

Vanguard® Life-Cycle Funds: Advantages



Both Vanguard life-cycle fund options—Target Retirement and LifeStrategy® Funds—deliver important benefits to plan sponsors and participants.

Cost Savings

- Expense ratios are less than one-third the industry average for similar funds*
- No additional program fees above those of underlying funds
- Investors keep a larger share of their returns

Simplicity and Transparency

- Each fund invests in just three to five underlying primarily-indexed funds
- Plan sponsors always know how the money is invested
- Funds are easy to explain to participants

Predictability and Diversification

- Indexed approach used for most underlying funds
- Asset allocation changes kept within narrow ranges around targets

Sophisticated Methodology

- Relies on research-based asset allocation methodology
- Takes advantage of Vanguard's experience providing investment advice to institutional clients

Vanguard® Life-Cycle Funds: A Comparison



Targeted Maturity (Vanguard® Target Retirement Funds)

Static Allocation (Vanguard® LifeStrategy® Funds)

	Targeted Maturity (Vanguard® Target Retirement Funds)	Static Allocation (Vanguard® LifeStrategy® Funds)
Risk Profile	Assumes that investors who share a similar retirement date also share similar objectives and risk tolerance.	Investors can choose from four broad risk profiles based on a risk assessment determined by Vanguard's Investor Questionnaire.
Asset Allocation Shifts	The fund automatically changes its asset allocation to become more conservative as the retirement date approaches.	The fund automatically rebalances to maintain its static allocation. (The investor decides when and how to shift to a more conservative allocation as the retirement date approaches.)
Asset Allocation Monitoring	No monitoring or rebalancing is necessary because the fund automatically rebalances.	Periodic monitoring by the investor is necessary to ensure the asset allocation matches the investor's risk profile during accumulation, transition, and retirement stages.
Investor Time Horizon	The time horizon is predetermined, based on the fund's target date.	The time horizon is not predetermined. Investors have flexibility to change their allocations based on their changing time horizon.

Vanguard® Target Retirement Funds



Overview

- Six different funds based upon the expected retirement dates
- Funds automatically grow more conservative as the retirement date approaches
- Simple to use, but incorporate a sophisticated investment approach
- Expense ratios less than one-third the industry average of similar funds*

Target Audience

- Investors who prefer a one-fund solution that requires no investment decisions
- Investors of any age or time horizon, including:
 - Investors in the accumulation, transition, or withdrawal phase
 - Novice to sophisticated investors who lack the time or desire to monitor their investments but who want professional management

Behavioral Indicators

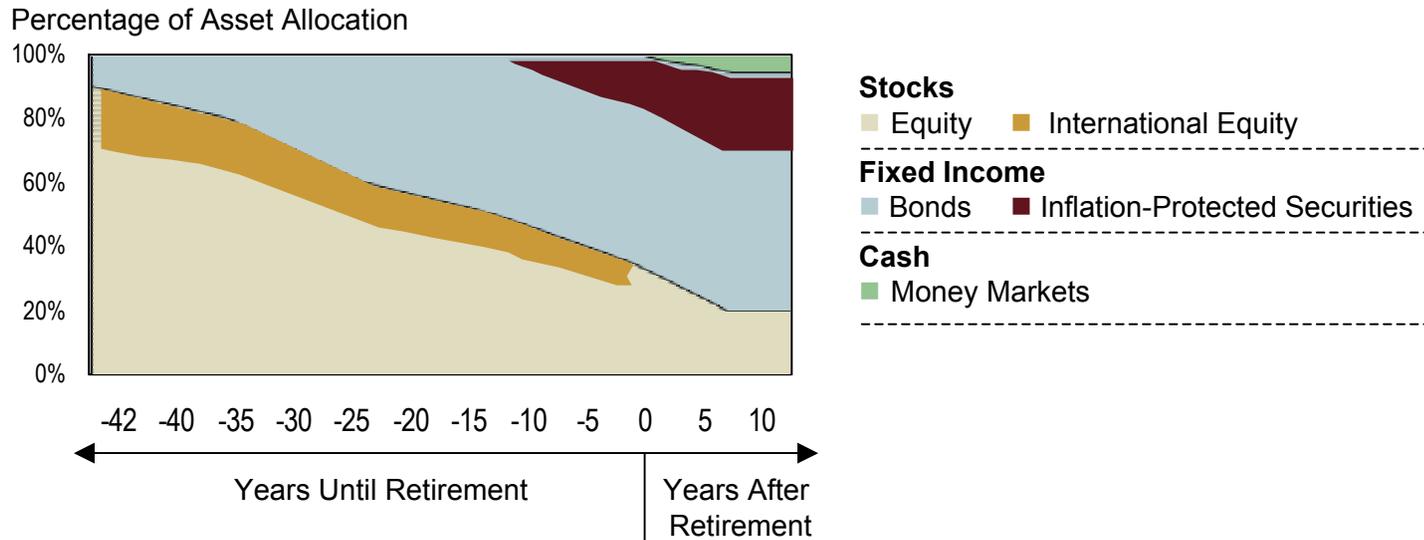
- Would participants prefer a one-fund solution that requires no investment decisions?
- Are participation rates low relative to the average?
- Are savings rates low relative to the average?
- Does plan asset allocation tend to move with market returns, indicating participants do not rebalance?
- Are assets concentrated in the plan's default fund?
- Are participants typically unresponsive to education and advice programs?

Vanguard® Target Retirement Funds



- Asset allocations of the Target Retirement Funds are kept within relatively narrow ranges around the target allocations
- Each fund gradually becomes more conservative as its maturity date approaches
- Five years after that date, its allocation matches that of the Target Retirement Income Fund

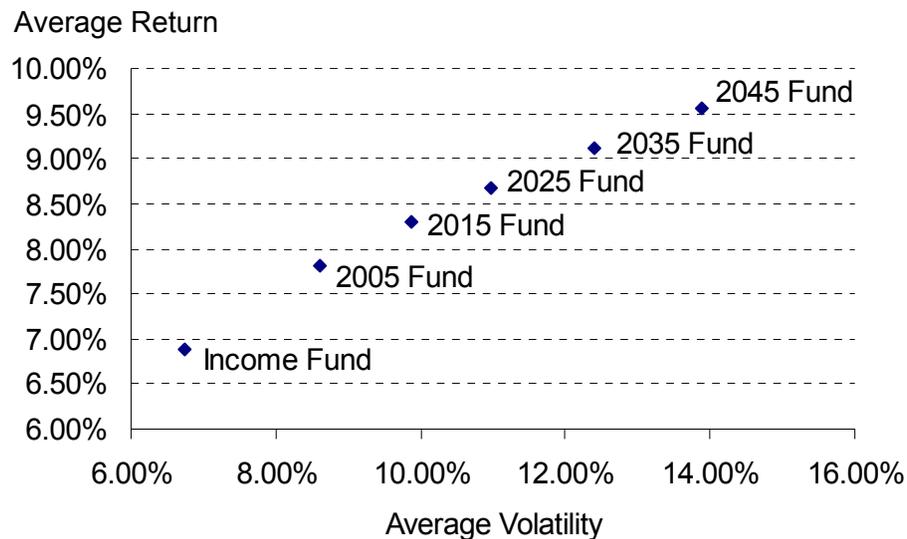
Asset Allocation Over Time



Vanguard® Target Retirement Funds



Fund	Starting Equity Allocation	Annual Allocation Adjustments	
		Average Expected Return	Average Volatility
Income Fund	20%	6.88%	6.73%
2005	35	7.81	8.62
2015	50	8.29	9.88
2025	60	8.68	10.99
2035	80	9.12	12.41
2045	90	9.56	13.89



The numbers are based on the period 1960 to 2002.

Using Wilshire 5000 Total Market Index as the benchmark for common stock returns. This benchmark was not established until 1971, so the S&P 500 Index is used for the period from 1960 to 1970. Bonds are represented by the Lehman Brothers Aggregate Bond Index. Lehman Brothers Aggregate Bond Index is replaced with a portfolio of 50% in Ibbotson Long-Term Corporate Index and 50% in Ibbotson Intermediate-Term Treasury Bond Index for 1960 to 1975.

Returns for the planned investment mixes for each fund applied to the historical returns for the markets are hypothetical.

Cash investments are represented by Treasury bills rates reported by Federal Reserve Board.

The data presented represent past performance, which cannot be used to predict future returns that may be achieved.

Vanguard® Target Retirement Funds



- Each Target Retirement Fund invests in three to five Vanguard funds

Underlying Vanguard® Funds	Target Retirement Funds Initial Asset Allocation					
	2045	2035	2025	2015	2005	Income
Total Stock Market Index Fund	72%	64%	48%	40%	35%	20%
European Stock Index Fund	13	11	8	7	—	—
Pacific Stock Index Fund	5	5	4	3	—	—
Total Bond Market Index Fund	10	20	40	50	50	50
Inflation-Protected Securities Fund	—	—	—	—	15	25
Prime Money Market Fund	—	—	—	—	—	5
Total	100%	100%	100%	100%	100%	100%
Investor's Current Age	20s	30s	40s	50s	60s	70s
Cost*	0.23%	0.23%	0.23%	0.23%	0.21%	0.22%

* Source: Lipper Inc.

Vanguard® Target Retirement Funds: Underlying Funds



- Vanguard Target Retirement Funds benefit from Vanguard's recognized leadership in indexing
- Each of the underlying funds is managed by Vanguard's Quantitative Equity Group or Fixed Income Group

Vanguard Funds	Benchmark	Investment Style
Vanguard® Total Stock Market Index Fund	Wilshire 5000 Index	Index
Vanguard® European Stock Index Fund	MSCI Europe Index	Index
Vanguard® Pacific Stock Index Fund	MSCI Pacific Index	Index
Vanguard® Total Bond Market Index Fund	Lehman Aggregate Bond Index	Index
Vanguard® Inflation-Protected Securities Fund	Lehman Treasury Inflation Notes Index	Active
Vanguard® Prime Money Market Fund	Average Money Market Fund	Active

Vanguard® Target Retirement Funds: Comparison



- Simplicity and transparency are distinguishing features of Vanguard Target Retirement Fund's highly structured approach
- Active management risk is minimized at the underlying fund and the program level

	Vanguard Target Retirement Funds	Other Targeted Maturity Funds
Management Style of Underlying Funds	Index-oriented	Actively-managed
Number of Underlying Funds	3 to 5 (maximum of 5)	Up to 19 funds
Rebalancing Approach	Relatively constant glide path with narrow ranges. Approach is essentially passive, relying on pre-determined models with no tactical component.	Active decision-making. Wider bands for target allocation
Allocation for Retired Investors	Inflation-Protected Securities to provide an immediate hedge against inflation and dampen overall volatility, plus 5% money markets.	Up to 40% money markets; high-yield bonds; inflation protection provided only by stocks.
Expense Ratio*	0.21% to 0.23%; no direct expenses at fund (program) level; based on the expense ratios of the underlying funds.	60 to 100 basis points higher

* Average weighted indirect expense ratio, based on expenses incurred by the underlying funds, estimated for the current fiscal year.

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Simplicity and Transparency

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Predictability and Diversification

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- Asset allocation changes kept within narrow ranges around targets

Cost Savings

- Expense ratios are less than one-third the industry average for similar funds*
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* Source: Lipper Inc.

Vanguard® LifeStrategy® Funds



Overview

- Four different funds based upon an investor's objective and risk tolerance
- Simple to use, but allow for a certain degree of control and customization
- Expense ratios less than one-third the industry average of similar funds*

Target Audience

- Prefer a one-fund solution but want to maintain greater control over their portfolios
- Willing to make a series of asset allocation decisions as their retirement date nears
- Willing to spend time reevaluating their risk tolerance, time horizon, and asset allocation

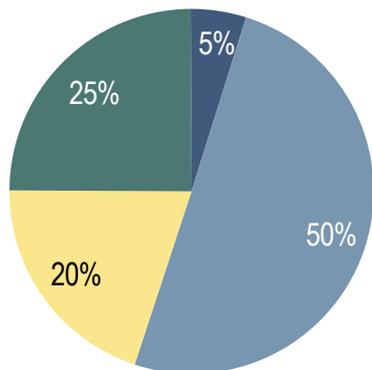
Behavioral Indicators

- Are participants willing to complete a questionnaire to assess their risk tolerance?
- Are participants willing to monitor and rebalance their portfolios as their circumstances change?
- Do participants prefer a single-fund solution that gives them some flexibility and control?

Vanguard® LifeStrategy® Funds: Overview of Target Fund Allocations



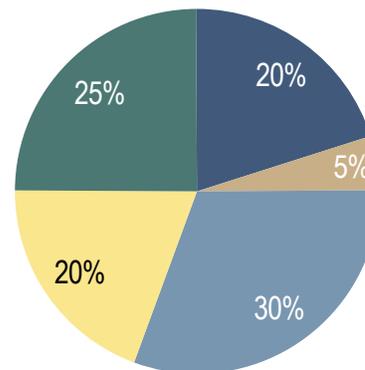
Income Fund



Expected Asset Ranges

Stocks: 5%–30%
Bonds: 50%–75%
Short-Term Investments: 20%–45%

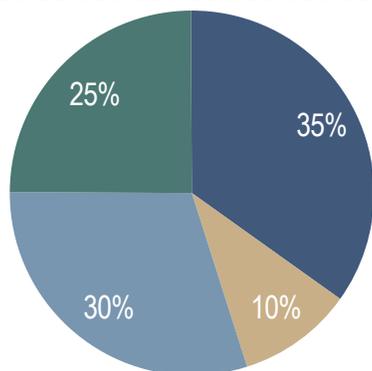
Conservative Growth Fund



Expected Asset Ranges

Stocks: 25%–50%
Bonds: 30%–55%
Short-Term Investments: 20%–45%

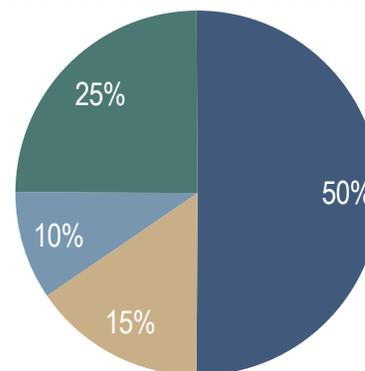
Moderate Growth Fund



Expected Asset Ranges

Stocks: 45%–70%
Bonds: 30%–55%
Short-Term Investments: 0%–25%

Growth Fund



Expected Asset Ranges

Stocks: 65%–90%
Bonds: 10%–35%
Short-Term Investments: 0%–25%

