squared	93	93
Standard Deviation	4.96	—
Mean	9.55	—
Sharpe Ratio	1.23	—

## Portfolio Analysis 09-30-06

Total Stocks:0	Share change since 06-30-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
+	Vanguard Total Stock Mkt	—	—	—	62.46
+	Vanguard European Stock I	—	—	—	9.63
+	Vanguard Pacific Stock In	—	—	—	4.56
+	Vanguard Total Stock Mark	—	—	—	2.31
-	Vanguard Emerging Mkts St	—	—	—	1.98

Total Fixed-Income:0	Date of Maturity	Amount \$000	Value \$000	% Net Assets
Vanguard Total Bond Marke	—	75,542	753,910	19.07

Equity Style	Style: Blend	Size: Large-Cap	Fixed-Income Style	Duration: Interm-Term	Quality: High
Value Measures	Price/Earnings	14.09	Rel Category	Avg Eff Duration 1	4.6 Yrs
	Price/Book	2.37	0.93	Avg Eff Maturity	7.1 Yrs
	Price/Sales	1.29	0.99	Avg Credit Quality	AAA
	Price/Cash Flow	7.24	0.98	Avg Wtd Coupon	5.43%
	Dividend Yield %	2.07	1.05	*figure provided by fund as of 09-30-06	
Growth Measures	% Rel Category			Sector Weightings	% of Stocks
	Long-Term Erngs	11.49	0.97	Info	18.17
	Book Value	8.19	0.94	Software	3.03
	Sales	8.69	1.09	Hardware	8.21
	Cash Flow	8.70	0.91	Media	3.11
	Historical Erngs	13.14	0.73	Telecom	3.82
Market Cap %				Service	48.04
Giant	43.5	Small	5.0	Health	11.54
Large	31.5	Micro	1.7	Consumer	7.46
Mid	18.3	Avg \$mil:	26,636	Business	5.29
				Financial	23.75
Composition				Mfg	33.78
	Cash	0.6		Goods	8.90
	Stocks	80.2		Ind Mtrls	12.35
	Bonds	18.9		Energy	8.82
	Other	0.3		Utilities	3.71
	Foreign	19.7			
	(% of Stock)				

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-997-2798	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:	Vanguard NTF	Expense Projections:	3Yr:\$64	5Yr:\$113	10Yr:\$255
		Income Distrib:	Quarterly		

# Vanguard Target Rtmt 2035

Analyst Pick

Ticker VTHX

Load None

NAV \$13.87

Yield 1.9%

Total Assets \$3,050 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 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. Initially, it invests 10% of assets in Vanguard Total Bond Market Index, 72% in Vanguard Total Stock Market Index, 10.6% in Vanguard European Stock Index, 5% in Vanguard Pacific Stock Index, and 2.4% in Vanguard Emerging Markets Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

## Performance 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	—	—	—	—	—
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

Trailing	Total Return%	+/- DJ Mod	+/- DJ Tgt 2040	%Rank Cat	Growth of \$10,000
3 Mo	7.20	1.61	-1.26	48	10,720
6 Mo	11.87	3.08	0.06	28	11,187
1 Yr	15.24	2.94	-2.13	34	11,524
3 Yr Avg	11.10	0.38	-3.76	43	13,713
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	10.63	30	0.42	10
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 10% of assets

## Morningstar's Take by Marta Norton 09-15-06

Changes at Vanguard Target Retirement 2035 better suit it for its target investor.

This fund has a new look. Previously it allocated about 80% to domestic and international stocks and roughly 20% to fixed income. This split was conservative compared with similarly dated rivals at Fidelity or T. Rowe Price. For instance, T. Rowe Price Retirement 2035 aims to keep roughly 93.5% in equities. The fund's higher stake in bonds, while limiting return volatility, kept it from keeping pace with its more aggressive peers. But this will likely be less of a problem going forward. In June 2006, the fund upped its equity stake to 90%, with 18% of its assets funneled into international indexes. Vanguard Total Bond Market now claims the remaining 10%.

We think this change is for the best. Although higher volatility will likely result, a bigger stake in stocks is appropriate, given the fund's long time horizon. That's because investors can afford to take a bit more risk over long periods of time. Retirees are also living longer than before, which means they

## Historical Profile

Return Average  
Risk Low  
Rating ★★★ Neutral



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	—	—	—	—	—	—	—	—	10.63	11.73	12.26	13.87	NAV
Total Return %	—	—	—	—	—	—	—	—	—	11.95	6.30	15.24	Total Return %
+/-DJ Mod	—	—	—	—	—	—	—	—	—	-1.02	-0.69	2.94	+/-DJ Mod
+/-DJ Tgt 2040	—	—	—	—	—	—	—	—	—	-4.41	-4.66	-2.13	+/-DJ Tgt 2040
Income Return %	—	—	—	—	—	—	—	—	—	1.60	1.79	2.12	Income Return %
Capital Return %	—	—	—	—	—	—	—	—	—	10.35	4.51	13.12	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	—	43	87	34	Total Rtn % Rank Cat
Income \$	—	—	—	—	—	—	—	—	—	0.06	0.17	0.26	Income \$
Capital Gains \$	—	—	—	—	—	—	—	—	—	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.20	Expense Ratio %
Income Ratio %	—	—	—	—	—	—	—	—	—	1.70	2.33	—	Income Ratio %
Turnover Rate %	—	—	—	—	—	—	—	—	—	2	—	—	Turnover Rate %
Net Assets \$mil	—	—	—	—	—	—	—	—	19	373	1,402	3,050	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	15.24	—	—	—
3 Yr	11.10	Avg	Low	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	12.81	—	—	—

Other Measures	Standard Index	Best Fit Index
Alpha	0.3	1.2
Beta	1.01	0.84
R-Squared	93	95
Standard Deviation	6.19	—
Mean	11.10	—
Sharpe Ratio	1.23	—

## Portfolio Analysis 09-30-06

Total Stocks:0	Share change since 06-30-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
⊕ Vanguard Total Stock Mkt	—	—	—	—	68.83
⊕ Vanguard European Stock I	—	—	—	—	10.58
⊕ Vanguard Pacific Stock In	—	—	—	—	5.09
⊕ Vanguard Total Stock Mark	—	—	—	—	2.99
⊕ Vanguard Emerging Mkts St	—	—	—	—	2.44

Total Fixed-Income:0	Date of Maturity	Amount \$000	Value \$000	% Net Assets
Vanguard Total Bond Marke	—	25,762	257,105	10.05

Equity Style	Fixed-Income Style
Style: Blend	Duration: —
Size: Large-Cap	Quality: —
Value Measures	Rel Category
Price/Earnings 14.09	0.93
Price/Book 2.37	0.98
Price/Sales 1.29	1.00
Price/Cash Flow 7.24	0.98
Dividend Yield % 2.07	1.06
Growth Measures	% Rel Category
Long-Term Erngs 11.50	0.96
Book Value 8.20	0.94
Sales 8.70	1.03
Cash Flow 8.71	0.88
Historical Erngs 13.13	0.72
Market Cap %	
Giant 43.5	Small 5.0
Large 31.5	Micro 1.7
Mid 18.3	Avg \$mil: 26,558

Composition	Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High Low
● Cash 0.6	Info 18.20	—	—	—
● Stocks 89.0	Software 3.03	—	4	3
● Bonds 10.0	Hardware 8.22	—	9	8
● Other 0.4	Media 3.11	—	4	3
Foreign 19.8	Telecom 3.84	—	4	4
(% of Stock)	Service 47.99	—	—	—
	Health 11.52	—	12	11
	Consumer 7.45	—	9	7
	Business 5.29	—	6	5
	Financial 23.73	—	24	22
	Mfg 33.82	—	—	—
	Goods 8.92	—	10	9
	Ind Mtrls 12.37	—	13	11
	Energy 8.82	—	10	6
	Utilities 3.71	—	4	3

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-997-2798	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:	Vanguard NTF	Expense Projections:	3Yr:\$64	5Yr:\$113	10Yr:\$255
		Income Distrib:	Quarterly		

# Vanguard Target Rtmt 2045

Analyst Pick

Ticker VTIVX

Load None

NAV \$14.32

Yield 1.7%

Total Assets \$1,446 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 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% of assets in Vanguard Total Stock Market Index, 10.6% in Vanguard European Stock Index, 5% in Vanguard Pacific Stock Index, and 2.4% in Vanguard Emerging Markets Index. The remaining 10% 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	—	—	—	—	—
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

Trailing	Total Return%	+/- DJ Mod	+/- DJ Tgt 2040	%Rank Cat	Growth of \$10,000
3 Mo	7.20	1.61	-1.26	48	10,720
6 Mo	11.80	3.01	-0.01	29	11,180
1 Yr	15.98	3.68	-1.39	23	11,598
3 Yr Avg	11.88	1.16	-2.98	23	14,004
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	11.44	14	0.39	4
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 11% of assets

### Morningstar's Take by Marta Norton 09-12-06

Vanguard Target Retirement 2045 is a great way to take care of all your portfolio needs at one time.

This fund is not for the micromanagers. Those who enjoy tinkering with their portfolios and adjusting their mix of stocks and bonds as they see fit would go stir-crazy here. But for investors retiring in or around 2045 who are interested in outsourcing these asset-allocation decisions, this fund is one worth considering. It currently holds roughly 90% of its assets in stocks, with 18% allocated to international indexes. Over time, the fund will reduce its equity exposure, and five to 10 years after its target year it will offer the same 30/70 split between stocks and bonds as Vanguard Target Retirement Income.

This fund will be more volatile than it used to be. It started keeping 2.4% in the often-unstable emerging markets in June 2006. At the same time, the fund decided to slow the portfolio's migration from stocks to bonds, which makes the fund more aggressive. We don't think that's reason to avoid the

### Historical Profile

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



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	—	—	—	—	—	—	—	—	10.71	11.93	12.57	14.32	NAV
Total Return %	—	—	—	—	—	—	—	—	—	12.89	6.95	15.98	Total Return %
+/-DJ Mod	—	—	—	—	—	—	—	—	—	-0.08	-0.04	3.68	+/-DJ Mod
+/-DJ Tgt 2040	—	—	—	—	—	—	—	—	—	-3.47	-4.01	-1.39	+/-DJ Tgt 2040
Income Return %	—	—	—	—	—	—	—	—	—	1.49	1.59	1.99	Income Return %
Capital Return %	—	—	—	—	—	—	—	—	—	11.40	5.36	13.99	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	—	19	74	23	Total Rtn % Rank Cat
Income \$	—	—	—	—	—	—	—	—	—	0.07	0.16	0.19	Income \$
Capital Gains \$	—	—	—	—	—	—	—	—	—	0.00	0.00	0.01	Capital Gains \$
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.20	Expense Ratio %
Income Ratio %	—	—	—	—	—	—	—	—	—	1.38	2.07	—	Income Ratio %
Turnover Rate %	—	—	—	—	—	—	—	—	—	7	7	—	Turnover Rate %
Net Assets \$mil	—	—	—	—	—	—	—	—	7	142	626	1,446	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	15.98	—	—	—
3 Yr	11.88	+ Avg	Avg	★★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	13.83	—	—	—

Other Measures	Standard Index	Best Fit Index
Alpha	0.2	1.2
Beta	1.12	0.95
R-Squared	92	96
Standard Deviation	6.91	—
Mean	11.88	—
Sharpe Ratio	1.21	—

### Portfolio Analysis 09-30-06

Total Stocks:0	Share change since 06-30-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
⊕ Vanguard Total Stock Mkt	—	—	—	—	69.23
⊕ Vanguard European Stock I	—	—	—	—	10.64
⊕ Vanguard Pacific Stock In	—	—	—	—	5.13
⊕ Vanguard Total Stock Mark	—	—	—	—	2.51
⊕ Vanguard Emerging Mkts St	—	—	—	—	2.31

Total Fixed-Income:0	Date of Maturity	Amount \$000	Value \$000	% Net Assets
Vanguard Total Bond Marke	—	11,905	118,814	10.04

Equity Style	Fixed-Income Style
Style: Blend	Duration: —
Size: Large-Cap	Quality: —
Value Measures	Rel Category
Price/Earnings 14.08	0.93
Price/Book 2.37	0.98
Price/Sales 1.29	1.00
Price/Cash Flow 7.24	0.98
Dividend Yield % 2.07	1.06
Growth Measures	% Rel Category
Long-Term Erngs 11.50	0.96
Book Value 8.20	0.94
Sales 8.69	1.03
Cash Flow 8.70	0.88
Historical Erngs 13.10	0.72
Market Cap %	
Giant 43.5	Small 5.0
Large 31.5	Micro 1.7
Mid 18.3	Avg \$mil: 26,589

Composition	Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High Low
● Cash 0.7	Info 18.17	—	—	—
● Stocks 89.0	Software 3.02	—	4	3
● Bonds 9.9	Hardware 8.21	—	9	8
● Other 0.4	Media 3.11	—	4	3
Foreign 19.9	Telecom 3.83	—	4	4
(% of Stock)	Service 48.01	—	—	—
	Health 11.52	—	12	11
	Consumer 7.45	—	9	7
	Business 5.29	—	5	5
	Financial 23.75	—	24	22
	Mfg 33.82	—	—	—
	Goods 8.92	—	10	9
	Ind Mtrls 12.37	—	13	11
	Energy 8.82	—	10	6
	Utilities 3.71	—	4	3

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-997-2798 www.vanguard.com	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:	Vanguard NTF	Expense Projections:	3Yr:\$64	5Yr:\$113	10Yr:\$255
		Income Distrib:	Quarterly		

# Vanguard Target Rtmt Inc

Ticker: VTINX Load: None NAV: \$10.70 Yield: 3.6% Total Assets: \$897 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, with about 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	—	—	—	—	—
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

Trailing	Total Return%	+/- DJ Mod	+/- DJ Tgt 2010	%Rank Cat	Growth of \$10,000
3 Mo	2.76	-2.83	-0.28	80	10,276
6 Mo	6.68	-2.11	0.86	59	10,668
1 Yr	6.38	-5.92	-1.74	76	10,638
3 Yr Avg	5.50	-5.22	-1.91	63	11,742
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	4.23	57	1.20	78
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 2% of assets

### Morningstar's Take by Marta Norton 09-12-06

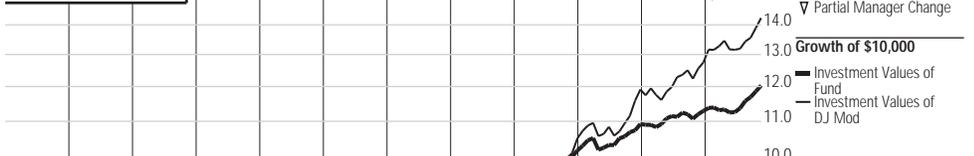
Changes at Vanguard Target Retirement Income make it more diversified—and more appealing.

We've been consistent fans of this fund. Because it is the most conservative offering of all Vanguard Target Retirement Funds, all other funds in the series eventually collapse into this one. With a rock-bottom expense ratio and tools designed to keep pace with inflation (it allocates a significant portion of its assets to Vanguard Inflation-Protected Securities), the fund has been a good choice for retirees looking for an investment vehicle to take them through the last leg of retirement.

That's not to say we haven't had concerns here. The fund has traditionally maintained such a heavy fixed-income stake (it has kept 50% in Vanguard Total Bond Market, 25% in Vanguard Inflation-Protected Securities, and 5% in cash) that it hasn't produced returns as high as some of its more aggressive peers. That's particularly disconcerting, as more and more investors worry they will outlive their assets.

### Historical Profile

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



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	—	—	—	—	—	—	—	—	10.18	10.52	10.44	10.70	NAV
Total Return %	—	—	—	—	—	—	—	—	—	6.82	3.33	6.38	Total Return %
+/-DJ Mod	—	—	—	—	—	—	—	—	—	-6.15	-3.66	-5.92	+/-DJ Mod
+/-DJ Tgt 2010	—	—	—	—	—	—	—	—	—	-3.80	-0.29	-1.74	+/-DJ Tgt 2010
Income Return %	—	—	—	—	—	—	—	—	—	3.38	3.95	3.79	Income Return %
Capital Return %	—	—	—	—	—	—	—	—	—	3.44	-0.62	2.59	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	—	—	—	—	—	42	62	76	Total Rtn % Rank Cat
Income \$	—	—	—	—	—	—	—	—	—	0.05	0.34	0.39	Income \$
Capital Gains \$	—	—	—	—	—	—	—	—	—	0.02	0.00	0.00	Capital Gains \$
Expense Ratio %	—	—	—	—	—	—	—	—	—	—	—	0.21	Expense Ratio %
Income Ratio %	—	—	—	—	—	—	—	—	—	—	—	—	Income Ratio %
Turnover Rate %	—	—	—	—	—	—	—	—	—	—	—	—	Turnover Rate %
Net Assets \$mil	—	—	—	—	—	—	—	—	—	47	407	734	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	6.38	—	—	—
3 Yr	5.50	Avg	-Avg	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	6.00	—	—	—

Other Measures	Standard Index	Best Fit Index
Alpha	-0.5	1.4
Beta	0.38	0.34
R-Squared	45	62
Standard Deviation	3.27	—
Mean	5.50	—
Sharpe Ratio	0.67	—

### Portfolio Analysis 09-30-06

Total Stocks:0	Share change since 06-30-06	Sectors	P/E Ratio	YTD Return %	% Net Assets
—	—	—	—	—	23.28
—	—	—	—	—	3.54
—	—	—	—	—	1.74
—	—	—	—	—	0.99
—	—	—	—	—	0.76

Total Fixed-Income:0	Date of Maturity	Amount \$000	Value \$000	% Net Assets
—	—	—	—	—
—	—	36,705	366,316	44.56
—	—	13,827	165,089	20.08

Equity Style	Fixed-Income Style
Style: Blend	Duration: Interm-Term
Size: Large-Cap	Quality: High
Value Measures	Rel Category
Price/Earnings 14.08	0.93
Price/Book 2.37	0.98
Price/Sales 1.29	0.96
Price/Cash Flow 7.24	0.90
Dividend Yield % 2.07	1.05
Growth Measures	% Rel Category
Long-Term Erngs 11.49	0.98
Book Value 8.20	0.93
Sales 8.69	1.07
Cash Flow 8.70	0.88
Historical Erngs 13.09	0.72

Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High Low
Info	18.18	—	—
Software	3.03	—	4 3
Hardware	8.22	—	10 8
Media	3.11	—	5 3
Telecom	3.82	—	4 3
Service	48.03	—	—
Health	11.54	—	13 11
Consumer	7.46	—	10 7
Business	5.29	—	6 5
Financial	23.74	—	24 20
Mfg	33.79	—	—
Goods	8.91	—	9 8
Ind Mtrls	12.36	—	13 10
Energy	8.81	—	10 6
Utilities	3.71	—	4 3

Market Cap %	Composition
Giant 43.5	Cash 6.0
Large 31.5	Stocks 30.0
Mid 18.3	Bonds 63.8
Small 5.0	Other 0.1
Micro 1.7	Foreign 19.7
Avg \$mil: 26,592	(% of Stock)

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-997-2798	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:	Vanguard NTF	Expense Projections:	3Yr:\$64	5Yr:\$113	10Yr:\$255
—	—	Income Distrib:	Quarterly	—	—

# Vanguard Wellington

Analyst Pick Ticker Load NAV Yield Total Assets Mstar Category  
 None \$32.44 2.9% \$45,718 mil Moderate Allocation

## Governance and Management

Stewardship Grade: A

### Portfolio Manager(s)

Paul Kaplan, the manager of this fund's bond portfolio, retired on June 30, 2006. His replacement, John Keogh, has been with Wellington Management, this fund's subadvisor, since 1983 and has worked with Kaplan on this fund for the last two years. 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. Kaplan, Keogh, and Bousa each have more than \$1 million invested in the fund.

### Strategy

This fund's fixed-income sleeve got a new manager in mid-2006, but we don't expect drastic changes to the strategy. 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 12-31-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	3.30	-4.58	-11.04	6.17	-6.90
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

Trailing	Total Return%	+/- DJ Mod	+/- DJ US Mod	%Rank Cat	Growth of \$10,000
3 Mo	5.51	-0.08	0.84	30	10,551
6 Mo	10.86	2.07	2.96	13	11,086
1 Yr	14.97	2.67	4.70	8	11,497
3 Yr Avg	10.94	0.22	1.82	11	13,654
5 Yr Avg	8.95	-1.07	1.35	7	15,351
10 Yr Avg	9.79	1.24	1.20	8	25,446
15 Yr Avg	11.01	1.80	1.62	8	47,911

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	9.47	10	1.33	67
5 Yr (estimated)	7.65	7	1.19	73
10 Yr (estimated)	7.70	9	1.90	77

Potential Capital Gain Exposure: 21% of assets

### Morningstar's Take by Dan Culloton 11-20-06

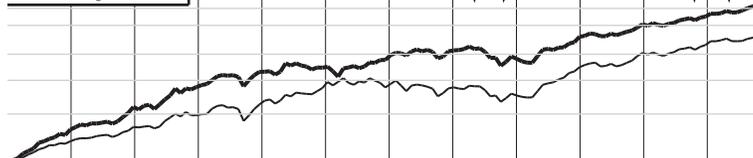
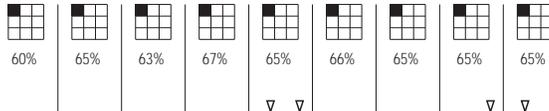
Vanguard Wellington has gotten more accessible.

Vanguard in November 2006 lifted restrictions meant to quell inflows into this fund. There is no longer any annual limit to the amount of money investors can put into this offering, though new owners would still need \$10,000 to open an account. Due to this fund's status as one of the biggest funds in the moderate-allocation category, we wouldn't have minded if Vanguard left the limitations in place. It's important to control asset flows because when a fund grows too large, it can be hard for the manager to buy and sell stocks without affecting the securities' prices and hurting the portfolio's performance. For that reason, we'll be watching this fund closely for signs of bloating.

But for now, the fund's girth shouldn't keep anyone from considering it. Vanguard's decision earlier this year to increase the fund's minimum initial investment and to restrict additional investments from existing fund owners helped stem inflows, and the fund family has been proactive in

### Historical Profile

Return High  
 Risk Average  
 Rating ★★★★★  
 Highest



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	12-06	History
NAV	24.43	26.15	29.45	29.35	27.96	28.21	27.26	24.56	28.81	30.19	30.35	32.44	NAV
Total Return %	32.92	16.19	23.23	12.06	4.41	10.40	4.19	-6.90	20.75	11.17	6.82	14.97	Total Return %
+/-DJ Mod	13.12	5.53	11.33	-0.26	-12.92	12.07	6.99	-0.13	-6.63	-1.80	-0.17	2.67	+/-DJ Mod
+/-DJ US Mod	8.15	4.85	4.03	-0.33	-8.44	5.96	4.03	3.64	-3.31	0.00	0.82	4.70	+/-DJ US Mod
Income Return %	5.08	4.40	4.34	3.89	3.94	3.88	3.41	3.12	3.15	3.07	3.01	3.27	Income Return %
Capital Return %	27.84	11.79	18.89	8.17	0.47	6.52	0.78	-10.02	17.60	8.10	3.81	11.70	Capital Return %
Total Rtn % Rank Cat	7	34	21	59	82	10	6	10	45	17	18	8	Total Rtn % Rank Cat
Income \$	0.97	1.06	1.12	1.13	1.14	1.07	0.95	0.84	0.77	0.88	0.90	0.98	Income \$
Capital Gains \$	0.28	1.11	1.57	2.44	1.50	1.48	1.12	0.00	0.00	0.91	0.97	1.40	Capital Gains \$
Expense Ratio %	0.33	0.31	0.29	0.31	0.30	0.31	0.36	0.36	0.36	0.31	0.29	—	Expense Ratio %
Income Ratio %	4.37	4.08	3.97	3.68	3.74	3.77	3.42	3.18	3.00	2.99	2.93	—	Income Ratio %
Turnover Rate %	24	30	27	29	22	33	33	25	28	24	24	—	Turnover Rate %
Net Assets \$mil	12,656	16,190	21,812	25,761	25,529	22,799	21,724	19,495	24,326	28,328	26,251	29,675	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	14.97			
3 Yr	10.94	High	-Avg	★★★★★
5 Yr	8.95	High	Avg	★★★★★
10 Yr	9.79	+Avg	Avg	★★★★★
Incept	8.38			

Other Measures	Standard Index DJ Mod	Best Fit Index Russ 1000 VI
Alpha	2.0	-0.2
Beta	0.75	0.67
R-Squared	85	90
Standard Deviation	4.81	
Mean	10.94	
Sharpe Ratio	1.54	

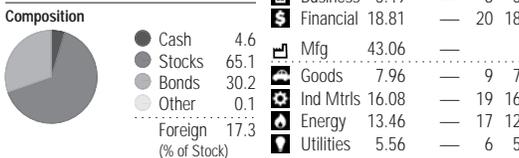
### Portfolio Analysis 09-30-06

Total Stocks:111	Sectors	P/E Ratio	YTD Return %	% Net Assets
Bank of America Corporati	Financial	12.3	-0.13	2.21
General Electric Company	Ind Mtrls	19.4	-1.77	1.95
Citigroup, Inc.	Financial	13.0	-2.17	1.65
AT&T, Inc.	Telecom	19.0	-0.05	1.54
Chevron Corporation	Energy	9.2	-1.32	1.47
Total SA ADR	Energy	10.5	-5.05	1.46
ExxonMobil Corporation	Energy	11.3	-2.79	1.42
Exelon Corporation	Utilities	—	-2.68	1.29
Abbott Laboratories	Health	25.9	10.23	1.28

Total Fixed-Income:2330	Date of Maturity	Amount \$000	Value \$000	% Net Assets
US Treasury Bond 5.25%	02-15-29	364,975	385,848	0.90
US Treasury Note 5%	08-15-11	230,000	234,421	0.54
FNMA 3.25%	11-15-07	100,000	97,987	0.23
Household Fin 6.375%	10-15-11	75,000	78,589	0.18
Proc & Gamb Pft Shr Tr &	01-01-21	60,008	75,408	0.18
Japan Fin 4.625%	04-21-15	75,000	72,563	0.17
Illinois St Go Bds 5.1%	06-01-33	75,000	71,859	0.17
SIEMENS FIN NV	10-17-16	69,650	70,976	0.16
BARCLAYS BK PLC	12-15-49	70,000	70,662	0.16

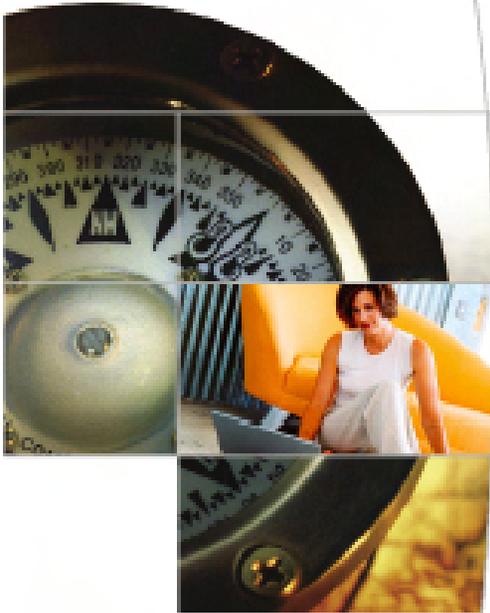
Equity Style	Style: Value	Size: Large-Cap	Fixed-Income Style	Duration: Interm-Term	Quality: High
Value Measures	Price/Earnings	14.60	Avg Eff Duration	4.6 Yrs	
	Price/Book	2.42	Avg Eff Maturity	7.0 Yrs	
	Price/Sales	1.50	Avg Credit Quality	AA	
	Price/Cash Flow	4.81	Avg Wtd Coupon	5.65%	
	Dividend Yield %	2.42	Figure provided by fund as of 09-30-06		
Growth Measures	Long-Term Erngs	10.40	Sector Weightings	% of Stocks	Rel DJ Mod
	Book Value	7.27	Info	16.64	—
	Sales	9.67	Software	1.68	— 2 1
	Cash Flow	4.40	Hardware	5.24	— 7 5
	Historical Erngs	12.53	Media	4.54	— 5 3
			Telecom	5.18	— 6 4
Market Cap %	Giant	59.5	Service	40.30	—
	Large	35.6	Health	11.05	— 11 9
	Mid	4.8	Consumer	4.95	— 5 2
			Business	5.49	— 8 5
			Financial	18.81	— 20 18
			Mfg	43.06	—
			Goods	7.96	— 9 7
			Ind Mtrls	16.08	— 19 16
			Energy	13.46	— 17 12
			Utilities	5.56	— 6 5



Address:	PO Box 2600 Valley Forge PA 19482 800-997-2798	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 Company, LLP	Management Fee:	0.28%		
Subadvisor:	None	Actual Fees:	Mgt:0.28%	Dist: —	
NTF Plans:	Vanguard NTF	Expense Projections:	3Yr:\$97	5Yr:\$169	10Yr:\$381
		Income Distrib:	Quarterly		



# Investment Policy Statement and Fund Benchmarks



 **AdvisedAssetsGroup**

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# Investment Benchmarks

Investment Product	2006 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 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.

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

# Glossary



**AdvisedAssetsGroup**

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## Glossary

**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.

## Glossary

**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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