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CORRESPONDENCE MEMORANDUM

DATE: April 24, 2006
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
 Wisconsin Deferred Compensation Program
SUBJECT: 2005 Annual Investment Performance Report

The **2005 Annual Investment Performance Report** is presented to the Board for your review and comment. This memo summarizes the findings of the 2005 report.

2005 Changes to the WDC Investment Spectrum

Following the 2004 Wisconsin Deferred Compensation (WDC) investment review, the following changes were made to the WDC Program investment spectrum:

- The EuroPacific Growth Fund (Class R5) opened to participants on February 1, 2005.
- The Vanguard Target Retirement “lifecyle” series of five funds (Income, 2015, 2025, 2035 and 2045) opened to participants on August 1, 2005.
- The Janus Fund was phased out at the end of 2005. Approximately 4,600 accounts with a value of \$20,862,000 defaulted to the Vanguard Money Market account.
- The T. Rowe Price International Stock Fund was phased out at the end of 2005. Approximately 4,460 accounts with a value of \$16,283,500 defaulted to the Vanguard Money Market account.

Report Format

This investment performance report is the first from Advised Assets Group (AAG), which is part of Great-West Retirement Services. The report layout differs slightly from previous reports, but contains essentially the same performance information. The report includes an executive summary, an economic overview, performance benchmarking, a section on lifecycle options, the Board’s Investment Policy Statement and benchmarks, and a glossary.

WDC Fund Performance

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

- *EAFE Equity Index Fund* – In 2005, this fund tracked its benchmark index within 5 basis points, net of fees. This is an improvement over past performance; in the recent past, the fund experienced sizeable tracking errors.

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

Board	Mtg Date	Item #
DC	05/16/2006	5

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

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

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

The table below provides information on WDC participant use of the Vanguard Target Retirement funds as of December 31, 2005.

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

Conclusion

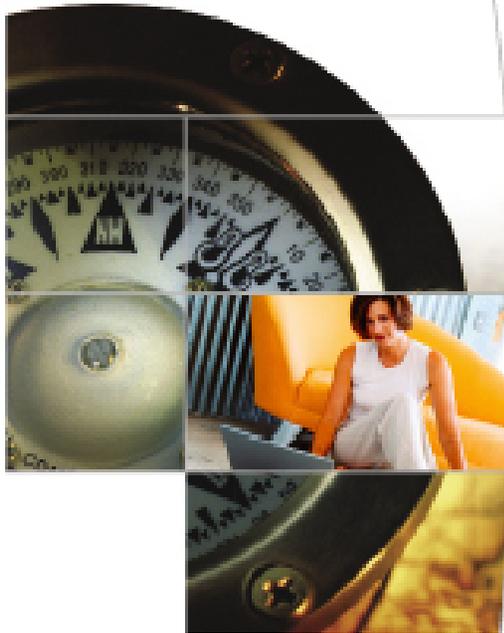
The WDC Program continues to experience growth as a result of both new deferrals and investment income, with approximately 42,800 participants holding assets exceeding \$1.8 billion at the end of 2005. In comparison, at the end of 2004 approximately 42,000 participants held assets of over \$1.55 billion and at the end of 2003, 40,593 participants held just over \$1.34 billion in assets.

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

Attachments

**Wisconsin Deferred
Compensation Plan
Fund Performance Review**

December 31, 2005



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Section

3/31/2006 Updates

I. Executive Summary

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

II. Fund Highlights and Observations

III. Performance Benchmarking

- Risk, Style Drift and Portfolio Construction

IV. Lifecycle Options

V. Economic Overview

- Morningstar Pages

VI. Investment Policy Statement and Benchmarks

Appendix: Glossary of Terms

Name	Tot Ret 1 Yr	Tot Ret Annld 3 Yr	Tot Ret Annld 5 Yr	Tot Ret Annld 10 Yr	Total Net Assets \$M	Expense Ratio
American Funds EuroPacific Gr R5	30.56	32.21	11.62	11.31	77889.6	0.58
MSCI EAFE NDTR_D	24.41	31.13	9.64	6.49	--	--
Cat: Foreign Large Blend	26.21	28.95	8.14	6.88	2655.59	1.61
Barclay's EAFE Equity Index Fund W	24.46	30.86	9.26	--	--	0.10
MSCI EAFE Free Ndr_D	24.41	31.13	9.73	6.45	--	--
DFA U.S. Micro Cap	29.2	33.81	19.45	14.45	4448.45	0.55
Russell 2000	25.85	29.53	12.59	10.15	--	--
Cat: Small Blend	23.31	28.7	13.72	12.14	798.8	1.46
Barclay's Russell 2000 Index Fd	25.82	29.27	12.56	--	--	0.05
Russell 2000	25.85	29.53	12.59	10.15	--	--
T. Rowe Price Mid-Cap Growth	24.77	26.46	12.41	13.05	16615.33	0.8
Lipper Mid Cap Growth	23.69	23.26	6.45	8.45	--	--
Russell Midcap Growth	22.68	25.75	8.99	9.39	--	--
Standard & Poor's Midcap 400	21.61	26.03	12.74	14.5	--	--
Cat: Mid Growth	23.34	23.44	6.73	8.92	839.54	1.59
Barclay's Mid Cap Equity Index Fund W	21.81	26.16	12.81	--	--	0.04
Standard & Poor's Midcap 400	21.61	26.03	12.74	14.5	--	--
Calvert Social Investment Equity I	11.19	14.45	6.22	10.07	1269.01	0.68
Standard & Poor's 500	11.72	17.21	3.97	8.95	--	--
Calvert Social Index	13.08	15.72	2.8	--	--	--
Lipper MultiCap Core	14.51	18.57	5.04	8.78	--	--
Morningstar Socially Resp Large Cap Index	12.58	16.19	3.26	8.1	442.18	1.25
Fidelity Contrafund	21.35	22.36	10.28	11.9	63827.29	0.91
Standard & Poor's 500	11.72	17.21	3.97	8.95	--	--
Lipper Growth Fund Average	14.26	14.46	0.93	6.56	--	--
Cat: Large Growth	15.28	15.73	1.67	6.72	2692.15	1.46
Russell 3000	14.28	19.14	5.33	9.19	--	--



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

DATA SOURCE:
Morningstar 3/31/2006

Note: BGI Index
Funds are reported
net of fees


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

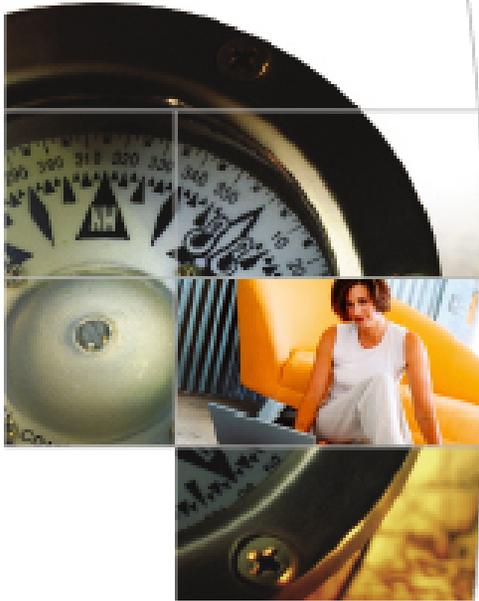
Name	Tot Ret	Tot Ret	Tot Ret	Total Net	Expense Ratio	
	Tot Ret 1 Yr	Annlzd 3 Yr	Annlzd 5 Yr	Annlzd 10 Yr		Assets \$M
Vanguard Inst Index Plus Info	11.74	17.24	4	9.04	58209.3	0.03
Standard & Poor's 500	11.72	17.21	3.97	8.95	--	--
Vanguard Wellington Adm	10.75	15.33	7.63	9.94	40194.34	0.15
Lipper Balanced Fund	13.14	14.93	5.94	6.38	--	--
Cat: Moderate Allocation	10.34	13.24	4.88	7.37	2978.78	1.21
65% S&P Barra Value/35% Lehman Agg	11.08	15.17	6.84	8.63	--	--
Vanguard Long-Term Investment-Grade Adm	0.75	4.89	7.1	7.3	5750.14	0.14
Lehman Brothers LT Corp A or Better	0.87	4.74	7.2	7.28	--	--
Cat: Long-Term Bond	1.55	5.12	6.32	6.76	425.25	1.02
Barclay's US Debt Index	2.25	2.9	5.07	--	--	0.05
Lehman Brothers Aggregate Bond	2.26	2.92	5.11	6.29	--	--
Federated U.S. Govt: 2-5 Yr Instl	1.43	1.06	3.79	5.1	736.15	0.59
Merrill Lynch 3-5 Year Treasury	1.6	1.33	4.24	--	--	--
Lipper Short-Inter U.S.	1.32	1.83	3.69	4.91	--	--
Cat: Short Government	1.77	1.17	3.12	4.5	426.27	0.99
Vanguard Adm Money Market	3.42	1.94	2.11	3.69	14683.66	0.13
iMoneyNet Average Treasury MM	2.71	1.33	1.51	3.13	--	--

Note: BGI Index Funds are reported net of fees

DATA SOURCE: Morningstar
3/31/2006

- On March 30, 2006 Fidelity Investments announced that it will be closing the Fidelity Contrafund as of 4:00 pm EDT on April 28, 2006. Fidelity states that closing the fund is in the best interests of its shareholders and that a stabilization in cash flows will help manager Will Danoff maintain his strong performance.
- Vanguard Target Retirement funds announced a change to the funds' equity allocation positions to provide a greater exposure to equities. The result will be an increase of roughly 10 to 20 percentage points per fund, depending on the target retirement date. This change moves Vanguard from being one of the most conservative among its peers to being in line if not slightly more aggressive than its peers.
- At the same time Vanguard also filed with the SEC to add 5 new target dates funds to its existing Target Retirement Funds Series.

Executive Summary



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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	21.39	24.73	8.09	11.03	77122.16	0.58
MSCI EAFE NDTR_D	13.54	23.68	4.56	5.84	--	--
Cat: Foreign Large Blend	14.55	21.3	2.93	6.47	2669.7	1.64
Barclay's EAFE Equity Index Fund W	13.59	23.33	--	--	--	0.10
MSCI EAFE Free Ndrtr_D	13.54	23.68	4.61	5.81	--	--
T. Rowe Price International Stock-Closed	16.27	20.24	2.09	5.53	6189.04	0.89
MSCI EAFE NDTR_D	13.54	23.68	4.56	5.84	--	--
Lipper International Fund	14.67	22.28	3.86	--	--	--
Cat: Foreign Large Growth	15.27	21.66	2.15	5.69	1107.24	1.79
DFA U.S. Micro Cap	5.69	26.22	16.45	13.62	4407.84	0.56
Russell 2000	4.55	22.13	8.22	9.26	--	--
Cat: Small Blend	6.62	21.72	9.89	11.15	799.91	1.5
Barclay's Russell 2000 Index Fd	4.55	21.88	--	--	--	0.05
Russell 2000	4.55	22.13	8.22	9.26	--	--
T. Rowe Price Mid-Cap Growth	14.82	23.39	7.95	13.39	16447.17	0.83
Lipper Mid Cap Growth	9.79	18.78	-0.48	--	--	--
Russell Midcap Growth	12.1	22.7	1.38	9.27	--	--
Standard & Poor's Midcap 400	12.55	21.13	8.59	14.35	--	--
Cat: Mid Growth	9.7	19.13	0.01	8.48	850.31	1.61
Barclay's Mid Cap Equity Index Fund W	12.57	21.21	--	--	--	0.04
Standard & Poor's Midcap 400	12.55	21.13	8.59	14.35	--	--
Janus-Closed	3.98	12.76	-5.16	6.95	11369.32	0.87
Russell 1000 Growth	5.26	13.23	-3.58	6.73	--	--
Standard & Poor's 500	4.91	14.38	0.54	9.07	--	--
S&P 500/Citigroup Growth	1.14	11.2	-3.68	7.96	--	--
Cat: Large Growth	6.46	13.88	-3.36	6.95	2695.54	1.5
Calvert Social Investment Equity I	4.74	11.41	3.62	--	1270.96	0.68
Standard & Poor's 500	4.91	14.38	0.54	9.07	--	--
Calvert Social Index	10.27	15.56	-1.23	--	--	--
Lipper MultiCap Core	6.58	15.27	1.65	--	--	--
Morningstar Socially Resp Large Cap Index	5.16	13.63	-0.26	8.07	428.94	1.29
Fidelity Contrafund	16.23	19.61	6.21	12.01	64918.86	0.92
Standard & Poor's 500	4.91	14.38	0.54	9.07	--	--
Lipper Growth Fund Average	6.18	13.01	-3.98	--	--	--
Cat: Large Growth	6.46	13.88	-3.36	6.95	2695.54	1.5
Russell 3000	6.12	15.9	1.58	9.2	--	--

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

DATA SOURCE:
Morningstar 12/31/2005

Note: BGI Index
Funds are reported
net of fees



= 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	4.93	14.41	0.57	--	57921.76	0.03
Standard & Poor's 500	4.91	14.38	0.54	9.07	--	--
Vanguard Wellington Adm	6.99	12.93	6.94	9.97	40140.6	0.15
Lipper Balanced Fund	4.69	10.43	2.67	--	--	--
Cat: Moderate Allocation	5.29	11.2	2.93	7.35	2547.91	1.19
65% S&P Barra Value/35% Lehman Agg	6.57	7.29	5.04	9.93	--	--
Vanguard Long-Term Investment-Grade Adm	5.27	6.88	8.96	7.17	5648.92	0.14
Lehman Brothers LT Corp A or Better	4.60	6.86	9.07	7.14	--	--
Cat: Long-Term Bond	2.21	6.15	7.13	6.36	367.78	1.06
Barclay's US Debt Index	2.36	3.57	--	--	--	0.05
Lehman Brothers Aggregate Bond	2.43	3.62	5.87	6.16	--	--
Federated U.S. Govt: 2-5 Yr Instl	0.87	1.56	4.52	5.07	744.54	0.59
Merrill Lynch 3-5 Year Treasury	0.86	1.81	4.99	--	--	--
Lipper Short-Inter U.S.	1.47	2.29	4.27	--	--	--
Cat: Short Government	1.23	1.33	3.6	4.43	429.77	0.99
Vanguard Adm Money Market	2.94	1.7	2.18	3.73	14582.01	0.13
iMoneyNet Average Treasury MM	2.24	1.1	1.6	3.16	--	--

Note: BGI Index Funds are reported net of fees

DATA SOURCE: Morningstar
12/31/2005

Rolling 3 Year Quartile Rankings

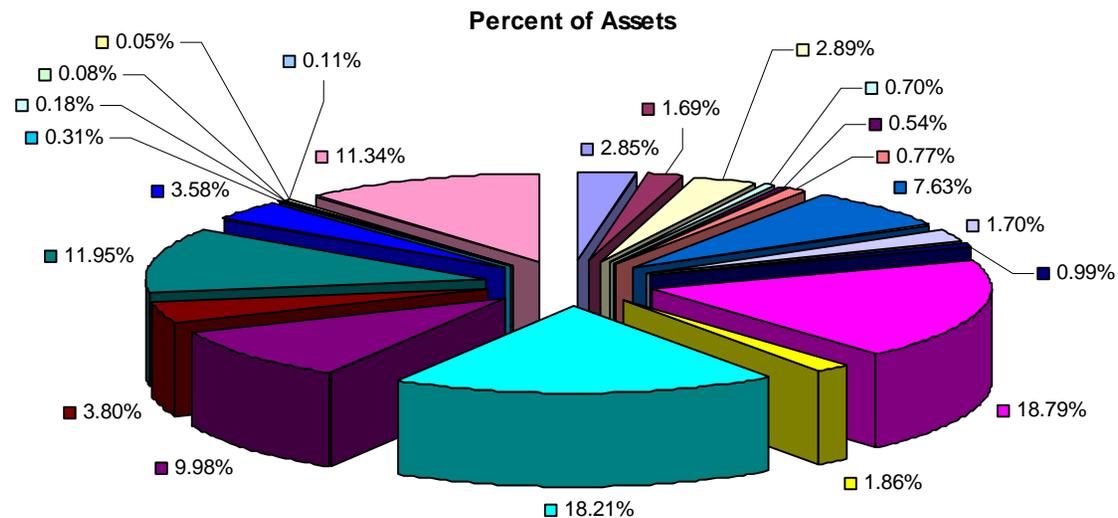
<u>Name</u>	<u>2005</u> <u>Q4</u>	<u>2005</u> <u>Q3</u>	<u>2005</u> <u>Q2</u>	<u>2005</u> <u>Q1</u>	<u>2004</u> <u>Q4</u>	<u>2004</u> <u>Q3</u>	<u>2004</u> <u>Q2</u>	<u>2004</u> <u>Q1</u>	<u>2003</u> <u>Q4</u>	<u>2003</u> <u>Q3</u>	<u>2003</u> <u>Q2</u>	<u>2003</u> <u>Q1</u>
American Funds EuroPacific Gr R5	Green	White	White									
Calvert Social Investment Equity I	Yellow	White	White	White	White	Green						
DFA U.S. Micro Cap	Green	White	White	Yellow								
Federated U.S. Govt: 2-5 Yr Instl	White	White	Green									
Fidelity Contrafund	Green											
T. Rowe Price Mid-Cap Growth	Green											
Vanguard Institutional Index Instl PI	White											
Vanguard Long-Term Inv-Grade Adm	White	Yellow	White	Green								
Vanguard Wellington Adm	Green											



DATA SOURCE: Morningstar
12/31/2005

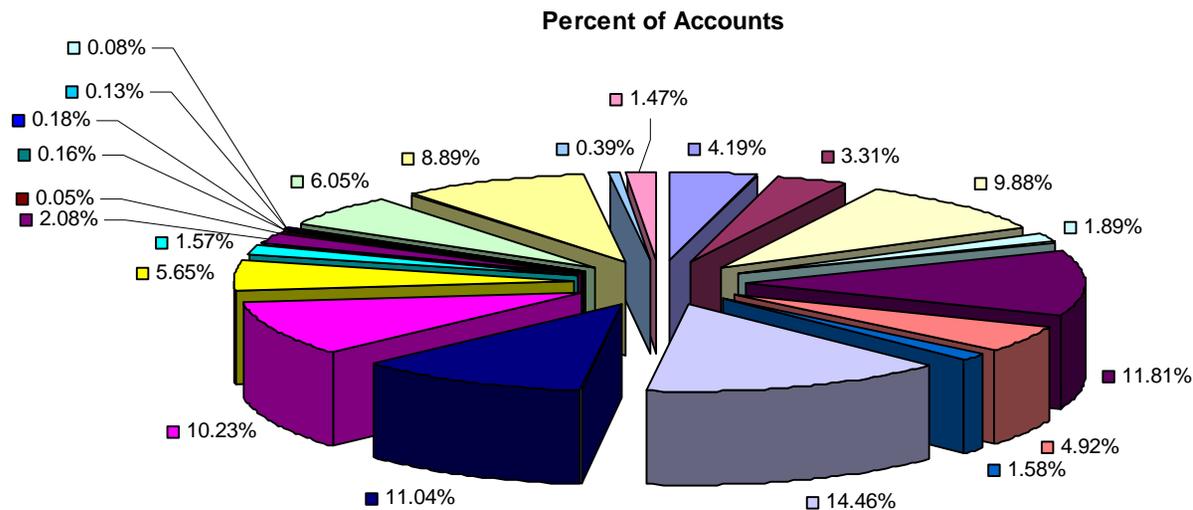
	Plan Inception Date	Fund Net Assets	Assets in Plan	WI Plan as a Percentage of Fund Assets	Fund as a Percentage of Plan Assets	Number of Participants	Percentage of ETF Participants Utilizing Fund
American Funds EuroPacific Gr R5	01/28/2005	\$77,122,160,000.00	\$50,326,131.68	0.07%	2.79%	7,428	17.30%
Barclay's EAFE Equity Index Fund W	02/01/2001	N/A	\$29,804,423.33	N/A	1.65%	5,868	13.67%
T. Rowe Price International Stock-Closed	12/31/1996	\$6,189,040,000.00	\$16,180,899.57	0.26%	0.90%	4,631	10.79%
DFA U.S. Micro Cap	02/01/1997	\$4,407,840,000.00	\$134,837,692.83	3.06%	7.47%	17,516	40.81%
Barclay's Russell 2000 Index Fd	02/20/2004	N/A	\$12,319,019.45	N/A	0.68%	3,356	7.82%
T. Rowe Price Mid-Cap Growth	02/01/1998	\$16,447,170,000.00	\$176,453,675.52	1.07%	9.78%	20,922	48.74%
Barclay's Mid Cap Equity Index Fund W	02/01/2001	N/A	\$51,147,918.97	N/A	2.83%	8,714	20.30%
Janus-Closed	01/31/1994	\$11,369,320,000.00	\$20,776,659.21	0.18%	1.15%	4,898	11.41%
Calvert Social Investment Equity I	04/18/2003	\$1,270,960,000.00	\$13,655,378.50	1.07%	0.76%	2,795	6.51%
Fidelity Contrafund	01/31/1994	\$64,918,860,000.00	\$332,201,411.96	0.51%	18.40%	25,625	59.70%
Vanguard Inst Index Plus Info	09/09/1990	\$57,921,760,000.00	\$211,373,403.34	0.36%	11.71%	19,570	45.59%
Vanguard Wellington Adm	10/26/2001	\$40,140,600,000.00	\$200,492,063.01	0.50%	11.11%	18,125	42.22%
Vanguard Long-Term Investment-Grade Adm	10/26/2001	\$5,648,920,000.00	\$63,275,496.08	1.12%	3.51%	10,016	23.33%
Barclay's US Debt Index	02/01/2001	N/A	\$9,616,224.59	N/A	0.53%	2,783	6.48%
Federated U.S. Govt: 2-5 Yr Instl	02/03/1992	\$744,540,000.00	\$17,504,291.86	2.35%	0.97%	3,678	8.57%
Vanguard Target Ret Income	07/29/2005	\$797,180,000.00	\$2,025,733.58	0.25%	0.11%	92	0.21%
Vanguard Target Ret 2015	07/29/2005	\$2,590,170,000.00	\$5,408,054.08	0.21%	0.30%	280	0.65%
Vanguard Target Ret 2025	07/29/2005	\$2,835,820,000.00	\$3,163,169.96	0.11%	0.18%	322	0.75%
Vanguard Target Ret 2035	07/29/2005	\$1,728,600,000.00	\$1,453,954.91	0.08%	0.08%	225	0.52%
Vanguard Target Ret 2045	07/29/2005	\$722,530,000.00	\$823,689.16	0.11%	0.05%	135	0.31%
Vanguard Adm Money Market	10/01/1993	\$14,582,010,000.00	\$67,275,767.08	0.46%	3.73%	10,724	24.98%
Stable Value Fund	09/01/1996	N/A	\$321,988,649.15	N/A	17.84%	15,747	36.68%
Schwab PCRA	02/17/2000	N/A	\$32,915,336.90	N/A	1.82%	687	1.60%
FDIC Option	12/31/1996	N/A	\$30,096,363.10	N/A	1.67%	2,600	6.06%

Total WDC Assets (as of 12/31/2005): \$1,768,157,849.04



American Funds EuroPacific Gr R5 - 2.85%	Barclay's EAFE Equity Index Fund W - 1.69%	Barclay's Mid Cap Equity Index Fund W - 2.89%
Barclay's Russell 2000 Index Fd - 0.70%	Barclay's US Debt Index - 0.54%	Calvert Social Investment Equity I - 0.77%
DFA U.S. Micro Cap - 7.63%	FDIC Option - 1.70%	Federated U.S. Govt: 2-5 Yr Instl - 0.99%
Fidelity Contrafund - 18.79%	Schwab PCRA - 1.86%	Stable Value Fund - 18.21%
T. Rowe Price Mid-Cap Growth - 9.98%	Vanguard Adm Money Market - 3.80%	Vanguard Inst Index Plus Info - 11.95%
Vanguard Long-Term Investment-Grade Adm - 3.58%	Vanguard Target Ret 2015 - 0.31%	Vanguard Target Ret 2025 - 0.18%
Vanguard Target Ret 2035 - 0.08%	Vanguard Target Ret 2045 - 0.05%	Vanguard Target Ret Income - 0.11%
Vanguard Wellington Adm - 11.34%		

Total Number of WDC Participant Accounts (as of 12/31/2005): 177,208



American Funds EuroPacific Gr R5 - 4.19%	Barclay's EAFE Equity Index Fund W - 3.31%	DFA U.S. Micro Cap - 9.88%
Barclay's Russell 2000 Index Fd - 1.89%	T. Rowe Price Mid-Cap Growth - 11.81%	Barclay's Mid Cap Equity Index Fund W - 4.92%
Calvert Social Investment Equity I - 1.58%	Fidelity Contrafund - 14.46%	Vanguard Inst Index Plus Info - 11.04%
Vanguard Wellington Adm - 10.23%	Vanguard Long-Term Investment-Grade Adm - 5.65%	Barclay's US Debt Index - 1.57%
Federated U.S. Govt: 2-5 Yr Instl - 2.08%	Vanguard Target Ret Income - 0.05%	Vanguard Target Ret 2015 - 0.16%
Vanguard Target Ret 2025 - 0.18%	Vanguard Target Ret 2035 - 0.13%	Vanguard Target Ret 2045 - 0.08%
Vanguard Adm Money Market - 6.05%	Stable Value Fund - 8.89%	Schwab PCRA - 0.39%
FDIC Option - 1.47%		

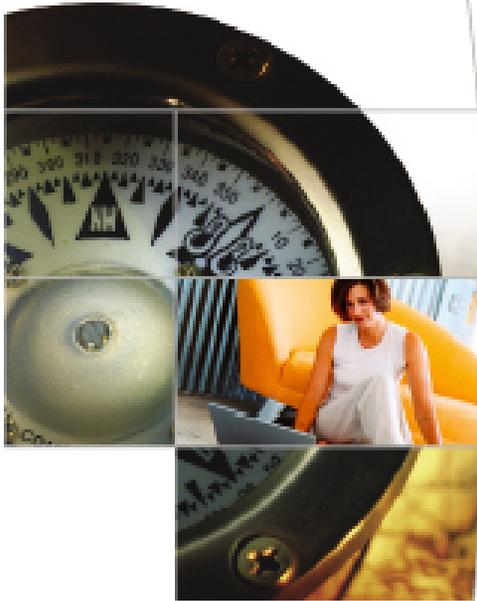
Fund Expense v. Category

Name	Expense Ratio
American Funds EuroPacific Gr R5	0.58
Cat: Foreign Large Blend	1.64
Barclay's EAFE Equity Index Fund W	0.10
Morningstar Foreign Large Blend Index	0.95
DFA U.S. Micro Cap	0.56
Cat: Small Blend	1.5
Barclay's Russell 2000 Index Fd	0.05
Morningstar Small Cap Blend Index	0.75
T. Rowe Price Mid-Cap Growth	0.83
Cat: Mid Growth	1.61
Barclay's Mid Cap Equity Index Fund W	0.04
Morningstar Mid Cap Blend Index	0.69
Calvert Social Investment Equity I	0.68
Morningstar Socially Resp Large Cap Index	1.29

Name	Expense Ratio
Fidelity Contrafund	0.92
Cat: Large Growth	1.5
Vanguard Inst Index Plus Info	0.03
Morningstar Large Cap Blend Index	0.66
Vanguard Wellington Adm	0.15
Cat: Moderate Allocation	1.19
Vanguard Long-Term Investment-Grade Adm	0.14
Cat: Long-Term Bond	1.06
Barclay's US Debt Index	0.05
Morningstar Intermediate Bond Index	0.40
Federated U.S. Govt: 2-5 Yr Instl	0.59
Cat: Short Government	0.99
Vanguard Adm Money Market	0.13
Average US Money Market Fund	0.61

- The weighted average return for the ETF participants as of 12/31/2005 was 9.34%
- Much of this can be attributed to a 19% weighting in the Fidelity Contrafund which returned 16.23%
- Other contributing factors were:
 - 14% weighting to T. Rowe Price Mid Cap Growth which returned 14.82%
 - ETF fund lineup produced all positive returns in 2005
 - Only sub-par performance coming from the bond funds which had smaller weightings
- Note: Participant weighted average return excludes the self directed brokerage accounts

Fund Highlights and Observations



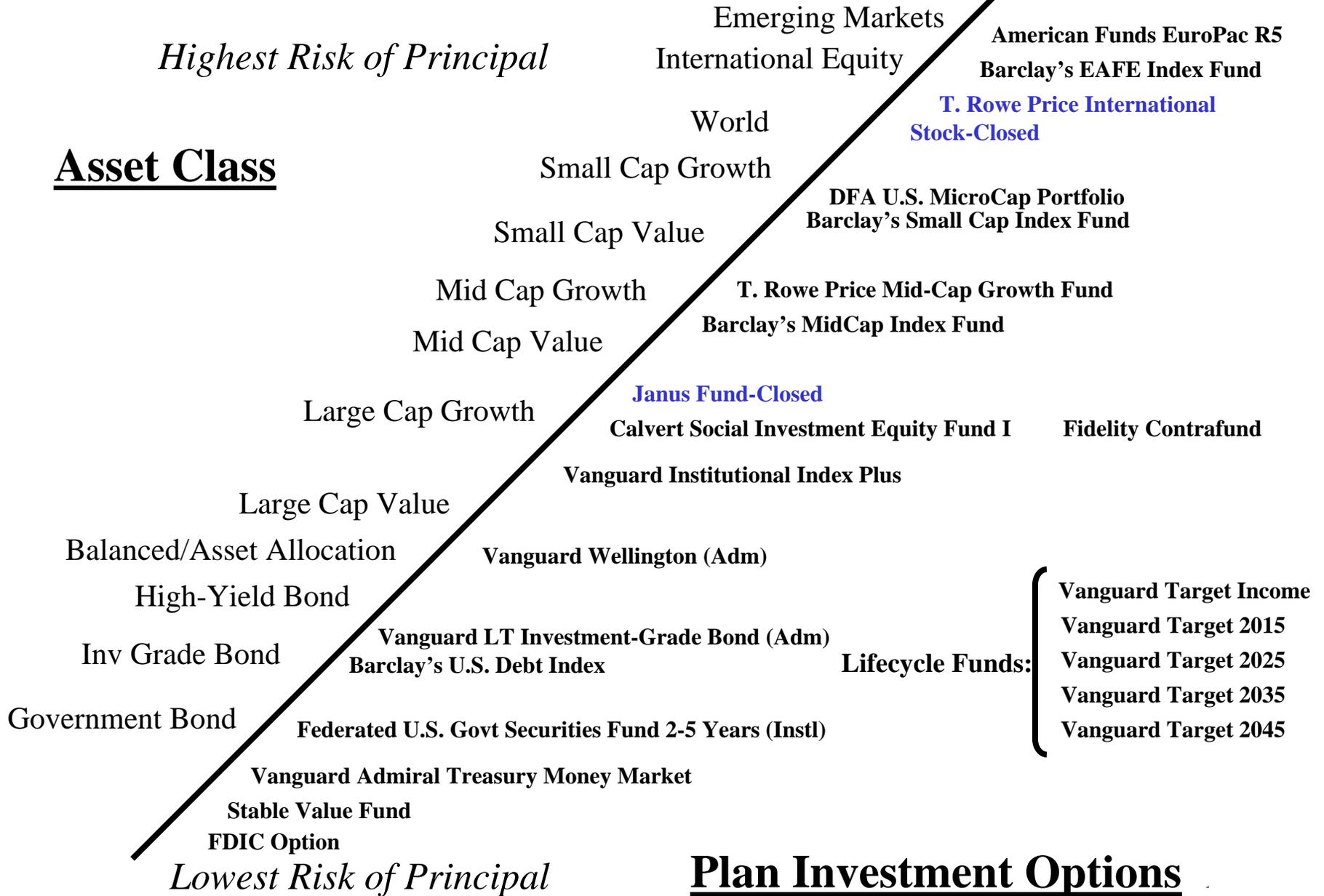
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Wisconsin Plan Options

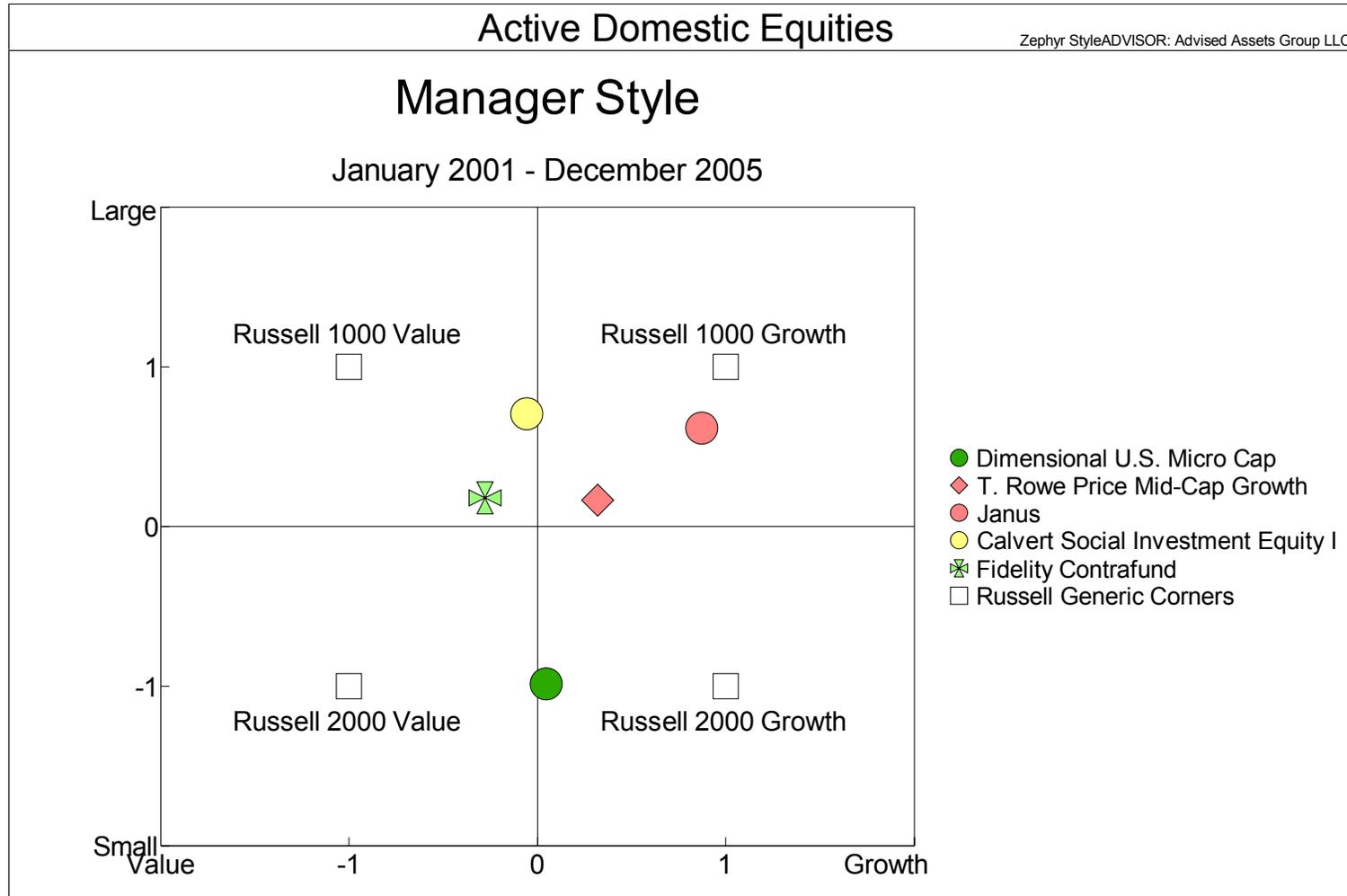
Highest Risk of Principal

Asset Class



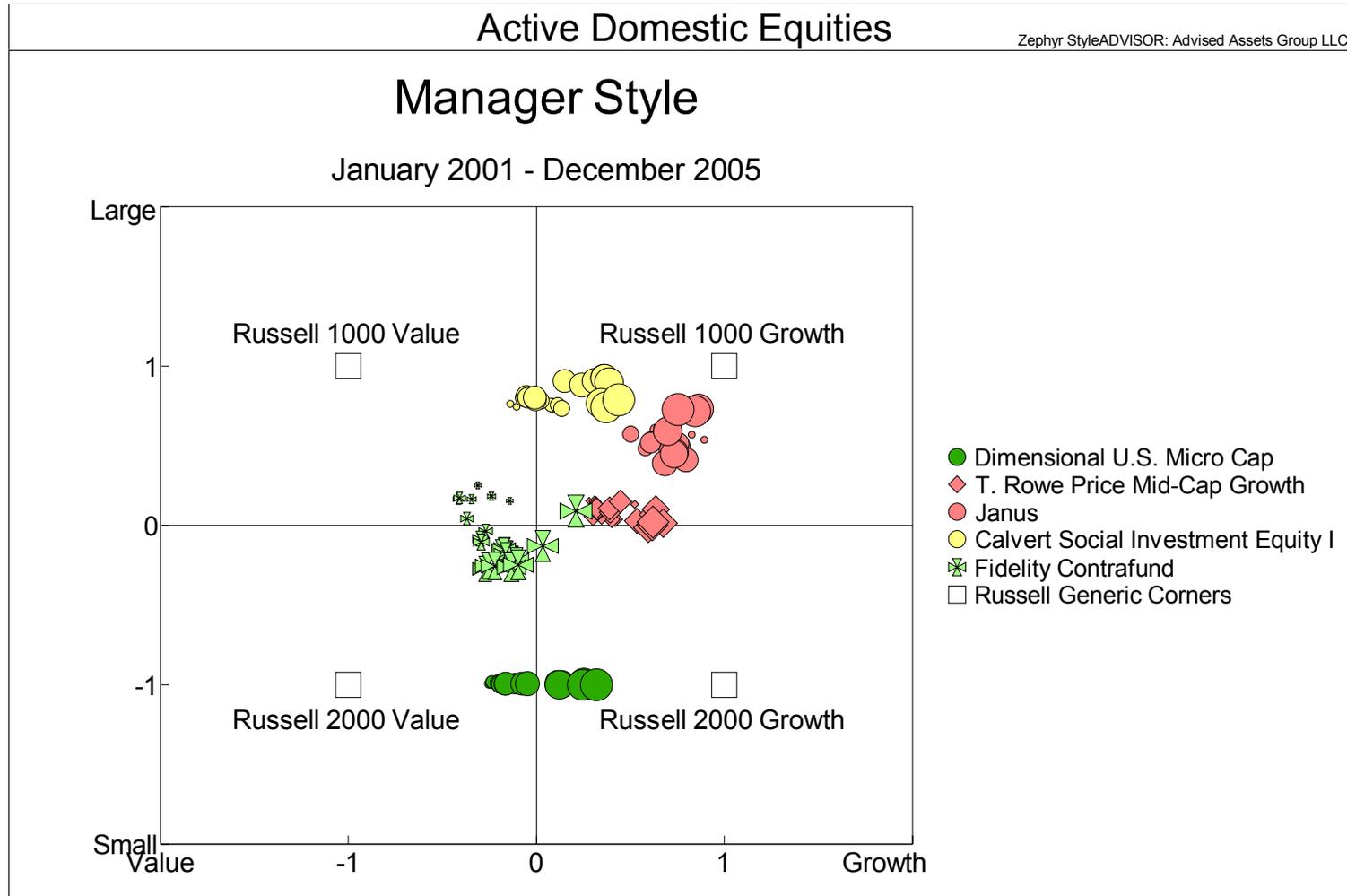
Manager Style

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.



Plan Options Observations

- Plan has:
 - 5 low cost index funds
 - 5 actively managed open Equity Funds
 - 2 actively managed Bond Funds
 - 3 Stable Value/short term funds
 - 5 lifecycle funds plus a balanced fund

Plan Options Observations

- Observations:
 - Investment options very economical
 - .05% for Index Funds
 - .71% for active managed Equity Funds
 - .37% for actively managed Bond Funds
 - Total number of investment options typical
 - 4.1 funds per participant-excellent diversification related to other plans
 - Less typical to see a balanced fund and lifecycle funds
 - Less typical to see 3 Stable Value/short term options

- Interest rate is based upon an index
- 2006 index is 50% of 12 month LIBOR as of 1/1/06 less .40% plus 50% of 3 month LIBOR less .40%
- Blended rate calculated each quarter
- Blended rate proportion can change each 1/1 upon notice from State to bank
- Observations:
 - Formula seems reasonable
 - Given rate is “formula based” does fund need a “benchmark”?

Stable Value Option

- Galliard Capital is an excellent Stable Value manager
- Fund has consistently beat its benchmarks of 5 year constant maturity and Hueler Universe
- One year return of 4.99% is excellent compared to peers

- **American Funds EuroPac R5** continues to beat both its benchmarks over 3 and 5 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 along with low turnover.
- **Barclay's EAFE Equity Index Fund** experienced significant tracking error earlier in its history due to client flows during the reconstitution of the index. The fund has addressed these issues and tracked within 5 bps (net of fees) in 2005.
- **T. Rowe Price International Stock (Closed)** slightly outperformed its benchmarks over 1 year. However, over 3 and 5 years it underperformed its benchmarks. This fund continues to sport one of the lowest expense ratios in the category, but its size is of some concern. Recently the fund has undergone some change. Management concentrated the portfolio, added more mid cap exposure, and is less dependant on the mega-cap names.
- **DFA U.S. Microcap** invests in the smallest 4% of U.S. exchange listed stocks with an average market cap of just under \$290 million. The fund contains between 2,500 and 3,000 holdings giving it an index approach to investing. This fund carries a higher standard deviation than the Russell 2000 over 5 years, but has rewarded its shareholders by generating a higher return than the index over that same time period.

- **Barclay's Russell 2000 Index Fund** tracked even (net of fees) with the index in 2005.
- **T. Rowe Price Mid Cap Growth** outperforms its benchmarks over 1,3, and 5 years. This fund's attention to valuation and contrarian investment style position it to take advantage of the undervalued areas of the market. The attention to valuation also helps to limit its downside risk.
- **Barclay's Mid-Cap Equity Index** has tracked within 2 bps (net of fees) of the index over 1 year, and 8 bps (net of fees) over 3 years.
- **The Janus Fund (Closed)** continues to struggle, underperforming the average large growth fund over 1, 3 and 5 years. In addition, it has failed the other benchmarks over most periods. It is not as volatile as many other Janus offerings, but does carry a higher standard deviation than the category average over 3 and 5 years. In the later part of 2005 management made changes to both the construction of the portfolio and the investment process. First, expanding the number of stocks in the portfolio from 100 to 120. Second, selling out of long term holdings in media and technology.

- **Calvert Social Investment Equity** outperformed all benchmarks over five years, but underperforms most of its benchmarks over 1 and 3 years. This concentrated socially conscious fund looks for companies with solid balance sheets and little debt. The fund experienced positive returns from healthcare and computer hardware in 2005. Management also holds a fair amount in mid cap stocks.
- **Fidelity Contrafund** beat all of its benchmarks across all time periods. The fund was the benefactor of large stakes in energy and mid caps in 2005. That said, this fund continues to keep volatility down and has lowered its turnover. A growing asset base is of some concern.
- **Vanguard Instl Index Plus Fund** tracks within 3 bps (net of fees) over 1, 3 and 5 years.
- **Vanguard Wellington** outperformed its benchmarks in all time periods. Of note is the announcement in November 2005 that Paul Kaplan, lead manager of the fund's bond sleeve, will be retiring in June 2006. John Keogh who has been with Wellington since 1983 will be replacing him. Vanguard expects few changes to the investment process with the new manager.

- **Vanguard Long-Term Bond** posted strong returns over 1, 3, and 5 years only trailing the Lehman Brothers Long Term Corporate A or better by 11 bps over 5 years. The fund's focus on investing in high quality bonds, rated A3 or better by Moody's, reduces credit risk. However, given the fund's average duration of just over 11 years investors do face some interest rate risk.
- **Barclay's US Debt Index** has tracked within 7 bps (net of fees) over 1 and 3 years.
- **Federated U.S. Government: 2-5 Year Institutional** had mixed results against its benchmarks over the 1, 3, and 5 year periods. In June 2005 Don Ellenberger replaced Susan Nason as lead co-manager. This fund is more conservative than its peers only investing in treasuries and government securities. As opposed to its peers which carry an average of 36% exposure to mortgages.
- **Vanguard Admiral Treasury Money Market Fund** posted a 2.94% return 2005. It also beat its benchmark over 3, 5 and 10 years.

American Funds-

NASD

In February 2005, the NASD filed a complaint alleging that American Fund Distributors (AFD) violated one of the conditions in the rule permitting mutual fund managers to give consideration to fund sales when selecting firms to buy and sell securities for the funds' portfolios. AFD contends they were consistent with the rule, never committing, either formally or informally, to place a specific amount or percentage of portfolio transactions with any firm. The complaint does not allege that shareholders incurred any additional costs for transactions in which fund sales were a consideration. The NASD hearing has been concluded and AFD expects a decision by early 2007.

California Attorney General

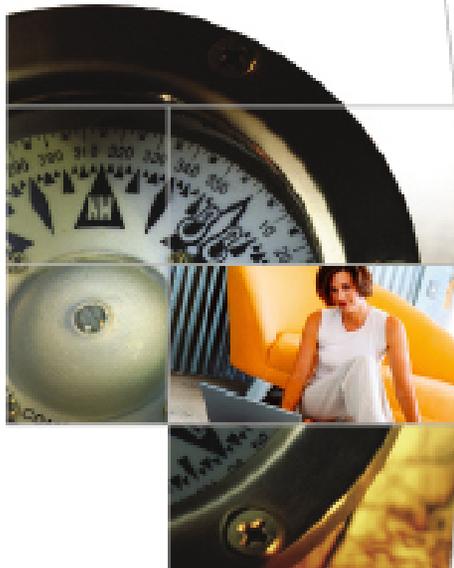
In March 2005, the California Attorney General filed a complaint in state court against American Funds Distributors (AFD) and Capital Research and Management Company (CRMC), the investment adviser to American Funds. The complaint relates to the sufficiency of disclosure of additional payments AFD made 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.

Janus-

Fund Restoration

On December 7, 2005, Dr. Christopher James (the Independent Distribution Consultant) filed his final report with the SEC regarding the distribution of restoration payments. On February 27, 2006 Advised Assets Group was given notice from Janus that the settlement was approved by the SEC. Details on the appropriate handling of omnibus accounts are still being finalized.

Performance Benchmarking of Active Options



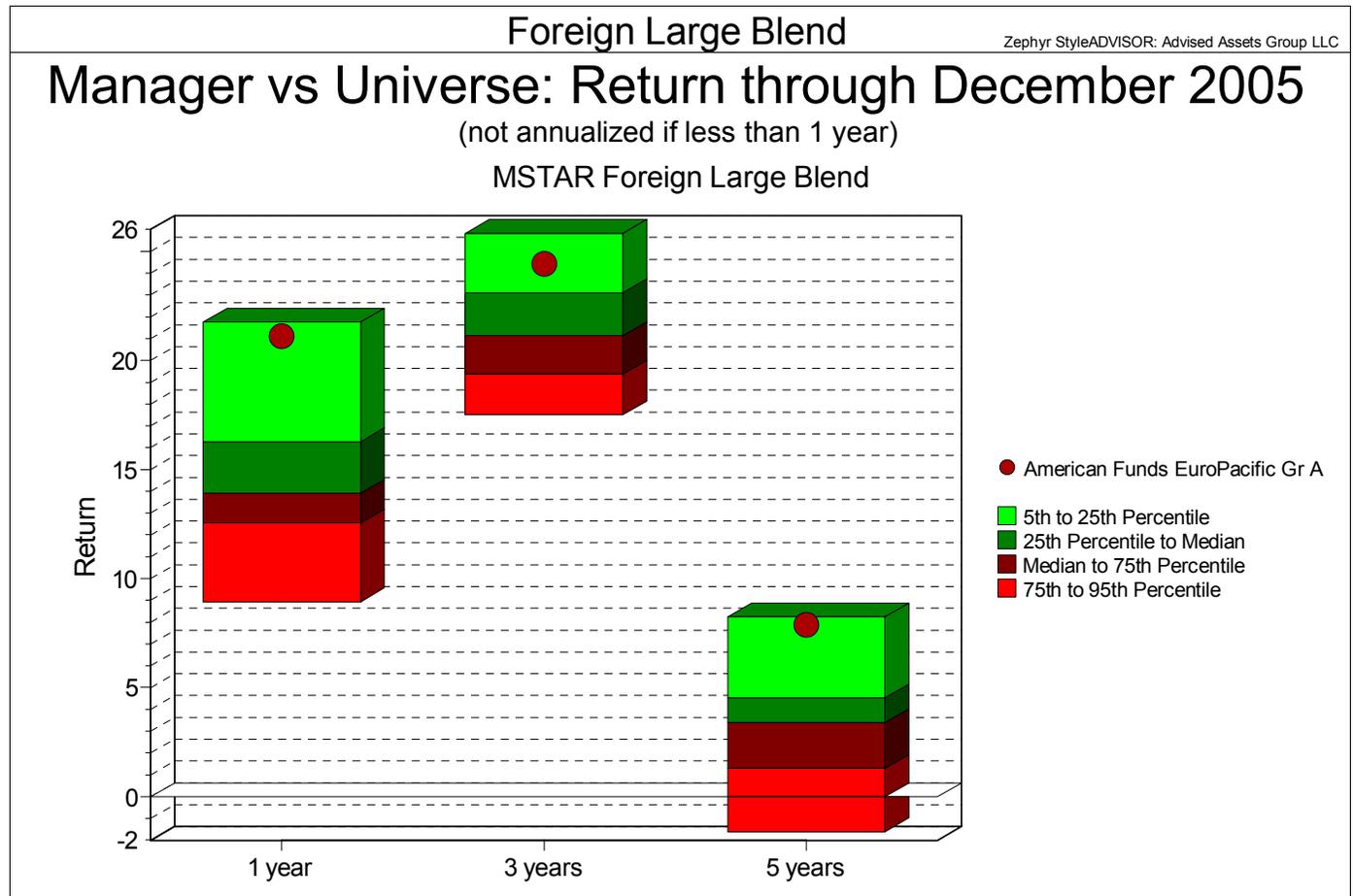
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Performance Benchmarking

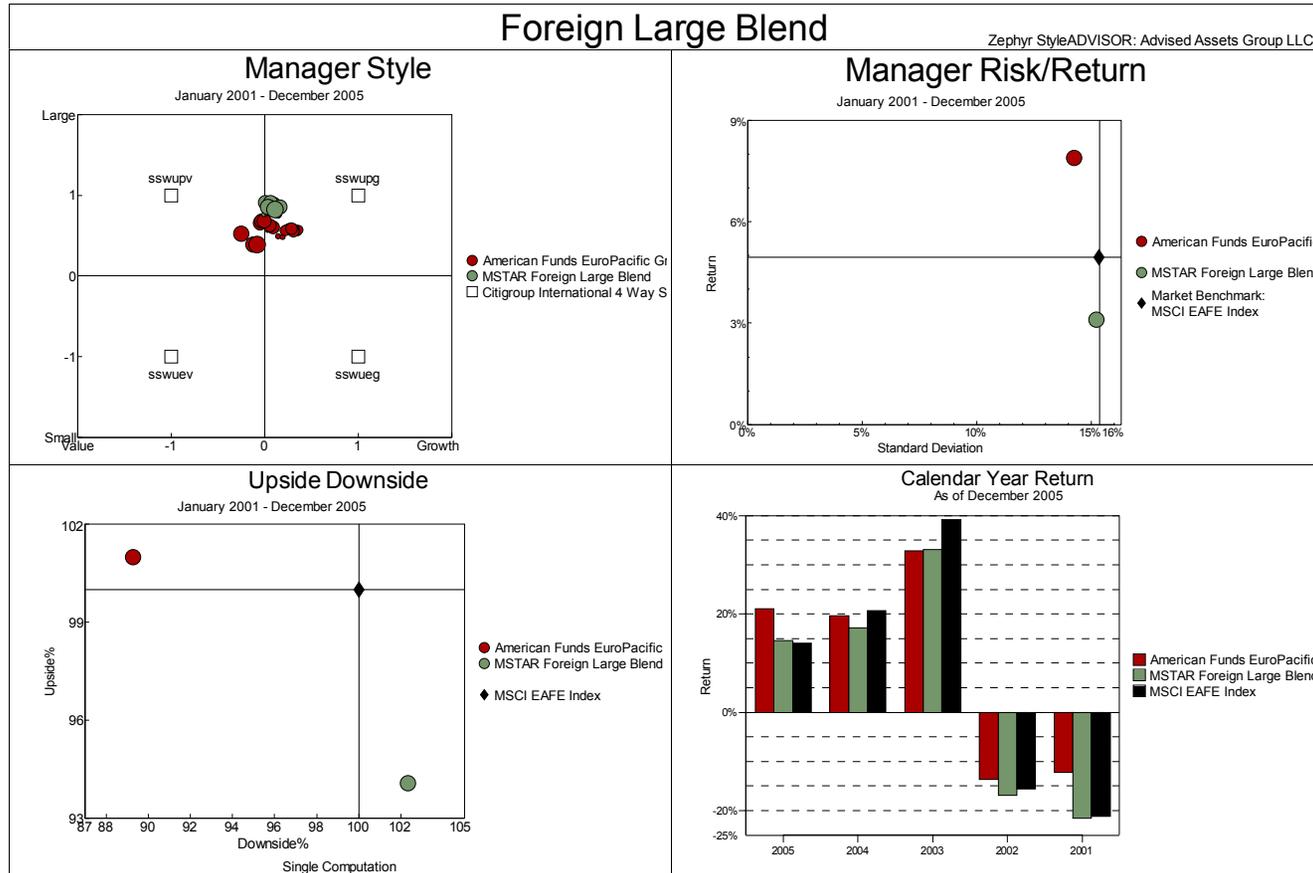
American Funds EuroPacific Growth Fund seeks long-term growth of capital. The fund normally invests at least 65% of assets in equity securities of issuers domiciled in Europe or the Pacific Basin. It may invest up to 20% of assets in securities issued in developing countries. Various factors will be 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
12/31/2005



	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 (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)	Annual Return (2001)
American Funds EuroPacific Gr R5	21.39	24.73	8.09	10	6	21.39	19.98	33.24	--	--
Cat: Foreign Large Blend	14.55	21.3	2.93	--	--	14.59	17.23	33.21	-16.96	-21.8

Risk Analysis

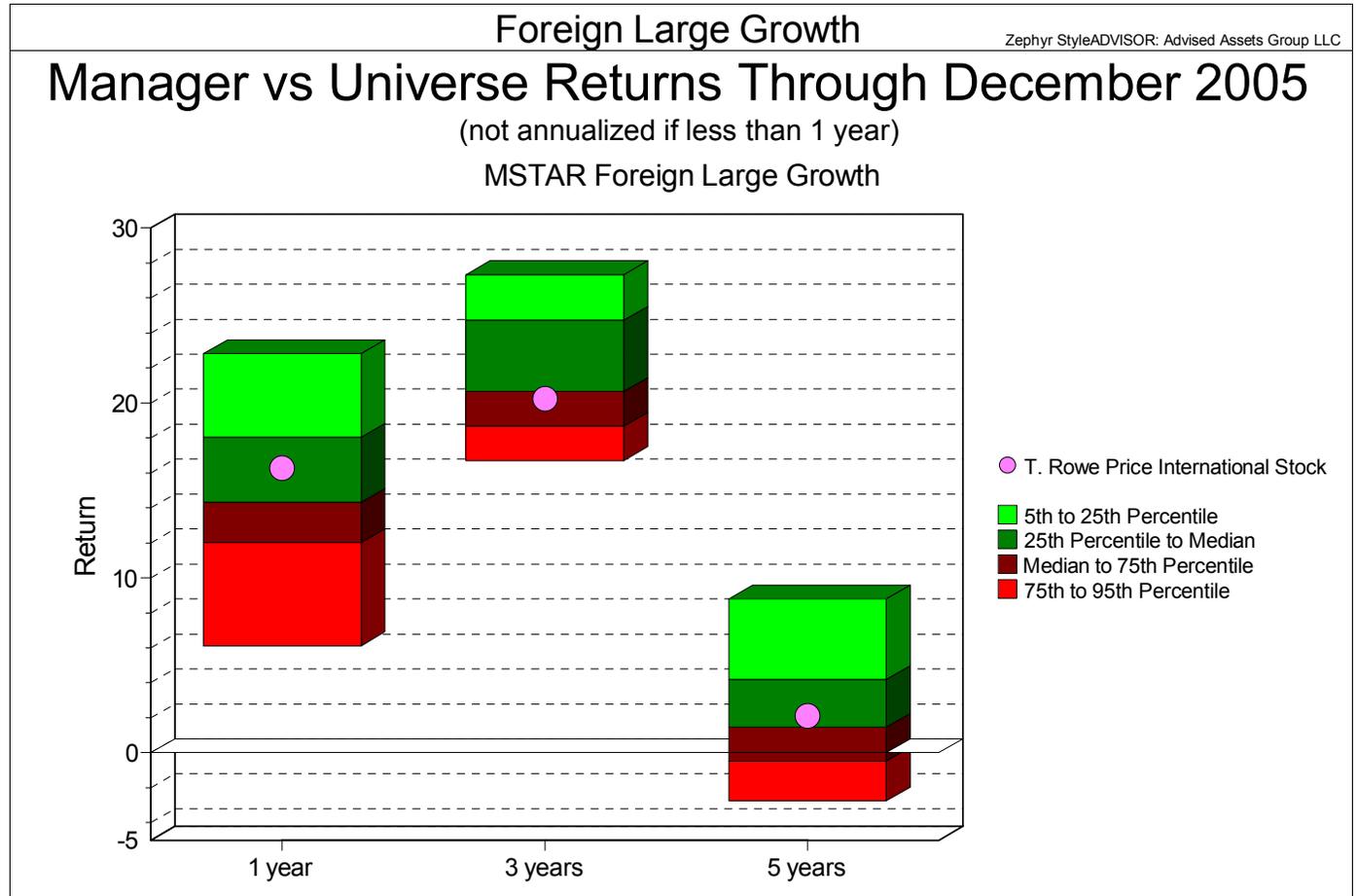


Name	Morningstar		Total Net		% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M						
American Funds EuroPacific Gr R5	4	11.38	14.27	77122.16	10.34	457	13.92	30	22	0.58
Cat: Foreign Large Blend	3	11.34	15.24	2676.28	3.12	275	21.68	81.3	--	1.64

Performance Benchmarking

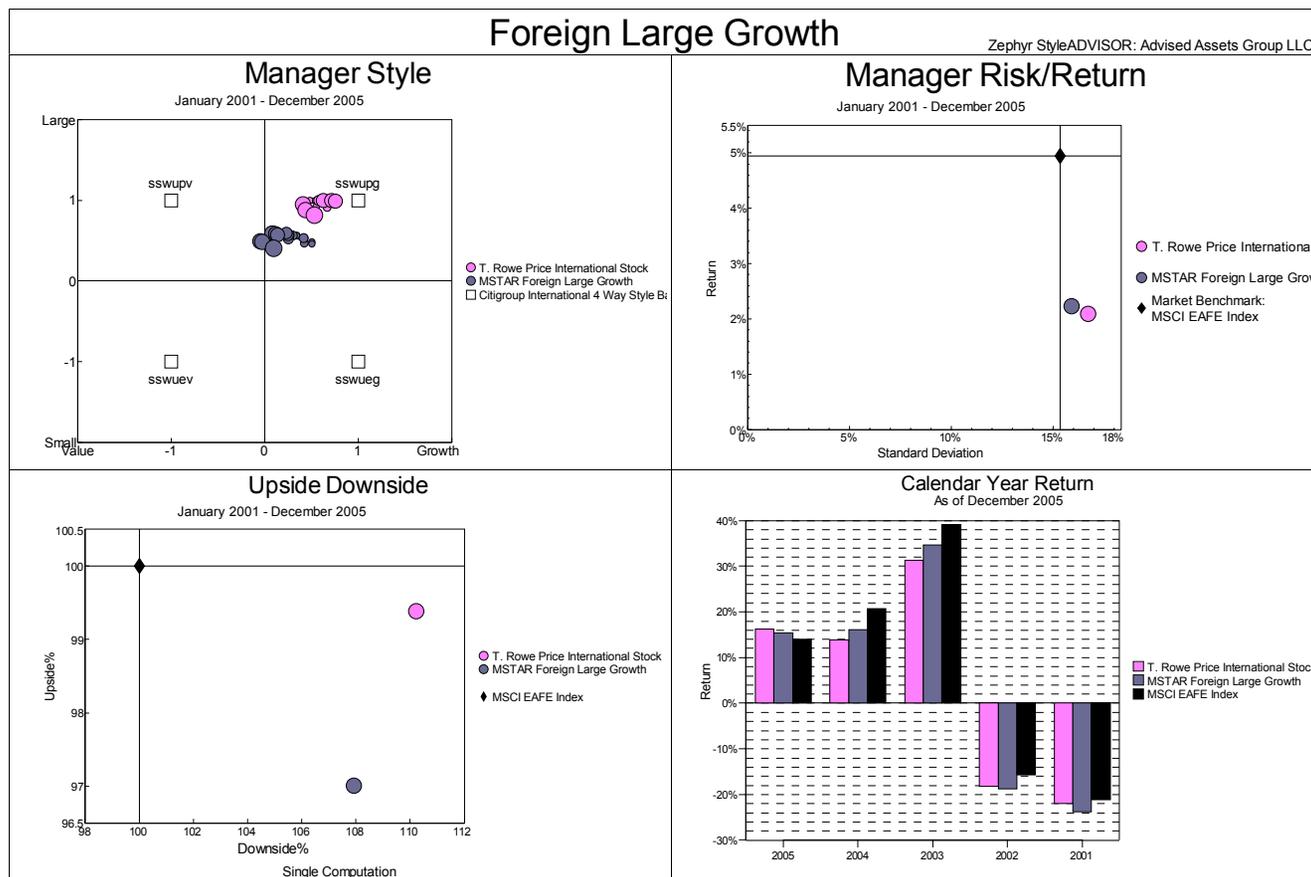
T. Rowe Price International Stock Fund seeks long-term growth of capital. The fund normally invests at least 80% of assets in stocks of established non-U.S. issuers. It may invest the balance of assets in preferred stocks, warrants, convertibles, and debt securities. The fund typically maintains investments in at least three countries, and it may invest in both industrialized and developing countries.

DATA SOURCE:
Morningstar
12/31/2005



	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 (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)	Annual Return (2001)
T. Rowe Price International Stock	16.27	20.24	2.09	59	42	16.27	13.89	31.28	-18.18	-22.02
Cat: Foreign Large Growth	15.27	21.66	2.15	--	--	15.22	16.06	35.05	-18.74	-23.68

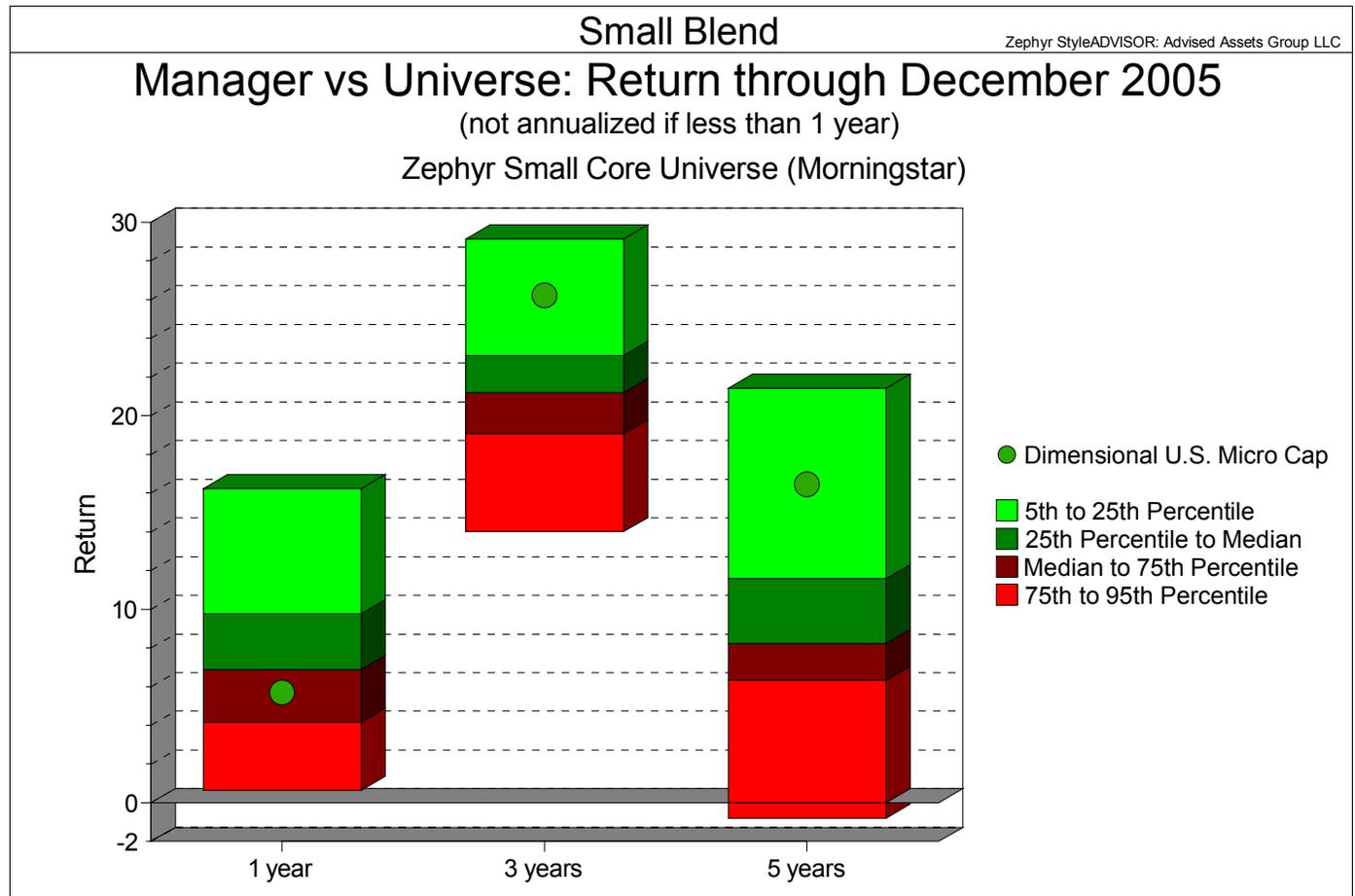
Risk Analysis



Name	Morningstar		Total Net			Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash					
T. Rowe Price International Stock	3	12.32	16.27	6189.04	1.38	132	18.28	63	11	0.89
Cat: Foreign Large Growth	3	11.78	15.93	1107.24	1.99	105	24.95	92.02	--	1.78

Performance Benchmarking

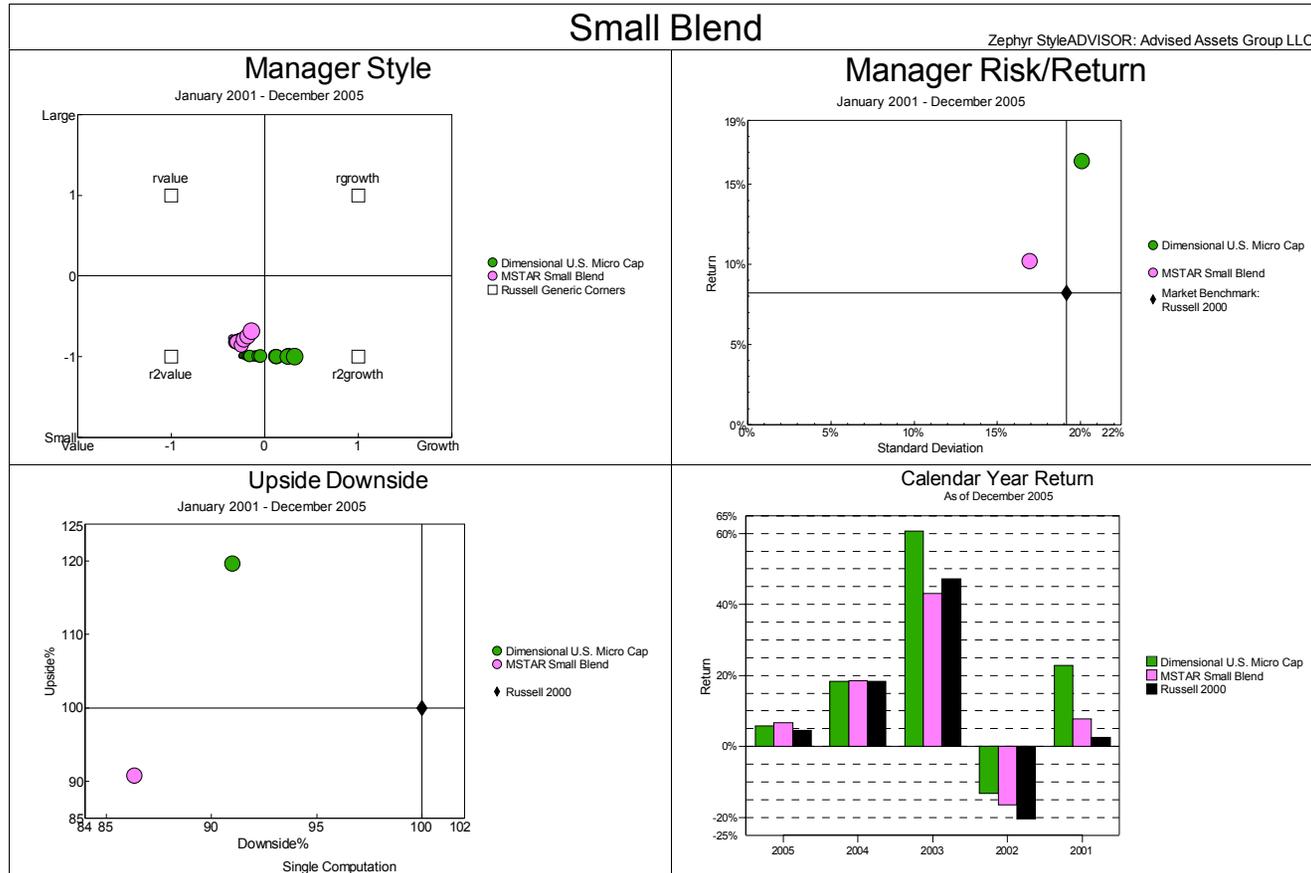
DFA U.S. Microcap seeks long-term capital appreciation. The fund invests in a diverse group of small companies with readily marketable securities. These companies may be traded on the NYSE, the AMEX, or over-the-counter market, but their market capitalizations must be comparable with those in the smallest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



DATA SOURCE:
Morningstar
12/31/2005

	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 (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)	Annual Return (2001)
DFA U.S. Micro Cap	5.69	26.22	16.45	14	8	5.69	18.39	60.72	-13.27	22.77
Cat: Small Blend	6.62	21.72	9.89	--	--	6.67	18.61	43.4	-16.38	7.77

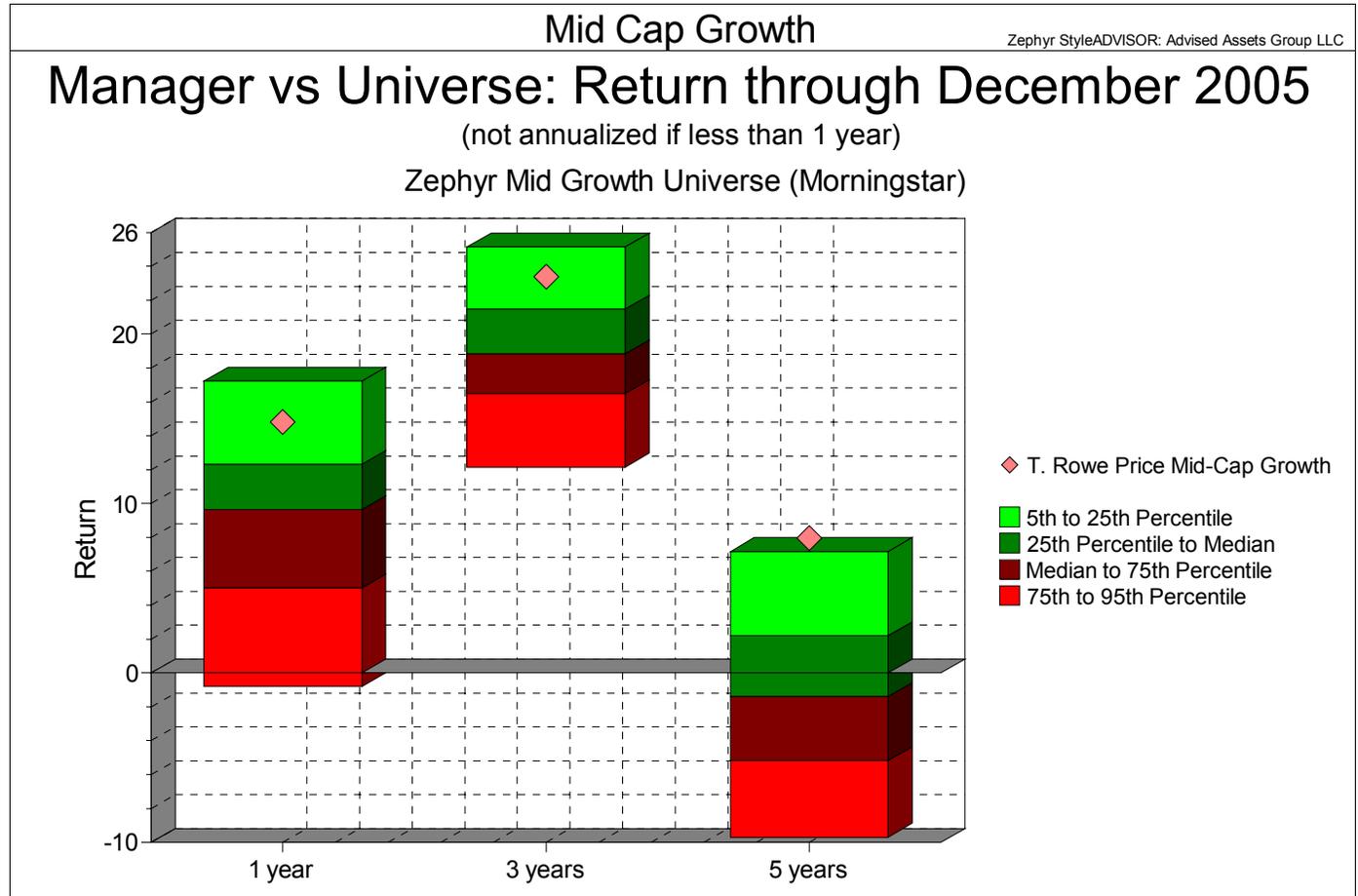
Risk Analysis



Name	Morningstar		Total Net				Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash						
DFA U.S. Micro Cap	4	16.08	20.05	4407.84	0.5	1	100	37	24	0.16	
Cat: Small Blend	3	13.71	16.92	799.91	4.92	357	18.45	94.39	--	1.49	

Performance Benchmarking

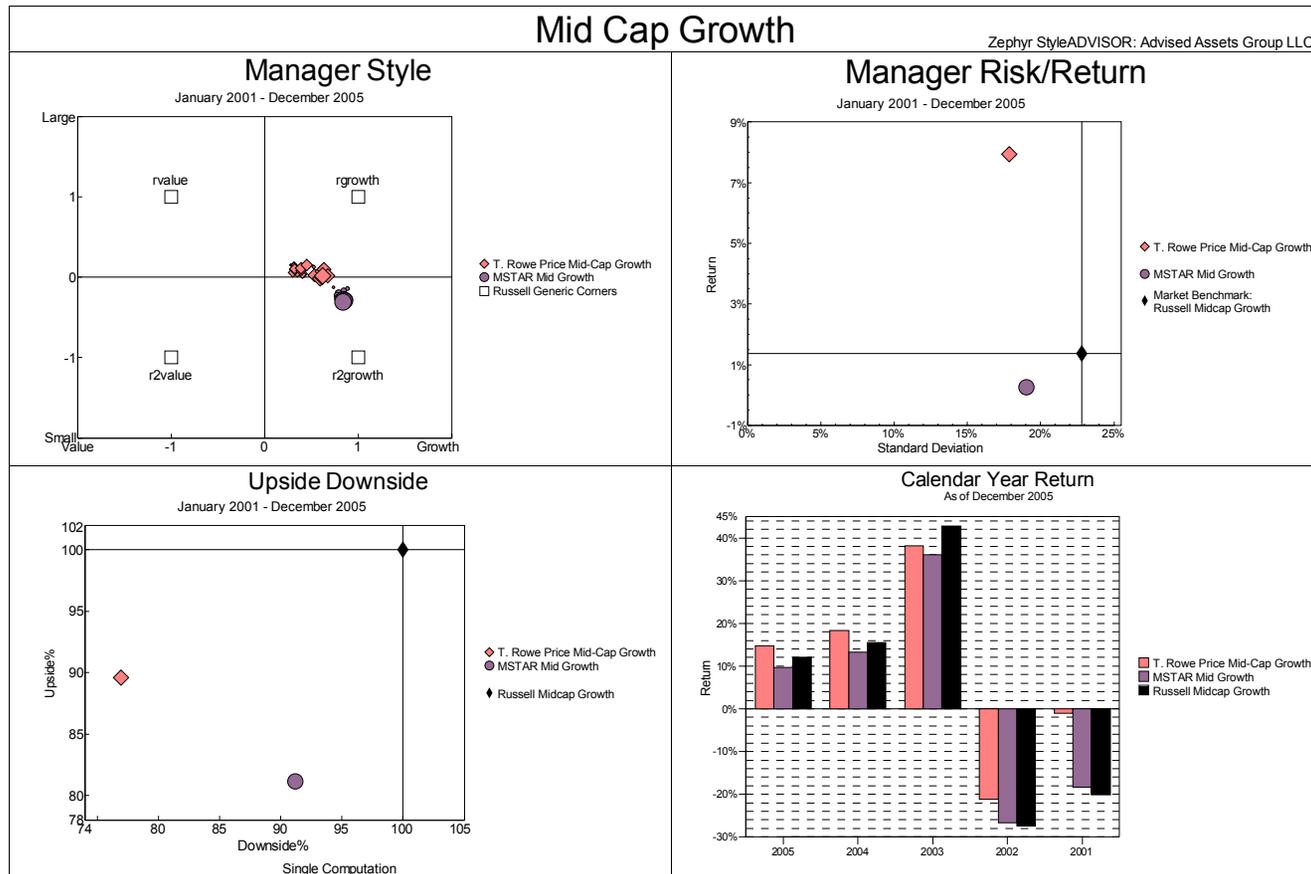
T. Rowe Price Mid Cap Growth Fund seeks long-term capital appreciation. The fund normally invests at least 80% of assets in mid-cap common stocks with above-average growth potential. The advisor seeks companies that offer proven products or services, have an above-average historical record of earnings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



DATA SOURCE:
Morningstar
12/31/2005

	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 (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)	Annual Return (2001)
T. Rowe Price Mid-Cap Growth	14.82	23.39	7.95	12	7	14.82	18.39	38.21	-21.22	-0.98
Cat: Mid-Cap Growth	9.7	19.13	0.01	--	--	9.71	13.42	36.25	-26.54	-18.17

Risk Analysis



Name	Morningstar		Total Net		Assets \$M	% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M							
T. Rowe Price Mid-Cap Growth	5	11.7	17.87	16447.17	2.85	155	14.76	30	13	0.83	
Cat: Mid-Cap Growth	3	12.61	19.03	850.26	3.69	95	27.34	117.73	--	1.61	

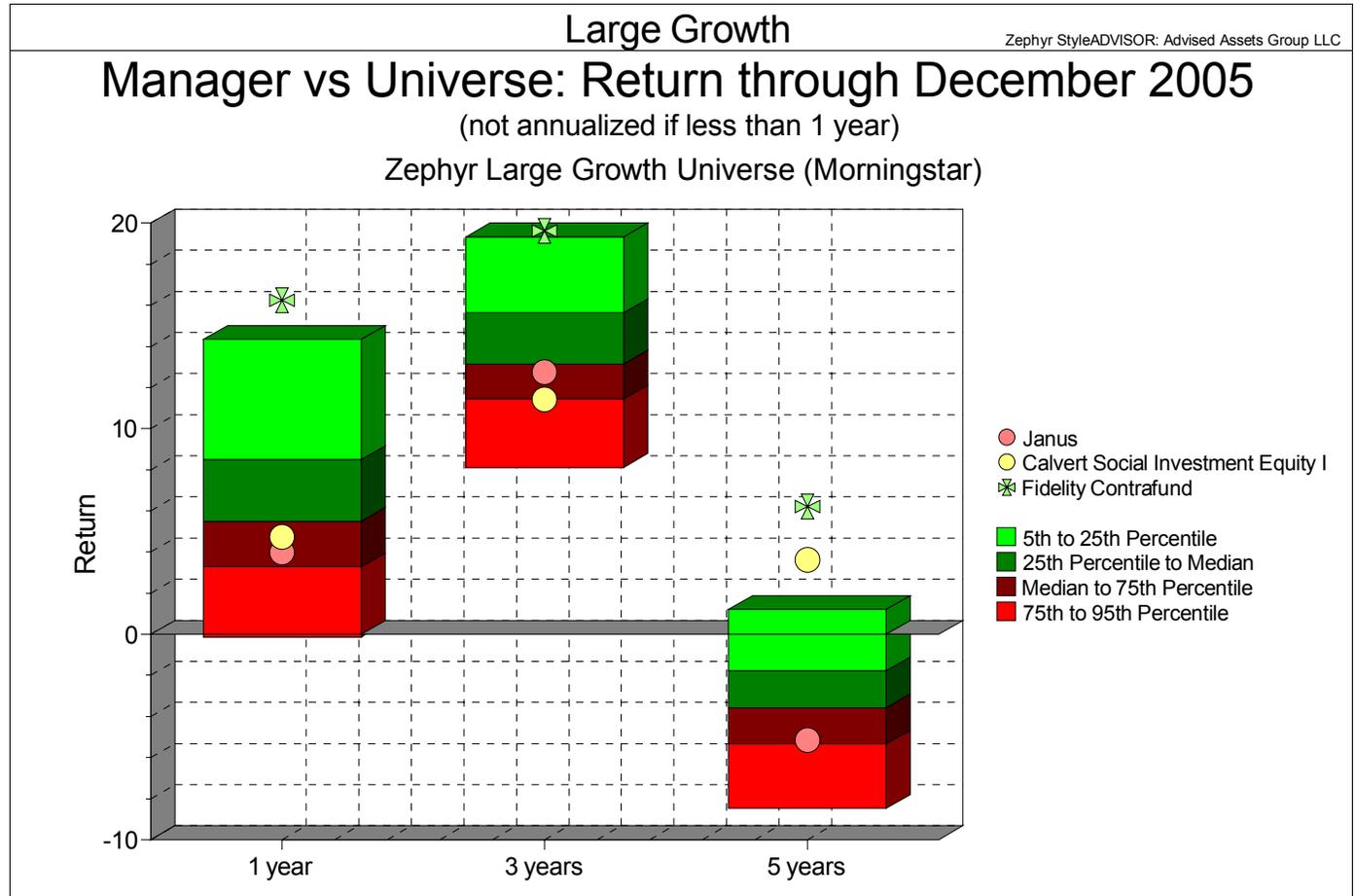
Performance Benchmarking

Janus Fund seeks long-term growth of capital. The fund primarily invests in equity securities with growth potential. It generally invests in larger, more established companies. The fund may invest up to 35% of assets in high-yield bonds.

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.

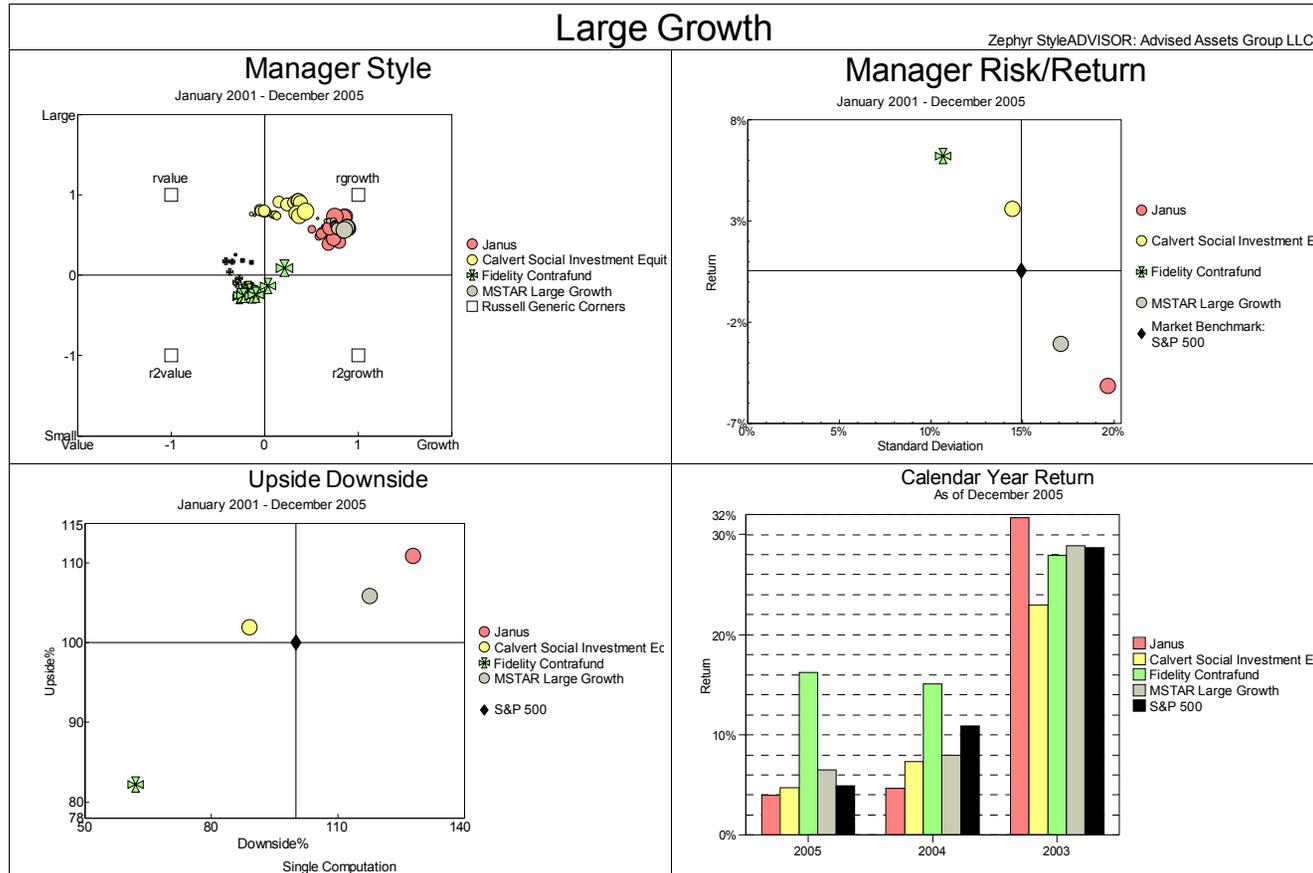
Fidelity Contrafund seeks capital appreciation. The fund invests primarily in the common stocks of companies believed to be undervalued. The types of companies in which the fund may invest include companies experiencing positive fundamental change such as new management team or product launch or companies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

DATA SOURCE: Morningstar 12/31/2005



	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 (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)	Annual Return (2001)
Janus	3.98	12.76	-5.16	58	70	3.98	4.69	31.71	-27.56	-26.1
Calvert Social Investment Equity I	4.74	11.41	3.62	74	3	4.74	7.33	23	-14.52	1.05
Fidelity Contrafund	16.23	19.61	6.21	7	2	16.23	15.07	27.95	-9.63	-12.59
Cat: Large Growth	6.46	13.88	-3.36	--	--	6.46	7.9	28.99	-26.99	-20.96

Risk Analysis



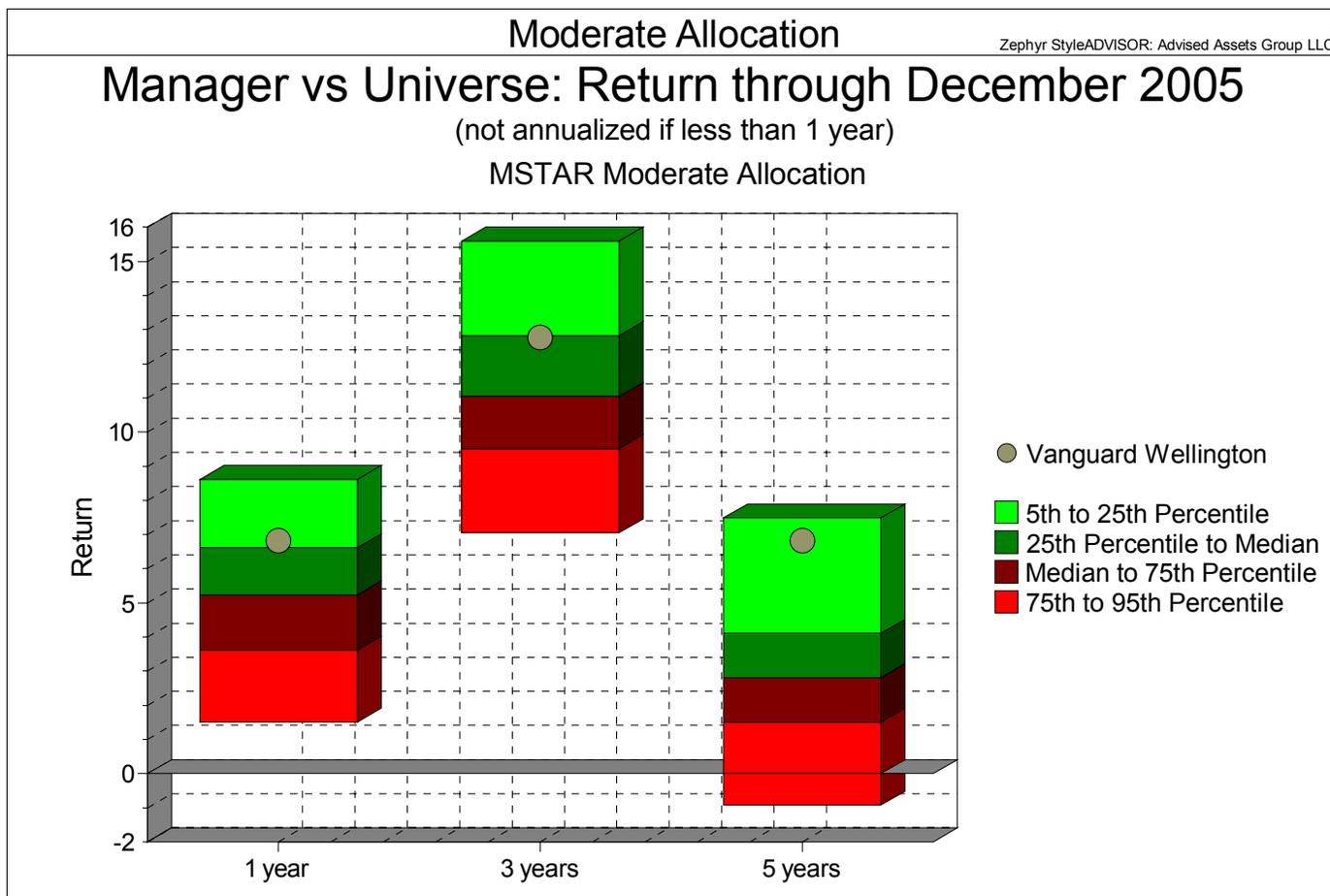
Name	Morningstar	Std Dev 3 Yr	Std Dev 5 Yr	Total Net		Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall			Assets \$M	% Cash					
Janus	3	11.58	19.68	11369.32	2.87	123	26.45	78	6	0.87
Calvert Social Investment Equity I	4	9.26	14.47	1270.96	1.89	63	28.58	17	7	0.68
Fidelity Contrafund	5	9.1	10.68	64918.86	9.75	532	27.86	64	15	0.92
Cat: Large Growth	3	10.12	17.09	2687.93	3.13	97	33.36	94.56	--	1.5

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.

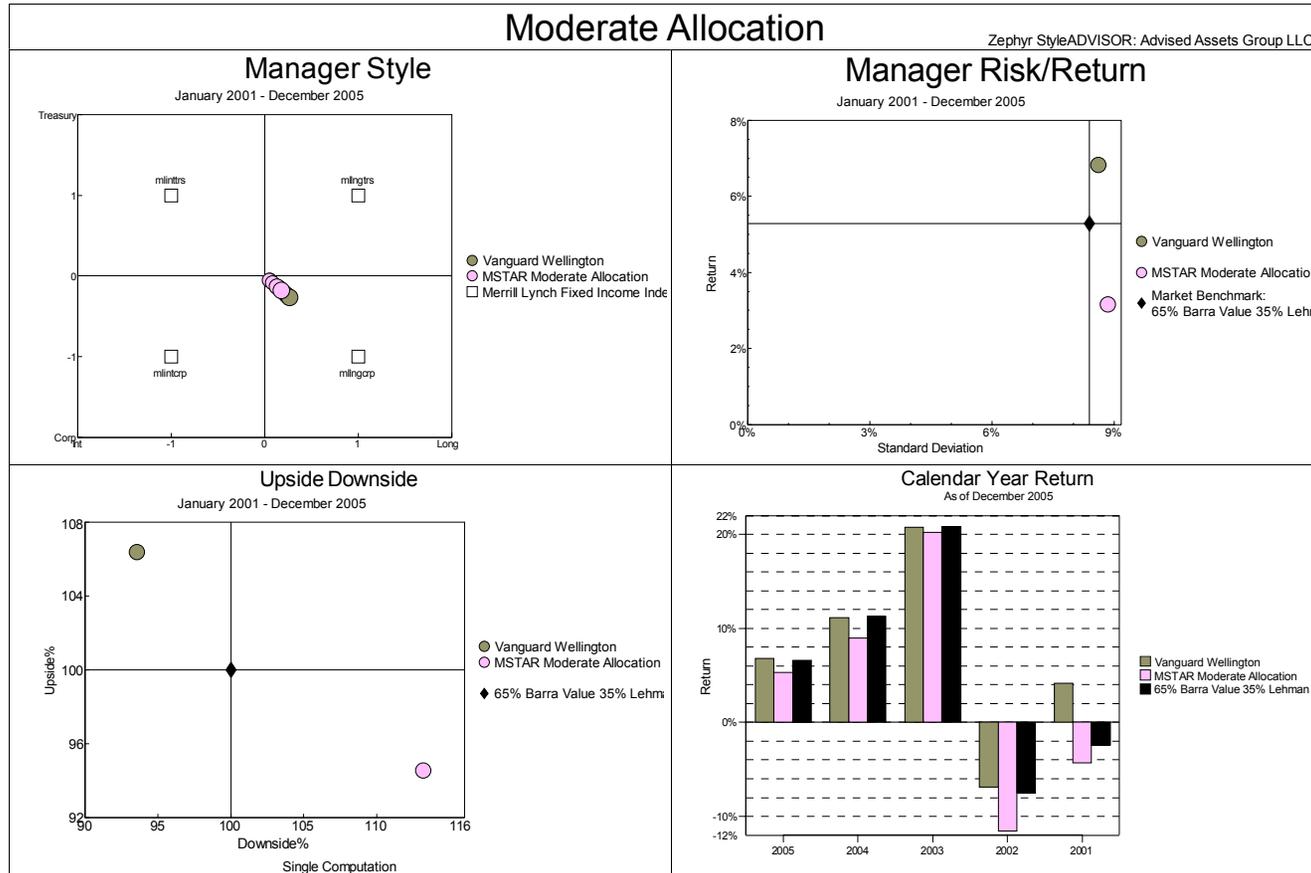
Note that the retail shares are shown to the right for historical purposes. The Plan uses the lower-cost Admiral share class.

DATA SOURCE:
Morningstar
12/31/2005



	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 (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)	Annual Return (2001)
Vanguard Wellington Adm	6.99	12.93	6.94	24	8	6.99	11.34	20.9	-6.81	--
Cat: Moderate Allocation	5.29	11.2	2.93	--	--	5.32	8.95	20.37	-11.49	-4.48

Risk Analysis



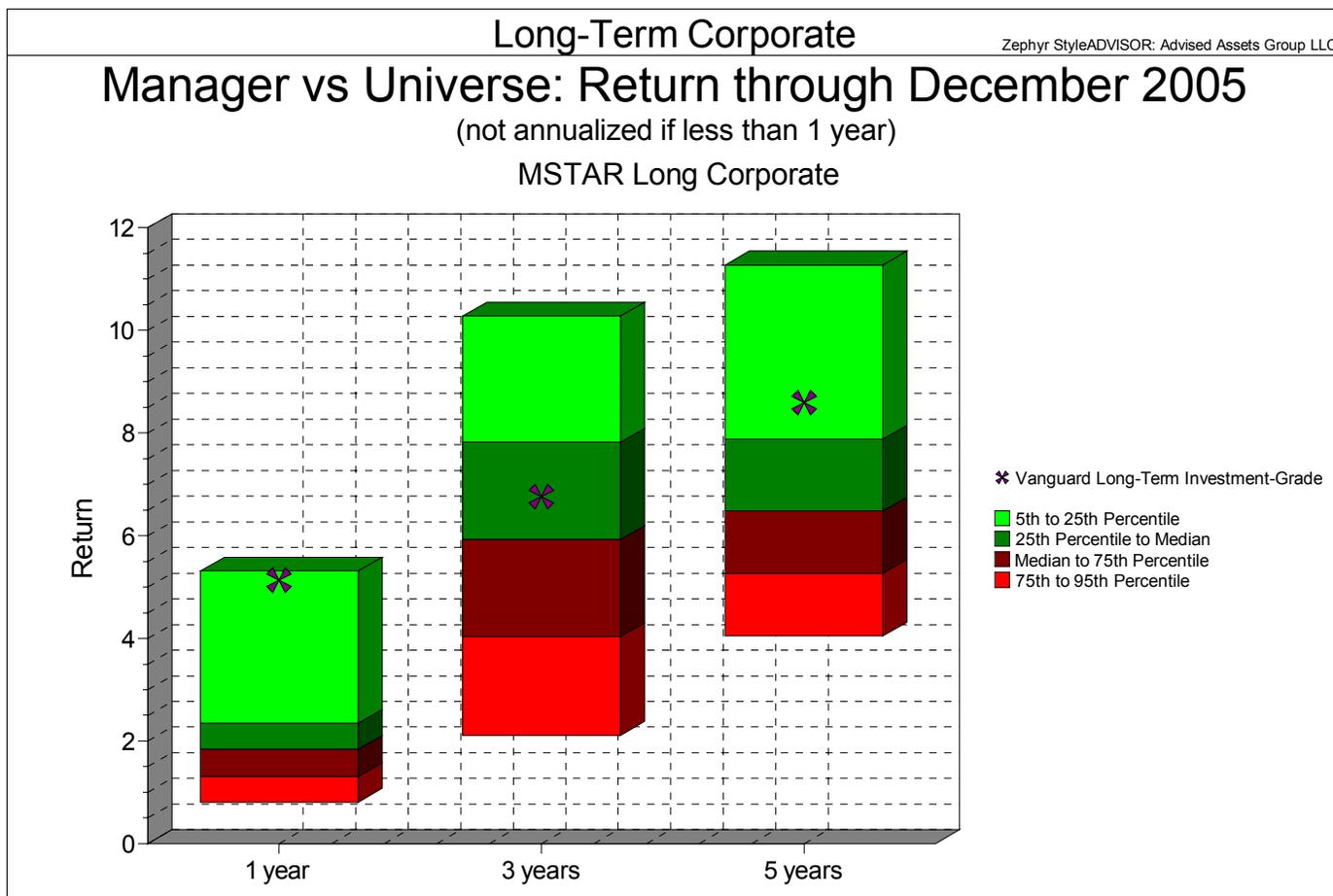
Name	Morningstar		Total Net		Total # of % Assets		Turnover Ratio	Mgr Tenure	Expense Ratio	
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Assets \$M	% Cash	Holdings in Top 10				
Vanguard Wellington Adm	4	6.89	8.62	40140.6	3.88	1926	16.45	24	12	0.15
Cat: Moderate Allocation	3	6.27	8.84	2547.87	8.65	259	41.41	77.08	--	1.18

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.

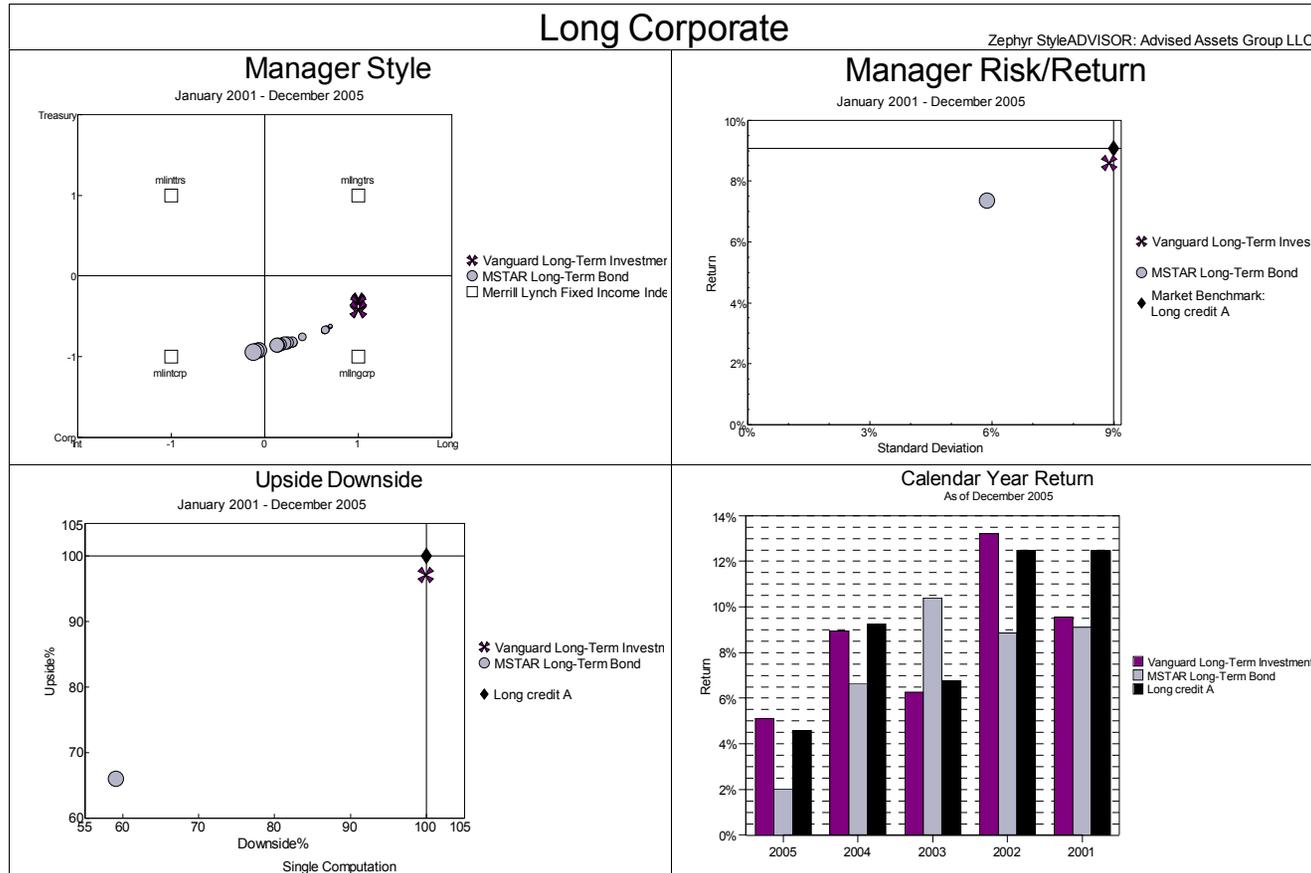
Note that the retail shares are shown to the right for historical purposes. The Plan uses the lower-cost Admiral share class.

DATA SOURCE:
Morningstar
12/31/2005



	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 (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)	Annual Return (2001)
Vanguard LT Investment-Grade Bd Adm	5.27	6.88	8.69	38	20	5.27	9.06	6.36	13.32	--
Cat: Long-Term Bond	2.21	6.15	7.13	--	--	2.27	6.77	10.52	8.98	9.03

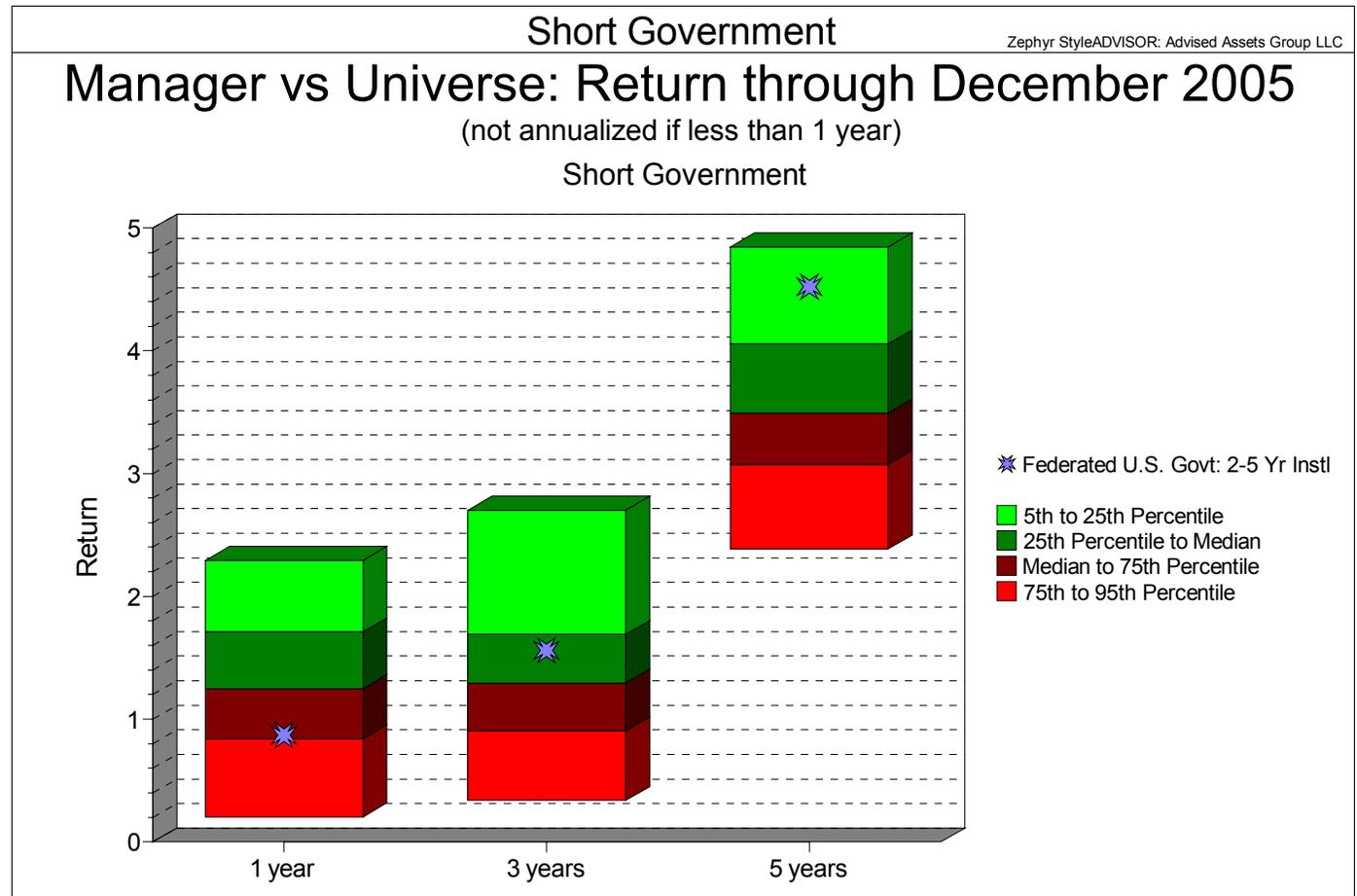
Risk Analysis



Name	Morningstar		Total Net		Assets \$M	% Cash	Total # of Holdings in Top 10	% Assets Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	% Assets						
Vanguard LT Investment-Grade Adm	3	9.53	8.88	5648.92	0.84	241	14.21	16	12	0.14
Cat: Long-Term Bond	3	6.06	5.87	367.78	9.78	169	31.53	137.87	--	1.06

Performance Benchmarking

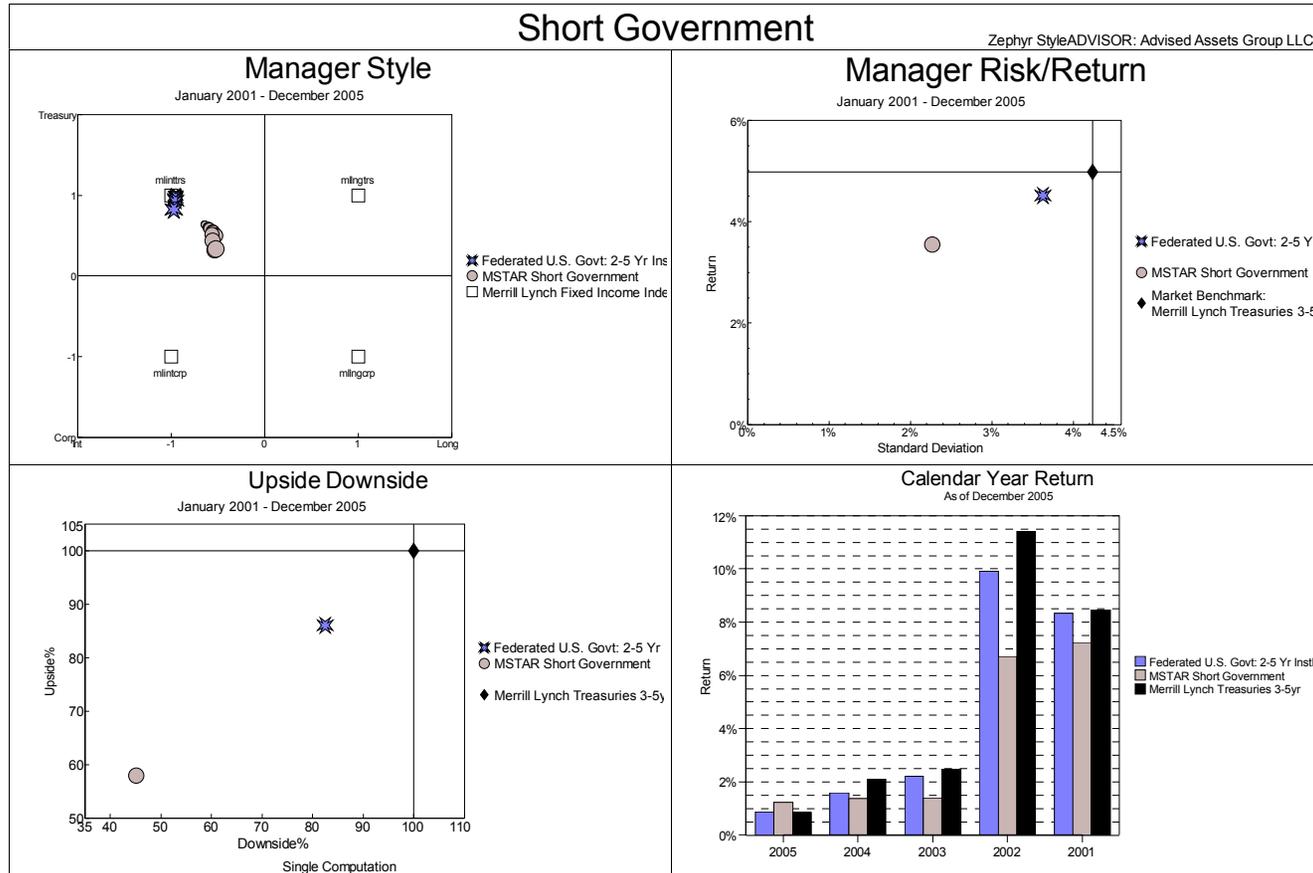
Federated U.S. Government Securities: 2-5 Year Trust seeks current income. The fund invests only in U.S. government securities with a dollar weighted duration between two and five years. It may enter into repurchase agreements.



DATA SOURCE: Morningstar 12/31/2005

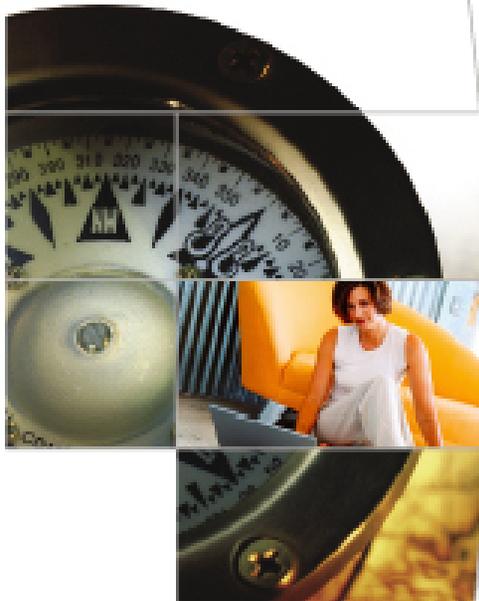
	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank 3 Yr	Tot Ret % Rank 5 Yr	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)	Annual Return (2002)	Annual Return (2001)
Federated U.S. Govt: 2-5 Yr Instl	0.87	1.56	4.52	29	11	0.87	1.6	2.22	9.92	8.33
Cat: Short Government	1.23	1.33	3.6	--	--	1.25	1.37	1.39	6.87	7.23

Risk Analysis



Name	Morningstar		Total Net		Assets \$M	% Cash	Total # of Holdings in Top 10	% Assets Turnover Ratio	Mgr Tenure	Expense Ratio
	Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr							
Federated U.S. Govt: 2-5 Yr Instl	4	3.35	3.63	744.54	0.38	27	61.24	66	8	0.59
Cat: Short Government	3	1.97	2.27	429.77	17.96	136	48.4	147.37	--	1

Lifecycle Options



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Lifecycle Option Report Card

Name	Tot Ret 3 Mo	Tot Ret 6 Mo	Annual Return (2005)	Annual Return (2004)	% Short Term	% US Stocks	% Non US Stocks	% Inv Grade Bond	% High Yield Bond
Vanguard Target Retirement 2015 (new)**	--	--	--	--	0	53.3	13.4	33.3	0
Vanguard Target Retirement 2015 (current)	3.82	1.57	4.94	9.04	0	40	10	50	0
Fidelity Freedom 2015	6.32	2.7	7.01	8.49	4	50	8	31	7
T. Rowe Price Retirement 2015	6.59	2.68	6.69		4	62	11	16	7
Composite Returns*	3.5	1.54	4.55	8.1					
Dow Jones Target 2015	2.41	0.96	2.98	9.99					
Vanguard Target Retirement 2025 (new)**	--	--	--	--	0	66	16.5	17.5	0
Vanguard Target Retirement 2025 (current)	4.62	1.78	5.45	10.11	0	48	12	40	0
Fidelity Freedom 2025	7.89	3.22	8.19	9.91	0	62	11	19	8
T. Rowe Price Retirement 2025	7.72	3.16	7.42		0	72.5	13	8.5	6
Composite Returns*	4.42	1.79	5.08	8.91					
Dow Jones Target 2025	6.75	2.08	7.41	13.7					
Vanguard Target Retirement 2035 (new)**	--	--	--	--	0	72	18	10	0
Vanguard Target Retirement 2035 (current)	6.12	2.04	6.3	11.95	0	64	16	20	0
Fidelity Freedom 2035	8.93	3.58	9.04	10.9	0	70	13	9	8
T. Rowe Price Retirement 2035	8.54	3.41	8.05		0	78.5	15	3.5	3
Composite Returns*	5.76	2.14	5.81	10.24					
Dow Jones Target 2035	9.84	3.07	10.54	16.12					
Vanguard Target Retirement 2045 (new)**	--	--	--	--	0	72	18	10	0
Vanguard Target Retirement 2045 (current)	7.13	2.32	6.95	12.89	0	72	18	10	0
T. Rowe Price Retirement 2045	8.51	3.49			0	78.5	15	3.5	3
Composite Returns*	6.75	2.39	6.36	11.23					
Dow Jones Target 2045	10.24	3.2	10.96	16.36					
Vanguard Target Retirement Income (new)**	--	--	--	--	5	24	6	65	0
Vanguard Target Retirement Income (current)	1.28	0.81	3.33	6.82	5	20	0	75	0
Fidelity Freedom Income	2.5	1.33	3.78	3.89	40	20	0	38	2
T. Rowe Price Retirement Income	4.29	1.66	4.87	7.66	30	37.5	6	20	6.5
Composite Returns*	1.26	0.83	3.17	6.41					
Dow Jones Target Today	1.88	0.95	2.63	6.12					

*Composite returns based on returns of passive benchmarks representative of the asset allocation of each fund.

Benchmarks (per Vanguard) are the Wilshire 5000, Lehman Aggregate, Lehman Treasury Inflation 1-10 Years, 3 Month T-bill and MSCI EAFE

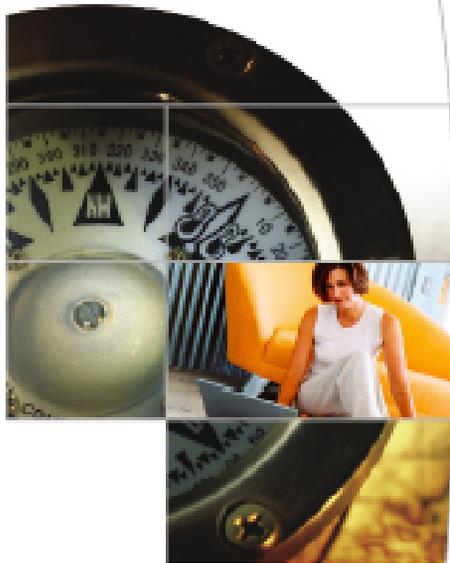
**Fund data is for 12/31/2005. Allocation changes to the Vanguard funds were not implemented until March of 2006.

Funds are listed here to illustrate allocation changes.

Lifecycle Option Observations

- As Lifecycle funds have increased in popularity the issue of measuring their performance has come to the forefront. Examples of benchmarking challenges are:
 - 1) Small universe to make “apples to apples” comparison
 - 2) Relatively new products
 - 3) Methodologies differ between vendors
- Debate on the appropriate benchmarking of Lifecycle funds continues, but the consensus leans toward the use of composite indices.
- In March 2006 Vanguard changed the asset allocation of their existing Target Retirement Funds. Details in this report use 2005 data.
- Vanguard Target Retirement Funds all perform well against their composite indices, but mostly underperformed against the Dow Jones Target Indices.
- The Vanguard Target Retirement Funds trail most of their competitors over the 3 month, 6 month, and 1 year time periods.
- Vanguard’s old allocations tend to be more conservative than its peers. For example, the 2025 fund invests 46% in stock while its peers, on average, invest 62% in equities. However, the new target allocations will put Vanguard directly in line with its peers.
- Lack of foreign exposure dampened returns in 2005. Across all funds Vanguard averaged 10.67% in foreign equities. While between Fidelity and T. Rowe the average was 14% in foreign stock. New target allocations for Vanguard will give them international exposure that is equal to or greater than their competitors.

Economic Overview



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Economic Update

The U.S. economy grew at a real rate of 4.1% in the third quarter of 2005 (QOQ ann.), following real growth of 3.3% in 2Q and 3.8% in 1Q. Expectations are for real growth in 4Q of 3.1%, and for the year of 3.4%. Growth through 2005 was characterized by solid activity with a temporary pause following Hurricanes Katrina and to a lesser extent, Rita. The impact of the hurricanes was transitory as evidenced by the data releases through November and December indicating that U.S. economic growth remained on track. A moderation in economic activity is broadly anticipated in 2006, with real economic growth expected to be just below trend at 3%, led by a downturn in housing. The economy will continue to grow, however at a less robust pace.

Inflation in 2005 was moderate. The CPI spiked in September but settled back down in October, and actually declined in November; core CPI has increased at an annualized rate of 2.0% over the past 11 months, with the headline CPI increase for the same period annualized at 3.6%. The University of Michigan 5-year inflation expectations measure remained at 3.1% in November, its highest level since 1999, though short-term expectations dropped sharply from a high of 4.6% to 3.3% in November. The Federal Reserve Board's favorite inflation measure, core PCE, was up 1.8% yoy in November, which is below the Fed's threshold of 2%. The global backdrop remains predominately disinflationary, with core consumer price inflation falling in most of the industrialized countries. Secular forces of globalization, technology, and competition have kept inflation in check. Though the consensus reflects ongoing moderate inflation, the Federal Reserve Board has been accommodative for an extended period of time. Commodities prices are up strongly, the dollar is lower and housing prices have soared. While productivity continues to increase at a fairly rapid pace, inflation could still become a problem because short rates have been held below neutral for so long.

In terms of oil prices, consensus is that every \$10/barrel increase in prices subtracts 0.2% from real GDP growth in each of the following two years. Currently, oil futures are at about \$63.9 per barrel, after briefly topping \$70 following Hurricane Katrina, versus the average price of \$27/barrel in 2003, \$43/barrel in 2004 and \$57/barrel in 2005. Following the energy price shocks of 1973-1974 and 1978-1979, the US economy ended up in recession. The current rise in energy prices is comparable to the previous two episodes, but most economists believe that the economy will be more resilient this time for two critical reasons. First, the economy is much less energy intensive. Real energy expenditures as a share of GDP are about half the level that they were in 1973. Second, the inflation environment is much different now. In both 1973 and 1979, core inflation and inflation expectations had already come unhinged before the spike in oil prices. The current inflation situation will require a milder response (less tightening) from Fed officials.

Economic Update

Since the end of 2004, the unemployment rate has fallen to 4.9% from 5.4%, and capacity utilization has increased slightly to 80.2% from 79.7%. The key points of the most recent employment data are the decline in labor market slack and the potential for upward pressure on wages. However, unit labor costs rose 1.8% in the 12 months ended in September, and productivity surprised to the upside (4.7% ann. rate in 3Q), rising at the fastest pace in two years. The jump in the price of oil is pushing businesses to become more efficient to keep costs down and profits up.

Housing is slowing, and the resulting decline in mortgage equity withdrawal will likely be a drag on consumer spending. As a result of regulatory pressure, banks are beginning to apply tighter standards in real estate lending and become more cautious in their promotion of nontraditional mortgage products. This will further slow the housing market. The housing data released at the end of December – building, inventories, lending and prices, provide support to the thesis that the housing market is in a slowdown. Federal Reserve Chairman Alan Greenspan's testimony, though, indicates that even with price declines in some local markets, a price correction in the housing market would be unlikely to “have substantial macroeconomic implications.”

The Federal Open Market Committee (FOMC) has raised the Fed funds target rate a total of 325 basis points since June of 2004, to 4.25% currently. The key points of the December FOMC statement indicated that policy setting would need to be increasingly sensitive to incoming economic data, and clearly signaled an eventual end to the tightening. Fed Funds futures reflect expectations for 4.66% by mid-year 2006. Overall and core consumer price inflation numbers were projected to move higher in the first half of 2006. The staff's forecast for real GDP growth in 2006 is 3.8%, which is above their estimate of potential sustainable growth of 3.00% - 3.25%. This suggests that the forecast for core PCE price inflation will be above Fed Reserve Board Chair, Ben Bernanke's, comfort zone of 1% - 2%.

Markets:

Price action across the broad equity indices turned up in mid-October, 2005, and the stock market gained significant momentum in the first two weeks of 2006. However, last week the broad indices turned down sharply, perhaps representing a buying opportunity. Equity returns for the broad indices were marginal last year: the S&P returned 3.00%, the NASDAQ returned 1.37% and the Dow Industrial Index returned -.61%. Year-to-date to 1/20/06, the S&P is up 1.06%, the NASDAQ is up 1.92%, and the Dow is down - 0.61%. The Dow broke through 11000 in January, for the first time since 2001, but has dropped back down to 10740. Mid-cap growth and value funds, based on the Lipper Indices, outperformed both small and large cap growth and value funds last year. International Funds were the overall best performing funds, generating double-digit returns of 15.75% in 2005.

Fixed income market returns were marginal but positive last year, generating very comparable performance relative to the broad equity indices, however, significantly lagging the performance of the largest equity mutual funds. The Lehman Brothers Aggregate Index returned 2.43% in 2005.

Like most of 2005, December was a quiet month in which most funds logged incremental gains. As happened throughout most of the year, though, there were some pockets of hot performance. Japan stock, precious metals, and diversified Pacific/Asia put up strong returns. For the most part, it was a good year for mutual fund investors. The hottest category was Latin America stock, which gained 54% on average. Among domestic categories, natural-resources funds had the largest average gains of 38%. Diversified domestic-stock funds had a solid but more moderate year, with mid-growth funds on average doing the best. The area that most disappointed fund investors was fixed income. In November the long-anticipated “inversion” of bond yields occurred when two-year bond yields topped the yield of five-year bonds. Weeks later, a more notable event made news when the two-year Treasury yield topped the 10-year Treasury yield by a very slim margin on December 27. This is why the average high quality bond fund gained only 2.1% in 2005. The area many experts thought most hazardous entering the year—the long-term government category—provided some of the best returns.

Source in part: Morningstar

Mutual Fund Performance 2005			
	VALUE	GROWTH	
SMALL CAP	4.71%	4.15%	
MID CAP	12.65%	12.10%	
LARGE CAP	7.05%	5.26%	
BOND			2.43%
INTERNATIONAL			13.54%

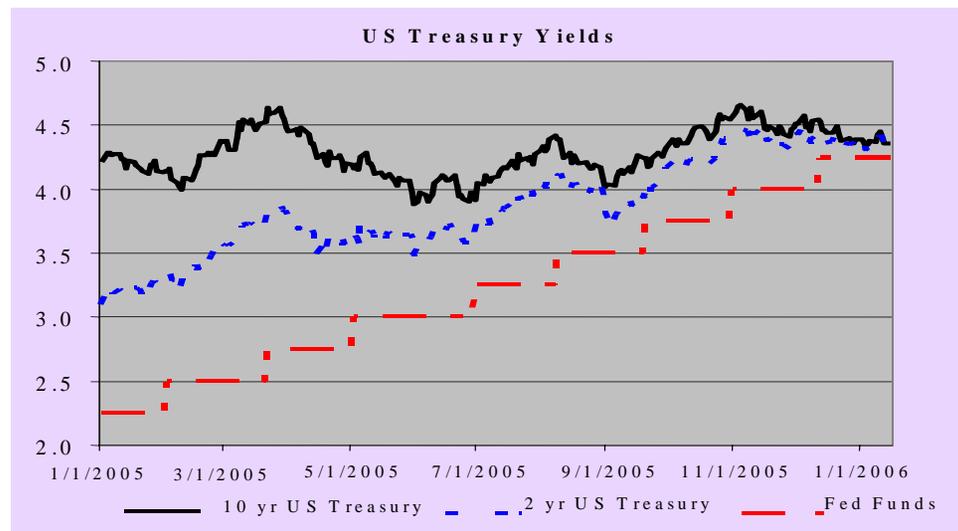
Morningstar Returns 1994-1999

Large Value 18.49%	Large Growth 26.91%
Small Value 10.54%	Small Growth 15.12%

Morningstar Returns 2000-2005

Large Value 5.57%	Large Growth -7.02%
Small Value 15.05%	Small Growth -2.32%

Interest rates at the short end of the U.S. Treasury curve rose sharply in 2005, with the 2-year U.S. Treasury yield up 126 basis points and the 3-year yield up 108 basis points. The curve flattened significantly: the 10-year U.S. Treasury yield increased only 15 basis points on the year and the 30-year yield fell 28 basis points. The trading range though was fairly wide as detailed in the yield graph below. Volatility was low through most of the year, and is expected to remain low into early 2006. A critical factor underlying the low volatility is the Federal Reserve Board's transparency and consistency, which removes uncertainty from the market. The Fed Funds rate was increased 200 basis points in 2005 to 4.25%. The expected peak in the Fed Funds targeted rate is approximately 4.75%. While volatility has remained low to date in 2006, uncertainty will increase as Ben Bernanke takes over as Chairman of the Federal Reserve Board. Once the next Fed Funds rate hike is implemented, the FOMC minutes stated that further increases will be data dependent, adding an additional element of uncertainty to the outlook



Currently, the 10-year U.S. Treasury yield is at 4.36%. Interest rates remain at historically low relative levels for a number of reasons, including foreign buying of U.S. bonds (\$922 billion for the 12 months ending September 2005), corporate demand for long-term bonds due to pension-fund requirements, restrained inflation to date and reduced corporate issuance as a result of exceptionally strong profit growth which generated cash companies needed to finance expansion. Typically, corporate borrowing accelerates as the economy moves from the recovery to the expansion phase of the business cycle; however, reduced demand for financing helped keep rates lower than normal in this expansion.

Wisconsin Deferred Compensation Plan

For Plan Sponsor Use Only

Economic Data Table:

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	52 Wk High/Low
Fed Funds	1.75%	1.25%	1.00%	2.25%	4.25%	4.25% / 2.25%
5 yr U.S. Treasury Yield	4.30%	2.74%	3.25%	3.61%	4.35%	4.56% / 3.61%
10 yr U.S. Treasury Yield	5.05%	3.81%	4.25%	4.22%	4.39%	4.66% / 3.89%
S&P 500	1148.08	879.82	1111.92	1211.92	1248.49	1272.74 / 1137.50
Operating EPS	\$38.85	\$46.44	\$54.69	\$67.68	\$76.64 (E)	
Real GDP	0.20%	2.40%	4.10%	3.80%	4.10% (Q3-QOQ)	
CPI (yoy)	1.60%	2.40%	1.90%	3.30%	3.50% (11/05)	4.7% / 2.5%
Core CPI (yoy)	2.70%	1.90%	1.10%	2.30%	2.10% (11/05)	2.4% / 2.0%
Core PCE Deflator (yoy)	1.70%	1.60%	1.30%	2.30%	1.8% (11/05)	2.3% / 1.8%
Factory Utilization	74.60%	75.20%	76.80%	79.20%	80.20%	80.3% / 78.9%
Payroll Employment	-1,782,000	-563,000	-61,000	2,231,000	2,019,000	
Unemployment Rate	5.80%	6.00%	5.90%	5.40%	4.90%	5.4% / 4.9%
Savings Rate	1.00%	1.80%	1.30%	0.70%	-0.20%	
Retail Sales (yoy)	3.10%	3.30%	5.10%	8.90%	6.40%	

Index Performance

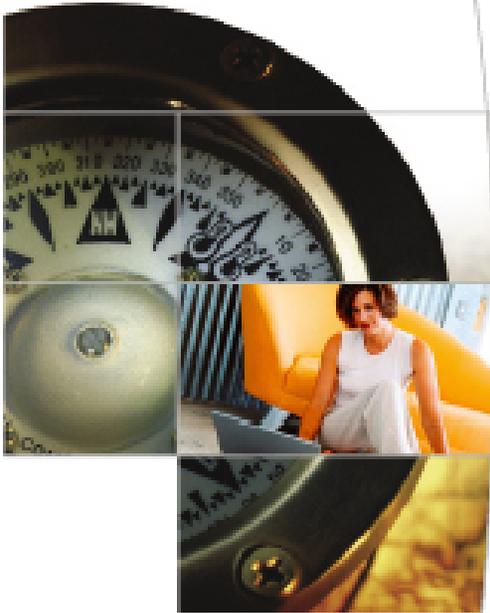
period ended 12/31/2005

Index	Total Return	Total Return	Total Return	Total Return	Annual Return					
	1 Year	3 Year	5 Year	10 Year	2005	2004	2003	2002	2001	
International	MSCI EMF ID	30.31	34.23	16.23	4.43	30.31	22.45	51.59	-7.97	-4.68
	MSCI Eafe Ndrtr_D	13.54	23.68	4.56	5.84	13.54	20.25	38.59	-15.94	-21.42
	MSCI World Ndrtr_D	9.49	18.69	2.19	7.04	9.49	14.72	33.11	-19.89	-16.80
Small-Cap	Russell 2000 Growth	4.15	20.93	2.28	4.69	4.15	14.31	48.54	-30.26	-9.23
	Russell 2000	4.55	22.13	8.22	9.26	4.55	18.33	47.25	-20.48	2.49
	Russell 2000 Value	4.71	23.18	13.55	13.08	4.71	22.25	46.03	-11.43	14.02
Mid-Cap	Russell Midcap Growth	12.10	22.70	1.38	9.27	12.10	15.48	42.71	-27.41	-20.15
	Standard & Poor's Midcap 400	12.55	21.13	8.59	14.35	12.55	16.47	35.59	-14.53	-0.60
	Russell Midcap Value	12.65	24.38	12.21	13.65	12.65	23.71	38.07	-9.64	2.33
Large-Cap	Russell 1000 Growth	5.26	13.23	-3.58	6.73	5.26	6.30	29.75	-27.88	-20.42
	Standard & Poor's 500	4.91	14.38	0.54	9.07	4.91	10.87	28.67	-22.09	-11.88
	Russell 1000 Value	7.05	17.49	5.28	10.94	7.05	16.49	30.03	-15.52	-5.59
Bond	Lehman Brothers Aggregate Bond	2.43	3.62	5.87	6.16	2.43	4.34	4.10	10.25	8.44
	Lehman Brothers Credit	1.96	4.94	7.11	6.46	1.96	5.24	7.70	10.52	10.40
	Lehman Brothers Mortgage-Backed	2.61	3.46	5.44	6.17	2.61	4.70	3.07	8.75	8.22
	Lehman Brothers Government Bond	2.65	2.83	5.39	5.94	2.65	3.48	2.36	11.50	7.23
	Lehman Brothers 1-3 Year Governm	1.73	1.60	3.83	4.89	1.73	1.07	2.01	6.01	8.53

MSCI EMF ID	A capitalization-weighted index of stocks from 26 emerging markets that only includes issues that may be traded by foreign investors. The reported returns reflect equities priced in US dollars and do not include the effects of reinvested dividends.
MSCI Eafe Ndrtr_D	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.
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.
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.
Russell 2000	Consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization.
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.
Russell Midcap Growth	Market-weighted total return index that measures the performance of companies within the Russell Midcap Index having higher price-to-book ratios and higher forecasted growth values.
Standard & Poor's Midcap 400	Includes approximately 10% of the capitalization of U.S. equity securities. These are comprised of stocks in the middle capitalization range.
Russell Midcap Value	Market-weighted total return index that measures the performance of companies within the Russell Midcap Index having lower price-to-book ratios and lower forecasted growth values.
Russell 1000 Growth	Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Standard & Poor's 500	A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation.
Russell 1000 Value	Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
LB Aggregate Bond	Composed of the Lehman Brothers Govt/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index.
LB 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.
LB Mortgage-Backed	Includes 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA).
LB Government Bond	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.
LB 1-3 Year Governm	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).

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Investment Policy Statement and Fund Benchmarks



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

Objective

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

Investment Spectrum

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

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

Selection Process

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

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

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

Evaluation Process

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

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

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

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

Responsibilities

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

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

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

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

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

Investment Benchmarks

Investment Product	2005 Performance Benchmarks
American Funds EuroPacific Growth R5	1. MSCI EAFE Index* 2. Morningstar Foreign Large Cap Blend Category Average**
Barclay's EAFE Equity Index Fund	1. MSCI EAFE*
T. Rowe Price International Stock Fund (Closed)	1. MSCI EAFE Index* 2. Lipper International Fund Index* 3. Morningstar Foreign Large Cap Growth Category Average**
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*
Janus Fund (Closed)	1. Russell 1000 Growth* 2. S&P 500* 3. S&P 500/Citigroup Growth (formerly Barra)** 4. Morningstar Large Cap Growth Category Average**
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** 4. Russell 3000 Index**
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.

Glossary



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Geometric Mean Return A compounded and annualized rate of return.

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

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

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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.

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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.

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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.

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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.

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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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