AGENDA AND NOTICE OF MEETING

STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD MEETING

Tuesday, May 6, 2008
1:00 p.m.

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

Documents for this meeting are available online at:
http://etf.wi.gov/boards/board_dc.htm
To request a printed copy of the agenda items, please call
Sharon Walk at (608) 267-2417.

Times shown below are estimates only.
Denotes action item.

1:00 p.m.	(action)	**1.**	**Consideration of Minutes of March 4, 2008, Meeting**
1:05 p.m.		**2.**	**2007 Investment Performance Review**
1:30 p.m.	(action)	**3.**	**Stable Value Fund Subadvisor**
1:45 p.m.		**4.**	**Legislative Update**
1:50 p.m.	(action)	**5.**	**Plan and Trust Document Changes** • 2007 WI Act 131
1:55 p.m.	(action)	**6.**	**Administrative Code Revision Approval** • ETF 70.08 (3)—Fund Phase Out Start Date • ETF 70.10—Emergency Withdrawals • ETF 70.02—Definition of Beneficiary
2:00 p.m.	(action)	**7.**	**Default Fund Discussion**
2:25 p.m.	(action)	**8.**	**Managed Accounts/Reality Investing**
2:35 p.m.		**9.**	**Audit Reports** • Contract Compliance • Financial Statements
2:45 p.m.		**10.**	**Wisconsin Deferred Compensation Program Statistics and Survey Results**

3:15 p.m.		**11.**	**Miscellaneous**

- Cover memo and informational items, including, but not limited to:
  - Fixed Investment Option Request For Proposal Update
  - Wisconsin Deferred Compensation Program Information -- Stepping Stones Program
  - Investment Product Information
  - Reports
  - Correspondence
  - Media Articles
- Future agenda items

3:20 p.m.		**12.***	**Great-West Retirement Services Contract Renewal**
3:40 p.m.		**13.**	**Announcement of Action Taken on Business Deliberated During Closed Session**
3:45 p.m.		**14.**	**Adjournment**

***The Board may be required to meet in closed session pursuant to the exemptions contained in Wis. Stats. § 19.85(1)(e) to discuss the use of public employee trust funds. If a closed session is held, the Board will reconvene into open session for further actions on these and subsequent agenda items.**

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

DRAFT

MINUTES OF MEETING

STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD

March 4, 2008
1:00 p.m.

801 West Badger Road
Conference Room GB
Madison, Wisconsin

BOARD PRESENT:	Edward Main, Chair John Nelson, Vice-Chair (via conference call) Michael Drury Gail Hanson
BOARD ABSENT:	Martin Beil, Secretary
PARTICIPATING STAFF:	Dave Stella, Secretary Bob Conlin, Deputy Secretary Shelly Schueller, Director, Wisconsin Deferred Compensation Program Sharon Walk, Board Liaison
OTHERS PRESENT:	Jim Bye, Great-West Retirement Services Rhonda Dunn, Executive Assistant Shelley Fredrick, Great-West Retirement Services Jean Gilding, Division of Retirement Services Tom Gilland, Retired, City of Milton Jon Kranz, Office of Internal Audit and Budget Ann McCarthy, Board Liaison Dave McLeod, Advised Assets Group Sue Oelke, Great-West Retirement Services

Edward Main, Chair, called the Deferred Compensation Board (Board) meeting to order at 1:02 p.m.

Ms. Shelly Schueller announced that the Wisconsin Deferred Compensation (WDC) Program is now part of the Division of Retirement Services (DRS) in the Department of Employee Trust Funds (Department). She introduced her new supervisor, Jean Gilding, DRS Deputy Division Administrator.

Consideration of Minutes of November 13, 2007, Meeting

> ***Motion: Mr. Drury moved acceptance of the minutes of the November 13, 2007, meeting as submitted by the Board Liaison. Ms. Hanson seconded the motion, which passed without objection on a voice vote.***

Board	Mtg Date	Item #
DC	05/06/2008	1

Election of Officers

> ***Motion: Mr. Drury moved to cast a unanimous ballot for the current slate of officers (Ed Main, Chair; John Nelson, Vice-Chair; and Martin Beil, Secretary) for a one-year term. Ms. Hanson seconded the motion, which passed without objection on a voice vote.***

Managed Account Services

Ms. Schueller reminded the Board that for the past year they have discussed the managed account service, Reality Investing, offered through Advised Assets Group (AAG). The Board asked the Deferred Compensation Investment Committee (Committee) to review this service and report back to the Board with its findings. As part of the review, Department staff conducted due diligence research by issuing a Request for Information (RFI) to ascertain what other services might be available to participants. Eight vendors responded to the RFI. Ms. Schueller referred the Board to the memo that summarized the managed account marketplace. None of the eight responses were as complete as the AAG proposal, due to either high cost, lack of experience in managed accounts, or the inability to allow outside financial resources to be included. Staff recommended that the Board consider offering the Reality Investing service provided by AAG to WDC Program participants.

Dave McLeod, managing director, AAG, discussed the *Preferred Pricing* feature available through Reality Investing. *Preferred Pricing* would become effective when the 10% threshold of assets criteria is met.

> ***Motion: Ms. Hanson moved approval of the staff recommendation to offer the AAG managed account service, Reality Investing, to WDC participants, contingent upon the review of the contract and awareness campaign materials by the Investment Committee, and final approval of the Board at the May 2008 meeting. Mr. Drury seconded the motion, which passed without objection on a voice vote.***

Great-West Retirement Services (GWRS) Recordkeeping Errors

Ms. Schueller advised the Board that GWRS made two investment-related recordkeeping errors during the second half of 2007. One error involved the daily interest rate from July through August of 2007. The rate that was credited was 4.897% when it should have been 5.009%, a difference of 0.112%. This error affected 2,868 of the approximately 46,000 WDC participants.

The second error occurred when the BGI EAFE Equity Index “W” was merged into the “T” fund. GWRS staff did not realize that the exchange of shares was not a one-to-one ratio. This error affected approximately 7,750 participants. GWRS has corrected the accounts and the participants received a letter describing what was done. Shelley Fredrick from GWRS provided a short explanation of what occurred, how GWRS addressed the problem and assured the Board that this type of error would not occur in the future.

Financial Emergency Hardship Application Trends

Ms. Schueller discussed the memo that had been provided to the Board regarding hardship application trends. Local GWRS staff review each hardship application to ensure that the appropriate documentation is completed before it is forwarded to the Department for approval or denial. The number of hardship applications has increased over the past four years. The most cited reasons for requesting a withdrawal were home foreclosures, loss of income and medical expenses. Ms. Schueller reminded the Board that it discussed offering loans at its May 15, 2007, meeting and decided not to offer them. Ms. Schueller mentioned that if the hardship workload continues to increase, it might be necessary to review the current processes to determine whether changes should be made.

Public Safety Officer Health Insurance Premium Deductions

Mr. Conlin mentioned that at the November 2007 Board meeting the Department was directed to develop legislation to address the withholding of health insurance or long-term care insurance premiums for public safety officers from WDC participants' accounts. Mr. Conlin discussed three bills that are pending before the legislature: Assembly Bill (AB) 851, Senate Bill (SB) 471 and AB 801. All three bills contain the WDC provision as well as a Wisconsin Retirement System (WRS) provision. AB 851 and SB 471 are identical proposals which would require the Department to provide this service to public safety officers who elect to have health insurance or long-term care premiums deducted from their WRS annuity. AB 801 is broader and would offer this service to anyone in the WRS. The Department has expressed concern regarding the lack of resources to implement the WRS portion of these bills. This is not a concern for the WDC portion of the bills as the service would be provided by GWRS under the current administrative process.

Proposed Scope Statement Concerning Amendments to Wisconsin Administrative Code ETF 11.11

Mr. Conlin discussed the proposed scope statement relating to Wis. Admin. Code ETF 11.11 dealing with the appointment of counsel to represent the Board. The intent of the proposed scope statement is to provide the Board and the Department with more flexibility in managing the legal caseload. Mr. Conlin noted that the Employee Trust Funds Board, the Wisconsin Retirement Board, the Teachers Retirement Board and the Group Insurance Board have approved the scope statement.

> ***Motion: Mr. Drury moved to approve the scope statement. Ms. Hanson seconded the motion, which passed without objection on a voice vote.***

Administrative Code Revision Update

Ms. Schueller updated the Board on the status of the administrative code pertaining to fund closures and phase-out dates. Currently the administrative rule states that a fund closure begins on January 1 and ends on December 31. This has caused problems with end-of-year market closure dates and account reconciliations. In November 2007, the Board approved a scope statement authorizing revisions to the administrative rules so that a fund closure would begin six months after Board approval. The scope statement also defines emergency withdrawals to include the beneficiary of a participant and further defines the definition of a beneficiary. The scope statement that the Board approved in November of 2007 was published in the December 1, 2007, Wisconsin Administrative Register and the draft rule was submitted to the Legislative Clearinghouse in February 2008. It was published in the Administrative Register on February 29, 2008. A public hearing is scheduled for March 19, 2008. The revision will be on the May 6, 2008, WDC Board agenda for final approval before it is submitted to the legislature.

2006 Financial Statements Audit Letter Response

Ms. Schueller noted that the management letter that accompanied the 2006 Financial Statements Audit Report from the Board's auditors, Clifton Gunderson, identified deficiencies in the administration of the WDC. After discussion with Department staff, GWRS and Clifton Gunderson, an improved general ledger has been developed that will be used to reconcile quarterly statement data. The management report also identified two emergency hardship withdrawals as questionable. Staff reviewed these and determined that while these started out as hardship withdrawals, upon further examination it was noted that both of these participants had separated from service and, therefore, could take a distribution. The 2007 financial statements audit and 2007 compliance audit are now underway.

Fixed Investment Option Request for Proposal (RFP) Update

Ms. Schueller updated the Board on the status of the Fixed Investment Option RFP. This RFP has been on hold, pending the revisions to the administrative code to change the starting date for a fund closure phase-out.

Miscellaneous

Ms. Schueller referred the Board members to the miscellaneous items in their binders.

Future Agenda Items

The following items will be added to a future Board meeting:
- Mr. Nelson requested more information from Galliard on its holdings and exposure, specifically mortgage-backed securities, collateralized debt obligations, structured investment vehicles, and a list of the insurance wrapper providers.
- Ms. Hanson asked for an update on the WDC's default fund selection in light of the 2006 Pension Protection Act changes to Employee Retirement Income Security Act rules.

Adjournment

Motion: Ms. Hanson moved to adjourn. Mr. Drury seconded the motion, which passed without objection on a voice vote.

The meeting was adjourned at 2:10 p.m.

Date Approved: ____________________________

Signed: ____________________________________
Martin Beil, Secretary
Deferred Compensation Board

STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

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DATE: April 1, 2008

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: 2007 Annual Investment Performance Review

<u>This memo is for information purposes only.</u>

The ***2007 Annual Investment Performance Review***, prepared by Advised Assets Group (AAG), is presented for your review and comment. This memo summarizes the findings. In the report, AAG notes that the weighted average return for all Wisconsin Deferred Compensation Program (WDC) participants as of December 31, 2007, was 10.07%. AAG also comments on the following funds:

- *Calvert Social Investment Fund* – This fund was added to the WDC in 2003 as the WDC's socially responsible investment fund option. While it outperformed all benchmarks over one year and most of its benchmarks over three years, it continues to underperform its benchmarks over the five-year period.
- *DFA U.S. Microcap* – This fund has struggled recently, with returns ranking it in the third quartile four out of the last five quarters of rolling three-year quartile rankings. Over five years, this fund carries a higher standard deviation than its Morningstar category average, but has also yielded higher returns than the category over the same time period.
- *Fidelity Contrafund* – This fund returned 19.87% in 2007. It beat all of its benchmarks over all time periods. Morningstar named Contrafund manager Will Danoff its "Manager of the Year" for 2007.
- *Vanguard Target Retirement Funds* – The Board added these lifecycle funds to the WDC in 2005. Overall, the returns from these funds are in-line with their composite indices over the one and three-year terms, but mostly lag their competitors' returns over the three-year term.

The details in the report demonstrate that the Board has done a good job of selecting investment options. Despite increased uncertainty in the economic markets, the majority of the WDC's investment options continued to meet or exceed established performance benchmarks.

Growth

During 2007, the WDC Program continued to experience steady growth in both new deferrals and investment income. As of December 31, 2007, the WDC had nearly 47,000 participants and assets exceeding $2.29 billion. In comparison, at the close of 2006 the WDC had 44,100 participants and assets of just over $2 billion, and at the end of 2005 the WDC had approximately 42,800 participants and assets of over $1.8 billion.

Staff from the Department and AAG will be available at the Board meeting to discuss the report.

attachment

Reviewed and approved by Jean Gilding, Deputy Administrator,
Division of Retirement Services

Signature Date

Board	Mtg Date	Item #
DC	05/06/2008	2

Wisconsin Deferred Compensation Plan

Fund Performance Review

December 31, 2007

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

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Section

1st Quarter Update

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Fund Compliance Report Card as of 3/31/2008

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

Name	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret Annlzd 10 Yr	Total Net Assets $M	Expense Ratio
American Funds EuroPacific Gr R5	6.64	17.63	23.57	10.01	114,632.24	0.53
MSCI AC World Ex USA NR USD	2.15	16.01	23.54	--	--	--
MSCI EAFE Free NR USD	-2.70	13.32	21.40	6.17	--	--
Lipper International Funds	-1.33	13.64	20.56	6.31	--	--
Cat: Foreign Large Blend	-1.20	13.72	20.16	5.51	3,689.84	1.49
Barclay's EAFE Equity Index Fund W	-2.61	13.38	21.34	--	--	
MSCI EAFE Ndtr_D	-2.70	13.32	21.40	6.18	--	--
DFA U.S. Micro Cap	-16.34	3.72	15.65	8.26	3,996.28	0.52
Russell 2000	-13.00	5.06	14.90	4.96	--	--
Russell Micro Cap TR	-20.16	1.33	13.41	--	--	--
Cat: Small Blend	-13.29	4.47	14.63	6.21	685.46	1.43
Barclay's Russell 2000 Index Fd	-12.95	5.10	14.76	--	--	
Russell 2000	-13.00	5.06	14.90	4.96	--	--
T. Rowe Price Mid-Cap Growth	1.74	9.63	16.39	8.67	15,228.53	0.80
Lipper Mid Cap Growth	-2.82	7.55	13.62	4.94	--	--
Russell Midcap Growth	-4.55	7.77	15.20	5.15	--	--
Standard & Poor's Midcap 400	-6.97	7.06	15.10	9.02	--	--
Cat: Mid Growth	-3.49	7.34	13.62	5.32	832.06	1.51
Barclay's Mid Cap Equity Index Fund W	-6.82	7.18	15.23	--	--	
Standard & Poor's Midcap 400	-6.97	7.06	15.10	9.02	--	--
Calvert Social Investment Equity I	1.78	6.26	10.10	6.26	1,186.65	0.67
Standard & Poor's 500	-5.08	5.85	11.32	3.50	--	--
Calvert Social Index	-7.42	4.17	9.15	--	84.48	0.21
Lipper MultiCap Core	-5.57	5.81	11.76	4.60	--	--
Morningstar Socially Resp Large Cap Index	-6.04	4.73	9.85	3.07	448.11	1.23
Fidelity Contrafund	4.87	11.18	15.71	8.15	71,506.11	0.89
Standard & Poor's 500	-5.08	5.85	11.32	3.50	--	--
Lipper Growth Fund Average	-0.12	5.85	9.31	2.29	--	--
Cat: Large Growth	-1.28	6.18	10.32	2.66	3,167.86	1.39

Grey bars indicate fund benchmarks; white indicates current funds

DATA SOURCE:
Morningstar 3/31/2008

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Fund Compliance Report Card as of 3/31/2008

= 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	-5.07	5.86	11.34	3.58	67,340.04	0.03
Standard & Poor's 500	-5.08	5.85	11.32	3.50	--	--
Vanguard Wellington Adm	3.04	8.85	12.30	7.23	48,900.52	0.16
Lipper Balanced Fund	-1.68	5.42	8.70	4.15	--	--
Cat: Moderate Allocation	-1.99	5.58	9.29	4.45	3,421.74	1.37
65% S&P Barra Value/35% Lehman Agg	-1.85	6.25	10.85	5.73	--	--
Vanguard Long-Term Investment-Grade Adm	2.49	3.56	4.93	6.18	5,730.41	0.12
Lehman Brothers LT Corp A or Better	-0.70	2.54	4.22	5.69	--	--
Cat: Long-Term Bond	2.25	3.82	5.10	5.36	820.72	0.85
Barclay's US Debt Index	7.81	5.53	4.61	--	--	
Lehman Brothers Aggregate Bond	7.67	5.48	4.58	6.04	--	--
Federated U.S. Govt: 2-5 Yr Instl	11.87	6.19	4.03	5.53	817.93	0.59
Merrill Lynch 3-5 Year Treasury	13.34	6.82	4.53	6.13	--	--
Lipper Short-Inter U.S.	8.54	4.84	3.71	4.93	--	--
Cat: Short Government	6.71	4.43	2.95	4.38	485.93	0.94
Vanguard Adm Money Market	4.34	4.23	3.01	3.57	22,896.30	0.10
iMoneyNet Average Treasury MM	3.44	3.47	2.33	2.95	--	--

Grey bars indicate fund benchmarks; white indicates current funds

DATA SOURCE: Morningstar
3/31/2008

Executive Summary

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Fund Compliance Report Card

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	19.22	20.92	23.10	12.34	124,010.18	0.53
MSCI AC World Ex USA NR USD	16.65	19.88	24.02	--	--	--
MSCI EAFE Free NR USD	11.17	16.83	21.59	8.65	--	--
Lipper International Funds	12.41	17.18	20.83	8.80	--	--
Cat: Foreign Large Blend	12.71	17.22	20.31	7.94	3,867.00	1.51
Barclay's EAFE Equity Index Fund W	11.39	16.96	21.53	--	--	0.10
MSCI EAFE Ndtr_D	11.17	16.83	21.59	8.66	--	--
DFA U.S. Micro Cap	-5.22	5.18	17.23	10.58	4,175.88	0.53
Russell 2000	-1.57	6.80	16.25	7.08	--	--
Russell Micro Cap TR	-8.00	3.22	15.87	--	--	--
Cat: Small Blend	-1.10	6.93	15.72	8.30	719.79	1.43
Barclay's Russell 2000 Index Fd	-1.59	6.74	16.08	--	--	0.05
Russell 2000	-1.57	6.80	16.25	7.08	--	--
T. Rowe Price Mid-Cap Growth	17.65	12.99	18.74	11.56	15,902.49	0.80
Lipper Mid Cap Growth	16.48	11.70	16.45	7.78	--	--
Russell Midcap Growth	11.43	11.39	17.90	7.59	--	--
Standard & Poor's Midcap 400	7.98	10.27	16.20	11.19	--	--
Cat: Mid Growth	15.09	11.23	16.33	8.06	883.80	1.52
Barclay's Mid Cap Equity Index Fund W	8.07	10.35	16.30	--	--	0.04
Standard & Poor's Midcap 400	7.98	10.27	16.20	11.19	--	--
Calvert Social Investment Equity I	10.53	8.64	11.10	8.39	1,215.76	0.67
Standard & Poor's 500	5.49	8.62	12.83	5.91	--	--
Calvert Social Index	3.23	6.15	10.98	--	88.74	0.21
Lipper MultiCap Core	6.48	8.68	13.35	7.03	--	--
Morningstar Socially Resp Large Cap Index	5.25	7.33	11.54	5.43	483.59	1.21
Fidelity Contrafund	19.78	15.80	17.99	10.72	72,968.96	0.90
Standard & Poor's 500	5.49	8.62	12.83	5.91	--	--
Lipper Growth Fund Average	14.21	8.66	11.74	5.00	--	--
Cat: Large Growth	13.35	9.11	12.75	5.28	3,368.29	1.40

Grey bars indicate fund benchmarks; white indicates current funds

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

DATA SOURCE:
Morningstar 12/31/2007

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Fund Compliance Report Card

= 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	5.50	8.63	12.84	5.98	68,555.82	0.03
Standard & Poor's 500	5.49	8.62	12.83	5.91	--	--
Vanguard Wellington Adm	8.48	10.12	12.44	8.47	49,110.76	0.17
Lipper Balanced Fund	5.93	7.05	9.63	5.64	--	--
Cat: Moderate Allocation	5.99	7.32	10.24	5.99	3,532.97	1.39
65% S&P Barra Value/35% Lehman Agg	3.86	8.32	11.30	6.69	--	--
Vanguard Long-Term Investment-Grade Adm	3.86	4.03	5.48	6.39	5,738.48	0.12
Lehman Brothers LT Corp A or Better	1.65	3.14	5.08	6.02	--	--
Cat: Long-Term Bond	3.10	3.75	5.86	5.68	633.94	0.84
Barclay's US Debt Index	7.01	4.58	4.44	--	--	0.05
Lehman Brothers Aggregate Bond	6.97	4.56	4.42	5.97	--	--
Federated U.S. Govt: 2-5 Yr Instl	9.18	4.40	3.40	5.25	730.99	0.60
Merrill Lynch 3-5 Year Treasury	9.86	4.68	3.72	5.79	--	--
Lipper Short-Inter U.S.	7.24	3.74	3.32	4.81	--	--
Cat: Short Government	5.87	3.58	2.66	4.31	479.97	0.93
Vanguard Adm Money Market	4.78	4.14	2.91	3.62	20,637.37	0.10
iMoneyNet Average Treasury MM	3.99	3.42	2.26	3.02	--	--

Grey bars indicate fund benchmarks; white indicates current funds

DATA SOURCE: Morningstar
12/31/2007

Rolling 3 Year Quartile Rankings

Name	2007 Q4	2007 Q3	2007 Q2	2007 Q1	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
American Funds EuroPacific Gr R5	90	83	81	75	88	86						
Calvert Social Investment Equity I	46	34	46	59	59	60						
DFA U.S. Micro Cap	29	51	39	44	48	55						
Federated U.S. Govt: 2-5 Yr Instl	94	55	39	91	40	34						
Fidelity Contrafund	96	94	96	99	98	99						
T. Rowe Price Mid-Cap Growth	68	66	78	82	77	83						
Vanguard Institutional Index Instl Pl	57	57	54	62	74	67						
Vanguard Long-Term Inv Grade Adm	72	65	67	68	80	72						
Vanguard Wellington Adm	95	92	90	89	91	91						

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

DATA SOURCE: Morningstar
12/31/2007

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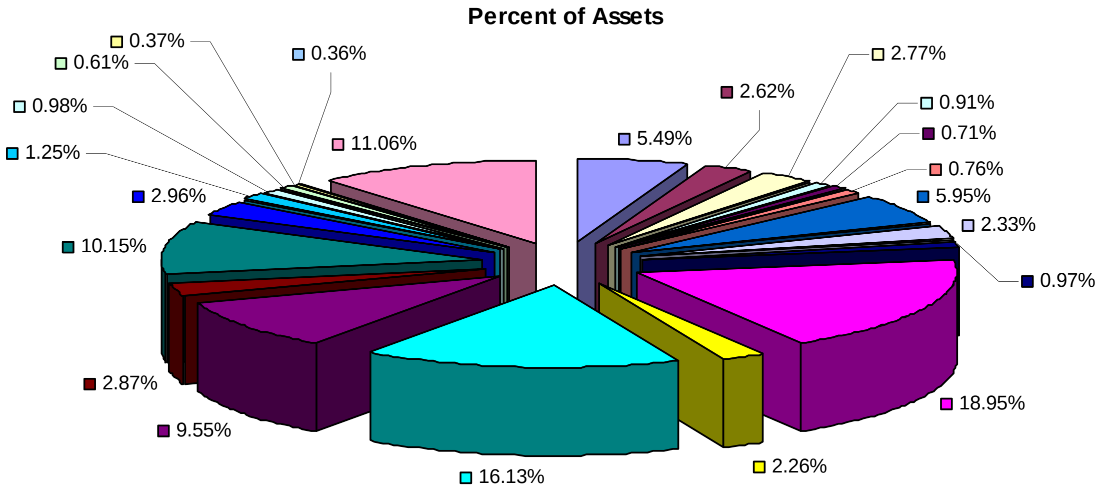
Plan Asset Summary

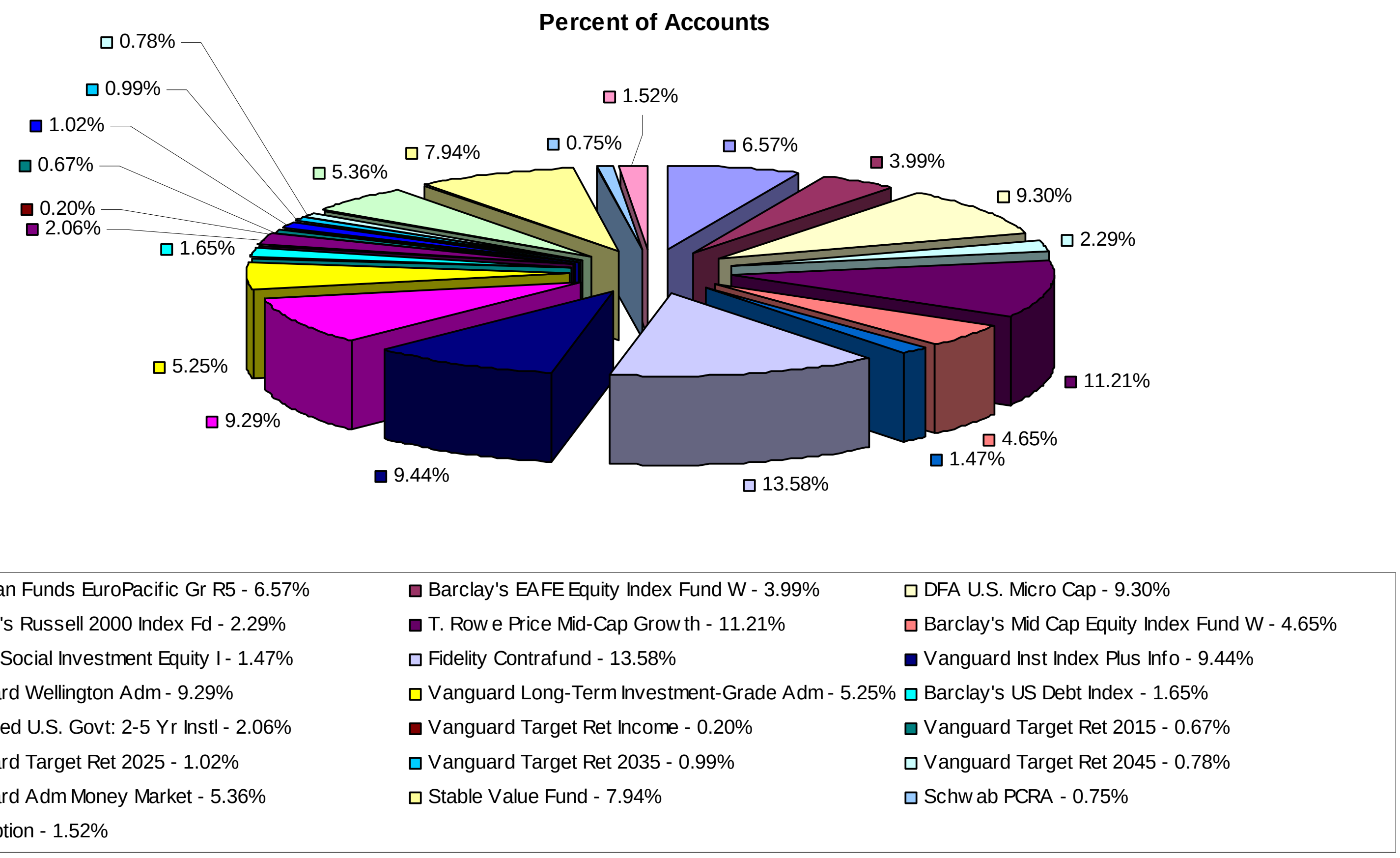
	Plan Inception Date	Fund Net Assets	WDC Assets in Fund	WDC as a Percentage of Fund Assets	Fund as a Percentage of WDC Assets	Number of Participants	Percentage of WDC Participants Utilizing Fund
American Funds EuroPacific Gr R5	01/28/2005	$114,471,104,347	$125,901,478.51	0.11%	5.49%	12,709	27.68%
Barclay's EAFE Equity Index Fund W	02/01/2001	N/A	$60,110,975.85	N/A	2.62%	7,730	16.84%
DFA U.S. Micro Cap	02/01/1997	$4,175,876,990	$136,446,560.31	3.27%	5.95%	18,004	39.22%
Barclay's Russell 2000 Index Fd	02/20/2004	N/A	$20,911,258.28	N/A	0.91%	4,423	9.63%
T. Rowe Price Mid-Cap Growth	02/01/1998	$15,906,448,640	$219,174,958.19	1.38%	9.55%	21,700	47.27%
Barclay's Mid Cap Equity Index Fund W	02/01/2001	N/A	$63,491,754.80	N/A	2.77%	9,001	19.61%
Calvert Social Investment Equity I	04/18/2003	$1,215,759,097	$17,430,641.76	1.43%	0.76%	2,847	6.20%
Fidelity Contrafund	01/31/1994	$72,968,956,723	$434,894,510.94	0.60%	18.95%	26,289	57.26%
Vanguard Inst Index Plus Info	09/09/1990	$68,555,823,223	$232,944,076.56	0.34%	10.15%	18,269	39.79%
Vanguard Wellington Adm	10/26/2001	$49,110,757,815	$253,834,691.88	0.52%	11.06%	17,986	39.18%
Vanguard Long-Term Investment-Grade Adm	10/26/2001	$5,738,484,104	$67,826,704.37	1.18%	2.96%	10,165	22.14%
Barclay's US Debt Index	02/01/2001	N/A	$16,193,166.78	N/A	0.71%	3,199	6.97%
Federated U.S. Govt: 2-5 Yr Instl	02/03/1992	$731,924,778	$22,189,794.39	3.03%	0.97%	3,989	8.69%
Vanguard Target Ret Income	07/29/2005	$1,690,443,489	$8,259,048.48	0.49%	0.36%	382	0.83%
Vanguard Target Ret 2015	07/29/2005	$7,255,582,031	$28,774,318.28	0.40%	1.25%	1,306	2.84%
Vanguard Target Ret 2025	07/29/2005	$7,239,093,649	$22,577,524.15	0.31%	0.98%	1,974	4.30%
Vanguard Target Ret 2035	07/29/2005	$4,736,604,936	$14,085,087.38	0.30%	0.61%	1,910	4.16%
Vanguard Target Ret 2045	07/29/2005	$2,306,430,354	$8,465,182.45	0.37%	0.37%	1,507	3.28%
Vanguard Adm Money Market	10/01/1993	$20,637,373,890	$65,798,807.28	0.32%	2.87%	10,382	22.61%
Stable Value Fund	09/01/1996	N/A	$370,269,806.71	N/A	16.13%	15,374	33.49%
Schwab PCRA	02/17/2000	N/A	$51,880,569.03	N/A	2.26%	1,444	3.15%
FDIC Option	12/31/1996	N/A	$53,464,778.52	N/A	2.33%	2,940	6.40%

Total WDC Assets (as of 12/31/2007): $2,294,925,694.90



American Funds EuroPacific Gr R5 - 5.49%	Barclay's EAFE Equity Index Fund W - 2.62%	Barclay's Mid Cap Equity Index Fund W - 2.77%
Barclay's Russell 2000 Index Fd - 0.91%	Barclay's US Debt Index - 0.71%	Calvert Social Investment Equity I - 0.76%
DFA U.S. Micro Cap - 5.95%	FDIC Option - 2.33%	Federated U.S. Govt: 2-5 Yr Instl - 0.97%
Fidelity Contrafund - 18.95%	Schwab PCRA - 2.26%	Stable Value Fund - 16.13%
T. Rowe Price Mid-Cap Growth - 9.55%	Vanguard Adm Money Market - 2.87%	Vanguard Inst Index Plus Info - 10.15%
Vanguard Long-Term Investment-Grade Adm - 2.96%	Vanguard Target Ret 2015 - 1.25%	Vanguard Target Ret 2025 - 0.98%
Vanguard Target Ret 2035 - 0.61%	Vanguard Target Ret 2045 - 0.37%	Vanguard Target Ret Income - 0.36%
Vanguard Wellington Adm - 11.06%		

Total Number of WDC Participant Accounts (as of 12/31/2007): 193,530



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Fund Expense v. Category

Name	Expense Ratio	Name	Expense Ratio
American Funds EuroPacific Gr R5	0.53	Fidelity Contrafund	0.90
Cat: Foreign Large Blend	1.51	Cat: Large Growth	1.40
Barclay's EAFE Equity Index Fund W	0.10	Vanguard Inst Index Plus Info	0.03
Morningstar Foreign Large Blend Index	0.83	Morningstar Large Cap Blend Index	0.62
DFA U.S. Micro Cap	0.53	Vanguard Wellington Adm	0.17
Cat: Small Blend	1.43	Cat: Moderate Allocation	1.39
Barclay's Russell 2000 Index Fd	0.05	Vanguard Long-Term Investment-Grade Adm	0.12
Morningstar Small Cap Blend Index	0.86	Cat: Long-Term Bond	0.84
T. Rowe Price Mid-Cap Growth	0.80	Barclay's US Debt Index	0.05
Cat: Mid Growth	1.52	Morningstar Intermediate Bond Index	0.42
Barclay's Mid Cap Equity Index Fund W	0.04	Federated U.S. Govt: 2-5 Yr Instl	0.60
Morningstar Mid Cap Blend Index	0.85	Cat: Short Government	0.93
Calvert Social Investment Equity I	0.67	Vanguard Adm Money Market	0.10
Morningstar Socially Resp Large Cap Index	1.21	Average US Money Market Fund	0.65

Participant Weighted Average Return

- The weighted average return for the ETF participants as of 12/31/2007 was 10.07%
- Much of this can be attributed to a 18.95% weighting in the Fidelity Contrafund which returned about 20%
- Other contributing factors were:
  - 8% exposure to international investments which had an average return of 15.31%
  - An 10% weighting to the Vanguard Index which returned 5.50%
  - An 16% weighting to the Wisconsin Stable Value Fund which returned 5.11%
- 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

Emerging Markets
International Equity
World
Small Cap Growth
Small Cap Value
Mid Cap Growth
Mid Cap Value
Large Cap Growth
Large Cap Value
Balanced/Asset Allocation
High-Yield Bond
Inv Grade Bond
Government Bond

Lowest Risk of Principal

Plan Investment Options

American Funds EuroPac R5
Barclay's EAFE Index Fund
DFA U.S. MicroCap Portfolio
Barclay's Small Cap Index Fund
T. Rowe Price Mid-Cap Growth Fund
Barclay's MidCap Index Fund
Calvert Social Investment Equity Fund I
Fidelity Contrafund
Vanguard Institutional Index Plus
Vanguard Wellington (Adm)
Vanguard LT Investment-Grade Bond (Adm)
Barclay's U.S. Debt Index
Federated U.S. Govt Securities Fund 2-5 Years (Instl)
Vanguard Admiral Treasury Money Market
Stable Value Fund
FDIC Option

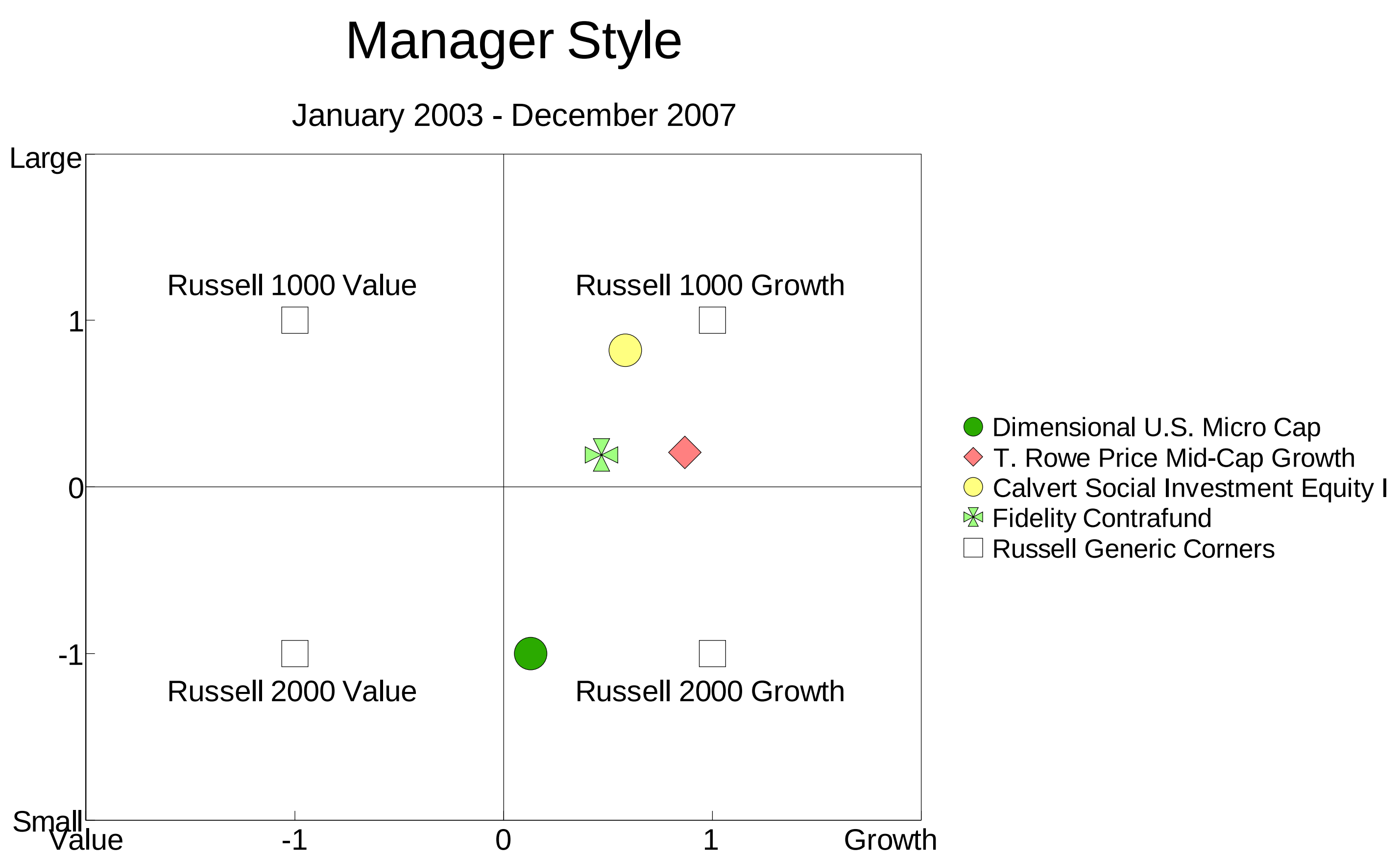
Lifecycle Funds:
Vanguard Target Income
Vanguard Target 2015
Vanguard Target 2025
Vanguard Target 2035
Vanguard Target 2045

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.

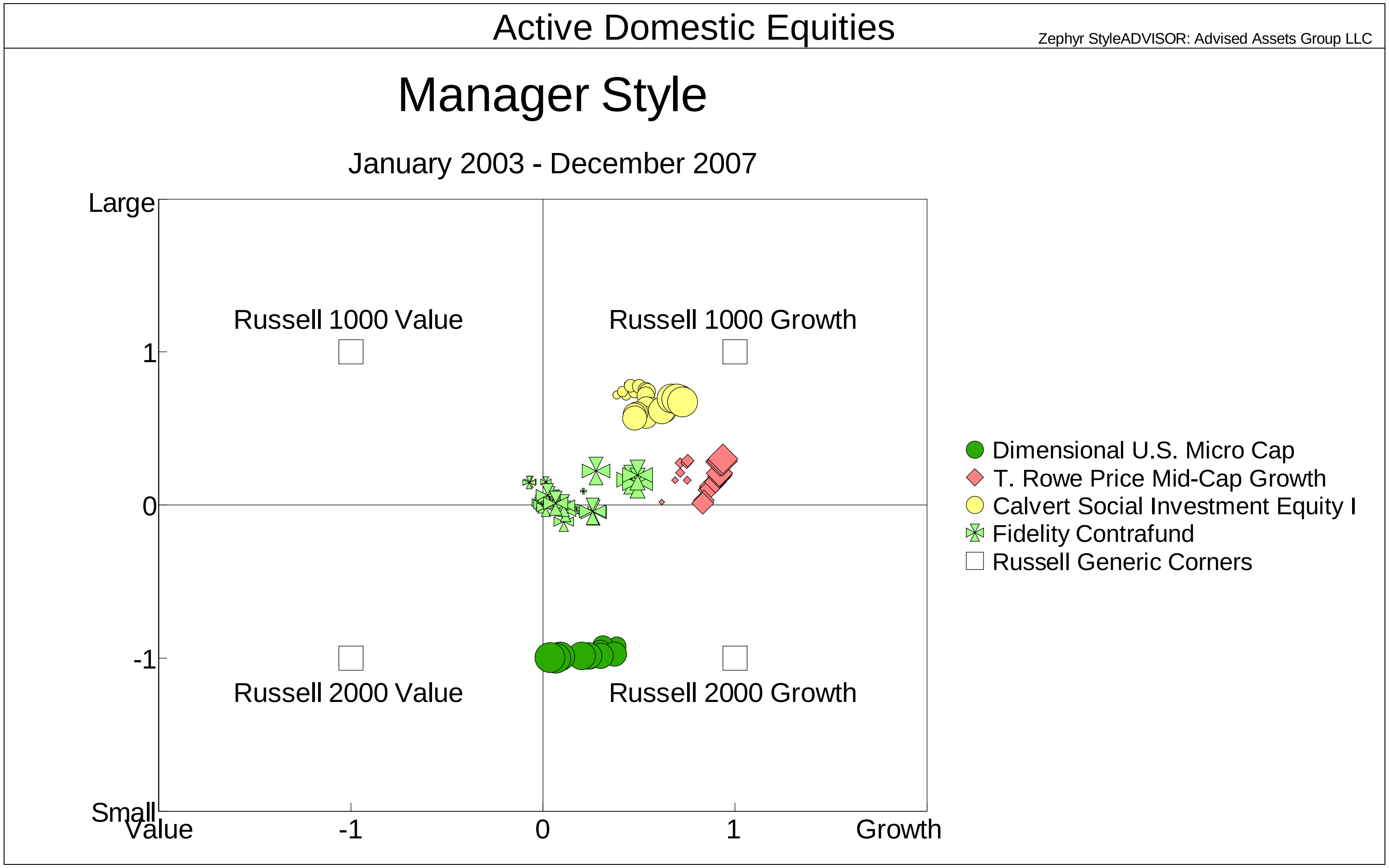
Active Domestic Equities

Zephyr StyleADVISOR: Advised Assets Group LLC



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.



Fund Observations

- **American Funds EuroPac R5** continues to beat all of its benchmarks over 1 and 3 years and most of its benchmarks over 5 years. The fund maintains lower than average volatility and expenses. American Funds manages this fund using a multi-manager structure that combines both growth and value investing styles, some exposure to emerging markets, and low turnover.

- **Barclay's EAFE Equity Index Fund** tracked within 22 bps (net of fees) over the 1yr period.

- **DFA U.S. Microcap** invests in the smallest 4% of U.S. exchange listed stocks with an average market cap of just under $290 million. The fund contains between 2,500 and 3,000 holdings giving it an index approach to investing. This fund carries a higher standard deviation than the Morningstar Category average over 5 years, but has rewarded its shareholders by generating a higher return than the category over that same time period.

- **Barclay's Russell 2000 Index Fund** tracked within 2 bps (net of fees) with the index over 1 year.

Fund Observations

- **T. Rowe Price Mid Cap Growth** outperforms its benchmarks over 1,3, 5, and 10 years. This fund's attention to valuation, contrarian investment style, and the manager's willingness to look for opportunity outside of traditional growth areas have kept this fund near the top of the mid cap growth space. The manager's attention to valuation has also helped to limit its downside risk.

- **Barclay's Mid-Cap Equity Index** tracks within 9 bps (net of fees) of the index over 1 year.

- **Calvert Social Investment Equity** outperforms all benchmarks over 1 year, and most of its benchmarks over 3 years. However, it underperforms most of its benchmarks over 5 years. This concentrated socially conscious fund looks for companies with solid balance sheets and solid profit margins. The fund's stock selection in the consumer discretionary and IT sector was a drag on returns.

- **Fidelity Contrafund** beat all of its benchmarks across all time periods. Will Danoff who manages this fund was named Morningstar Manager of the Year for 2007. Good bets in energy and IT have helped the fund maintain strong performance. That said, this fund continues to keep volatility down and sports a low turnover. The fund's large asset base does bear some watching.

Fund Observations

- **Vanguard Instl Index Plus Fund** tracks within 1 bp (net of fees) over 1 year.

- **Vanguard Wellington** outperforms its benchmarks over all time periods. This fund practices a value oriented, long-term investing style. The low expense ratio is also a plus for this fund. Helping the fund's returns was a trimmed down financial exposure and continued exposure to the energy sector. This fund's large asset base does bear watching.

- **Vanguard Long-Term Bond** posted strong returns over 1 and 3 years, and beats one of its benchmarks over 5 years. The fund's focus on investing in high quality bonds, rated A3 or better by Moody's, reduces credit risk, and a low expense ratio gives it an advantage over most of its peers. However, investors do face some interest rate risk given the fund's average duration is longer than most of its peers

- **Barclay's US Debt Index** has tracks within 4 bps (net of fees) over 1 year.

Fund Observations

- **Federated U.S. Government: 2-5 Year Institutional** beats most of its benchmarks over the 1, 3, and 5 year periods. This fund carries a higher duration than most of its peers, so the rising interest rate environment was particularly hard on this fund's actual and relative returns. As interest rates have fallen this fund's performance has improved. The fund ranks in the top 5% of its category over the 1 year period.

- **Vanguard Admiral Treasury Money Market Fund** posted a 4.78% return over the 1 year period. It also beat its benchmark over all time periods.

- **FDIC Bank Option** return for the quarter ending 12/31/2007 was 4.13%. For 2007, the interest rate is calculated by taking 50% of 12 month LIBOR as of 1/1/2006 less 40 bps plus 50% of the 3 month LIBOR less 40 bps. This blended rate is calculated each quarter.

- **Wisconsin Stable Value Fund** has strong performance over the 1, 3, and 5 year periods returning 5.11%, 5.10%, and 5.09% respectively. The fund is managed by Galliard Capital who maintains a very good reputation throughout the industry as a top stable value manager.

American Funds-

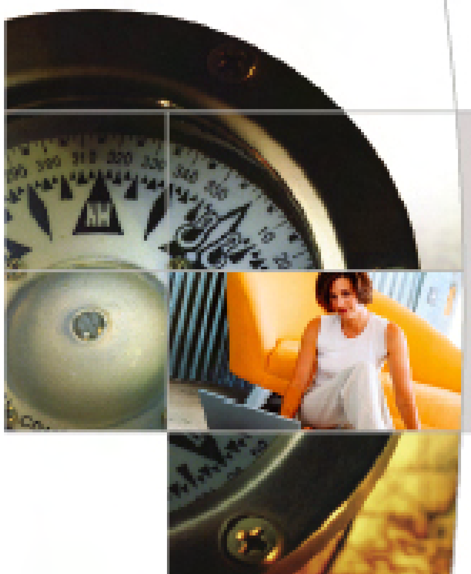
NASD
On August 30, 2006 American Funds was fined $5 million for directed-brokerage abuses. This is the first regulatory penalty dealt to the fund complex. The ruling from an NASD panel, punishes American Funds for allegedly improper sales agreements it had with brokers from 2001 to 2003. American Funds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

California Attorney General
In March 2005, the California Attorney General filed a complaint in state court against American Funds Distributors (AFD) and Capital Research and Management Company (CRMC), the investment adviser to American Funds. The complaint relates to the sufficiency of disclosure of additional payments AFD made to broker-dealer firms in recognition of the cost and efforts involved in educating financial advisers about American Funds. On November 22, 2005, the Superior Court of California in the County of Los Angeles dismissed the California Attorney General's complaint. On February 7, 2006, the California Attorney General filed a notice that he will appeal the Court's decision. On January 26, 2007, a California State Court of Appeals panel ruled against the dismissal of the case overturning the Superior Court's earlier decision to dismiss the case. American Funds points out that the decision of the panel focuses strictly on the legality of the California Attorney General pursuing suit against American Funds. On February 15th 2008 the California Attorney General announced the case against American Funds would be dropped. This ends all litigation between the attorney general's office and American Funds.

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

Source:www.americanfunds.com, www.ignites.com

Performance Benchmarking of Active Options



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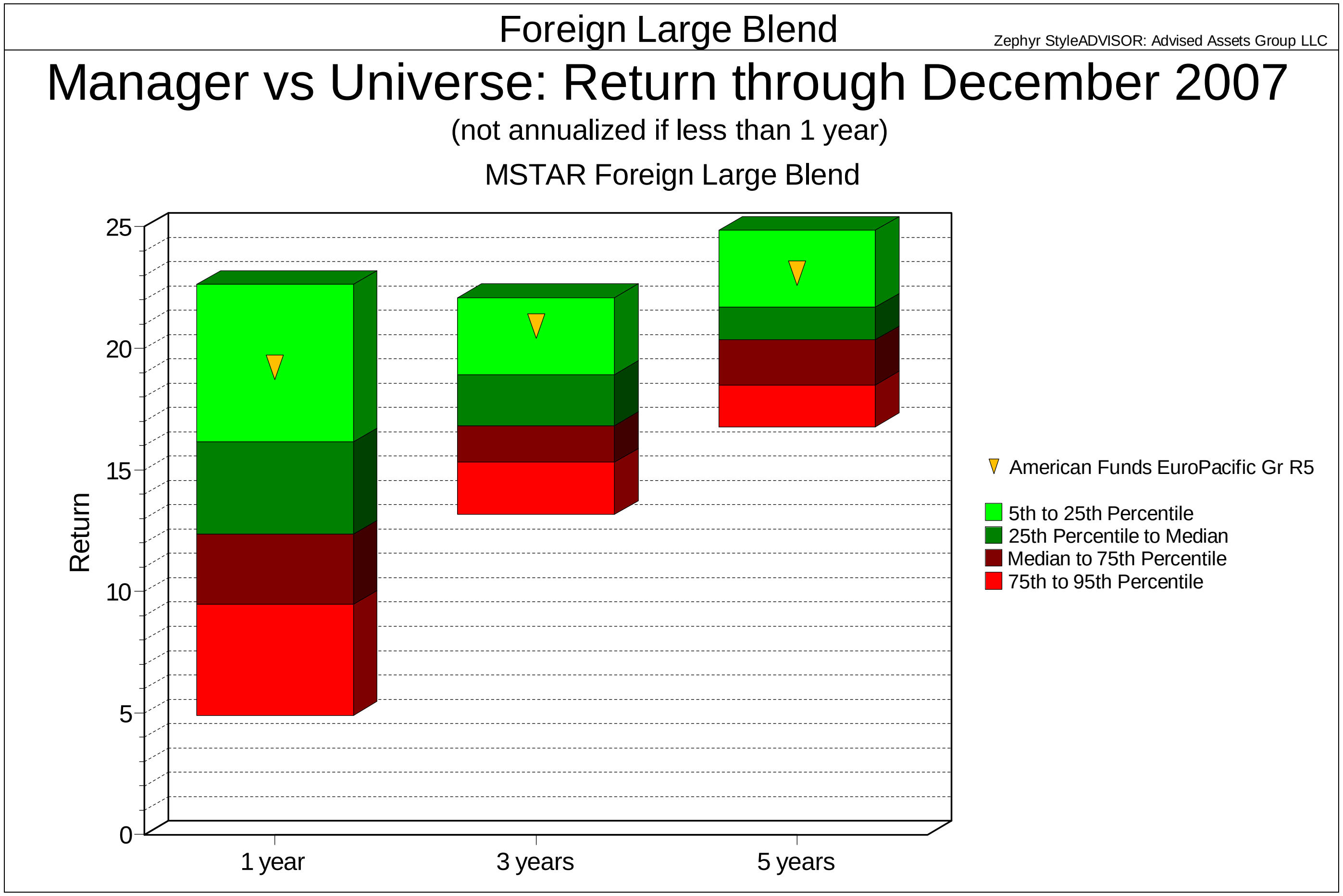
Performance Benchmarking

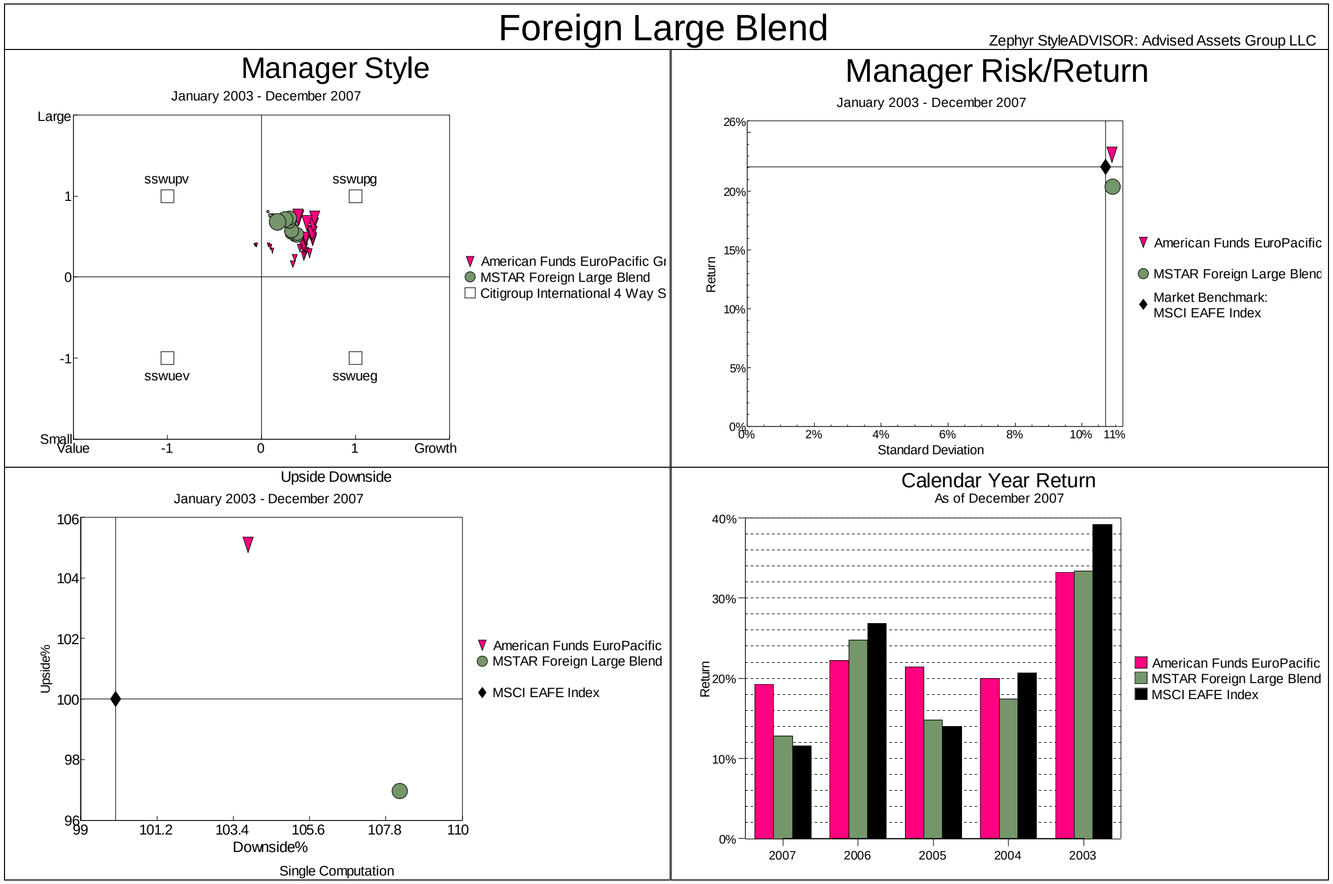
American Funds EuroPacific Growth Fund seeks long-term growth of capital. The fund normally invests at least 65% of assets in equity securities of issuers domiciled in Europe or the Pacific Basin. It may invest up to 20% of assets in securities issued in developing countries. Various factors will be 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
12/31/2007

	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2007)	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)
American Funds EuroPacific Gr R5	19.22	20.92	23.10	10	11	19.22	22.17	21.39	19.98	33.24
Cat: Foreign Large Blend	12.71	17.22	20.31	--	--	12.71	24.77	14.72	17.39	33.58

Risk Analysis

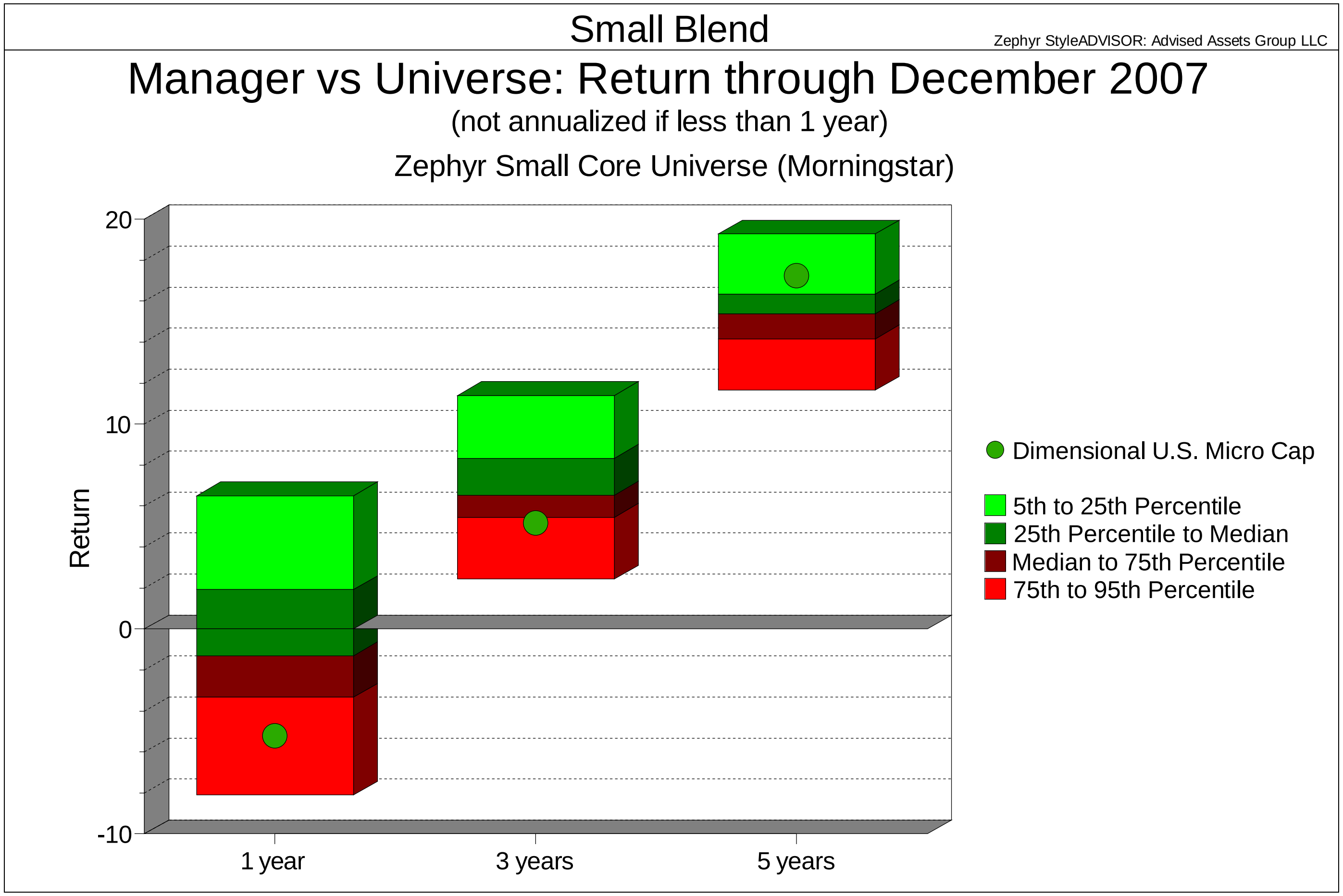


Name	Morningstar Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets $M	% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
American Funds EuroPacific Gr R5	4	10.27	10.89	114,471.10	6.48	469	17.70	27.00	24	0.53
Cat: Foreign Large Blend	3	10.69	11.35	3,675.79	8.62	667	29.74	72.92	4	1.51

Performance Benchmarking

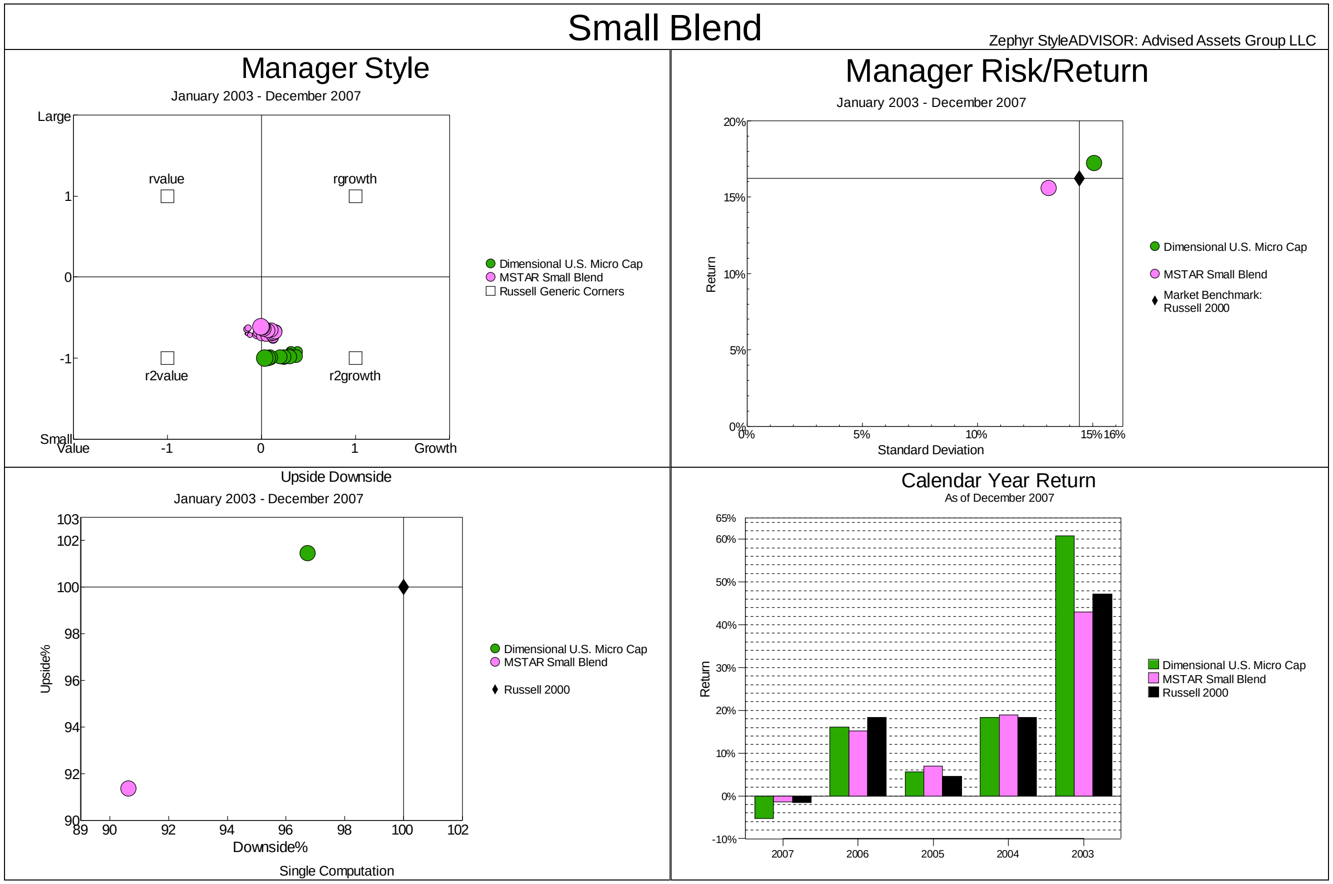
DFA U.S. Microcap seeks long-term capital appreciation. The fund invests in a diverse group of small companies with readily marketable securities. These companies may be traded on the NYSE, the AMEX, or over-the-counter market, but their market capitalizations must be comparable with those in the smallest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

DATA SOURCE:
Morningstar
12/31/2007



	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2007)	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)
DFA U.S. Micro Cap	-5.22	5.18	17.23	71	21	-5.22	16.16	5.69	18.39	60.72
Cat: Small Blend	-1.10	6.93	15.72	--	--	-1.10	15.03	6.75	18.94	43.41

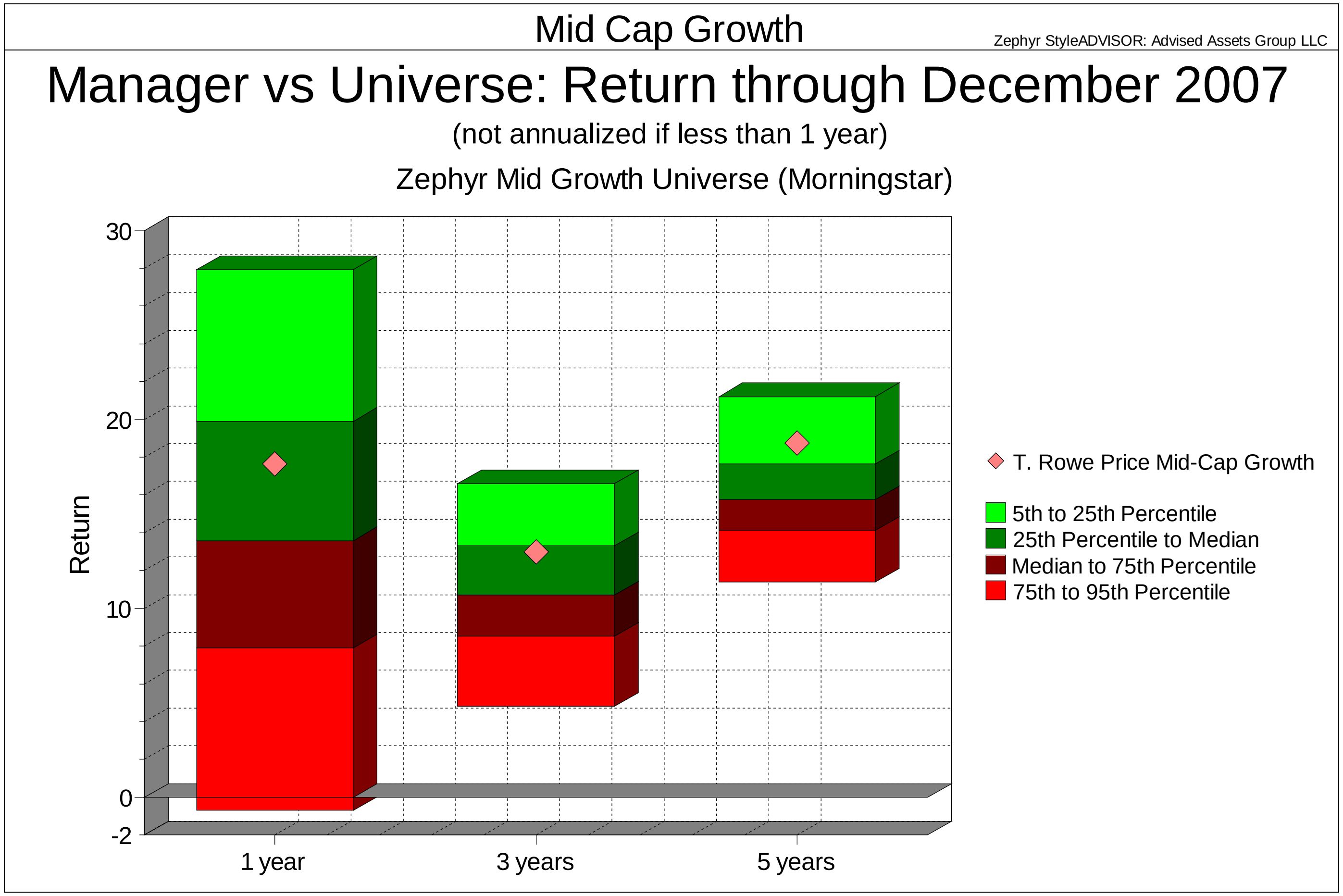
Risk Analysis



Name	Morningstar Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets $M	% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
DFA U.S. Micro Cap	3	13.55	15.07	4,175.88	0.35	1	100	24.00	13	0.53
Cat: Small Blend	3	12.83	13.78	717.83	7.98	502	24.60	84.83	6	1.43

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.



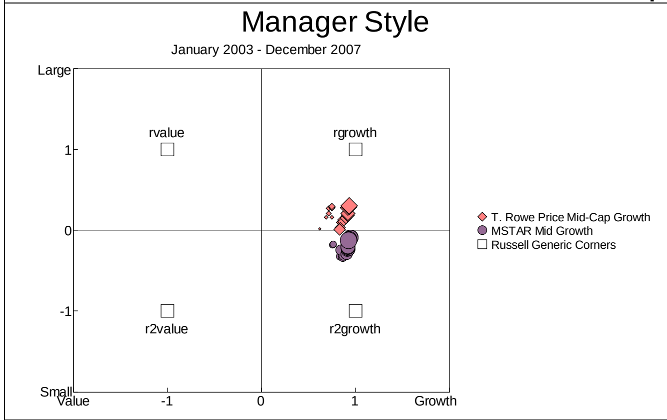
DATA SOURCE:
Morningstar
12/31/2007

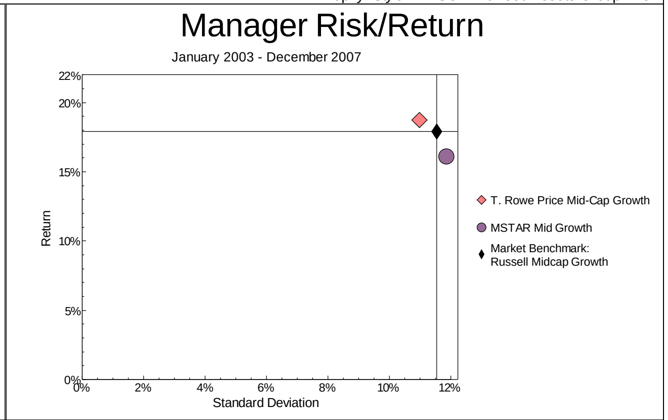
	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2007)	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)
T. Rowe Price Mid-Cap Growth	17.65	12.99	18.74	32	23	17.65	6.79	14.82	18.39	38.21
Cat: Mid-Cap Growth	15.09	11.23	16.33	--	--	15.09	9.00	9.84	13.23	35.96

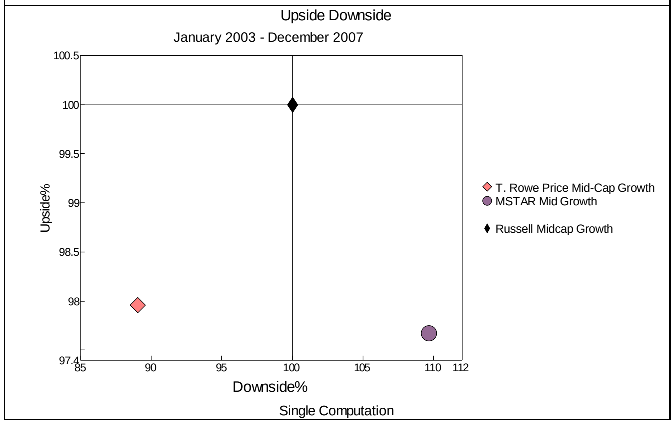
Risk Analysis

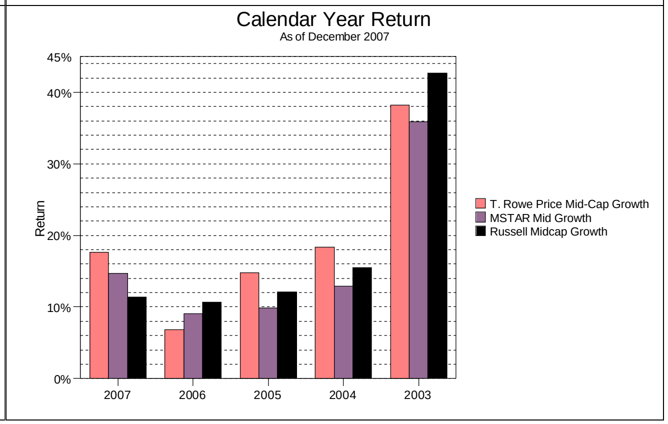
Mid Cap Growth

Zephyr StyleADVISOR: Advised Assets Group LLC







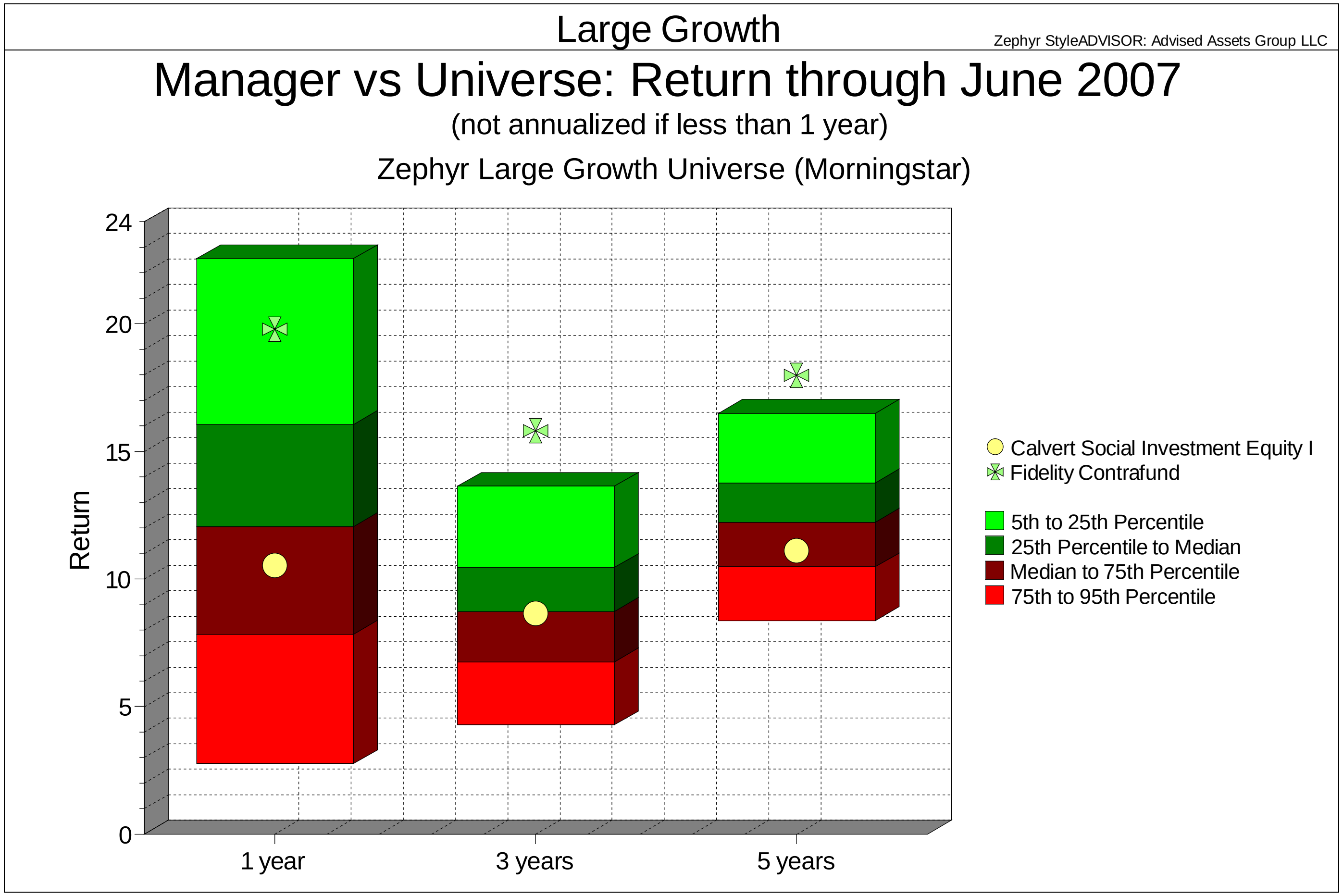


Name	Morningstar Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets $M	% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
T. Rowe Price Mid-Cap Growth	4	10.26	10.99	15,906.45	5.57	153	20.12	34.00	16	0.80
Cat: Mid-Cap Growth	3	12.10	12.74	875.43	3.50	661	30.37	112.06	5	1.52

Performance Benchmarking

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

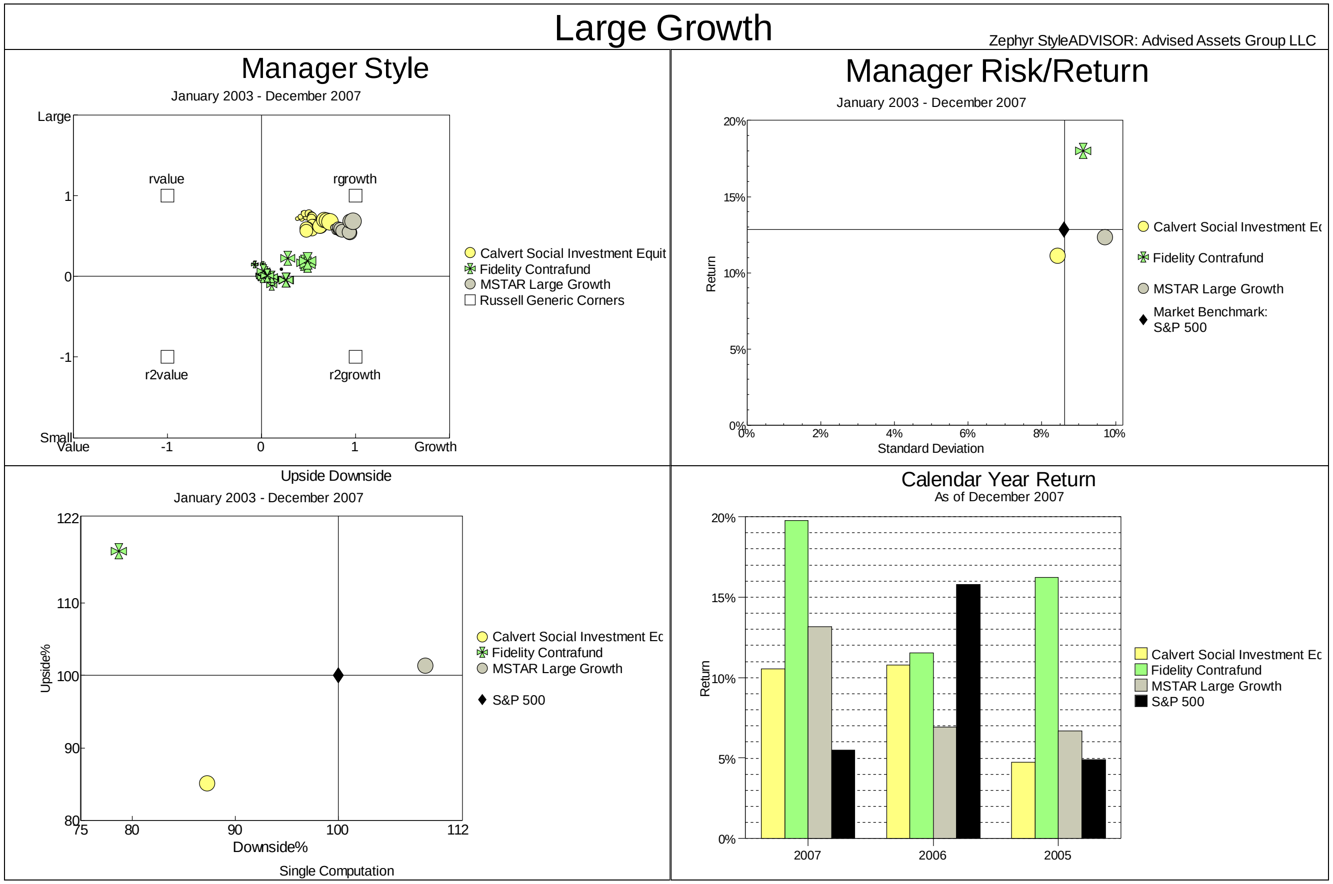
Fidelity Contrafund seeks capital appreciation. The fund invests primarily in the common stocks of companies believed to be undervalued. The types of companies in which the fund may invest include companies experiencing positive fundamental change such as new management team or product launch or companies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



DATA SOURCE: Morningstar 12/31/2007

	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2007)	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)
Calvert Social Investment Equity I	10.53	8.64	11.10	54	71	10.53	10.77	4.74	7.33	23.00
Fidelity Contrafund	19.78	15.80	17.99	4	5	19.78	11.54	16.23	15.07	27.95
Cat: Large Growth	13.35	9.11	12.75	--	--	13.35	7.05	6.71	7.81	28.66

Risk Analysis



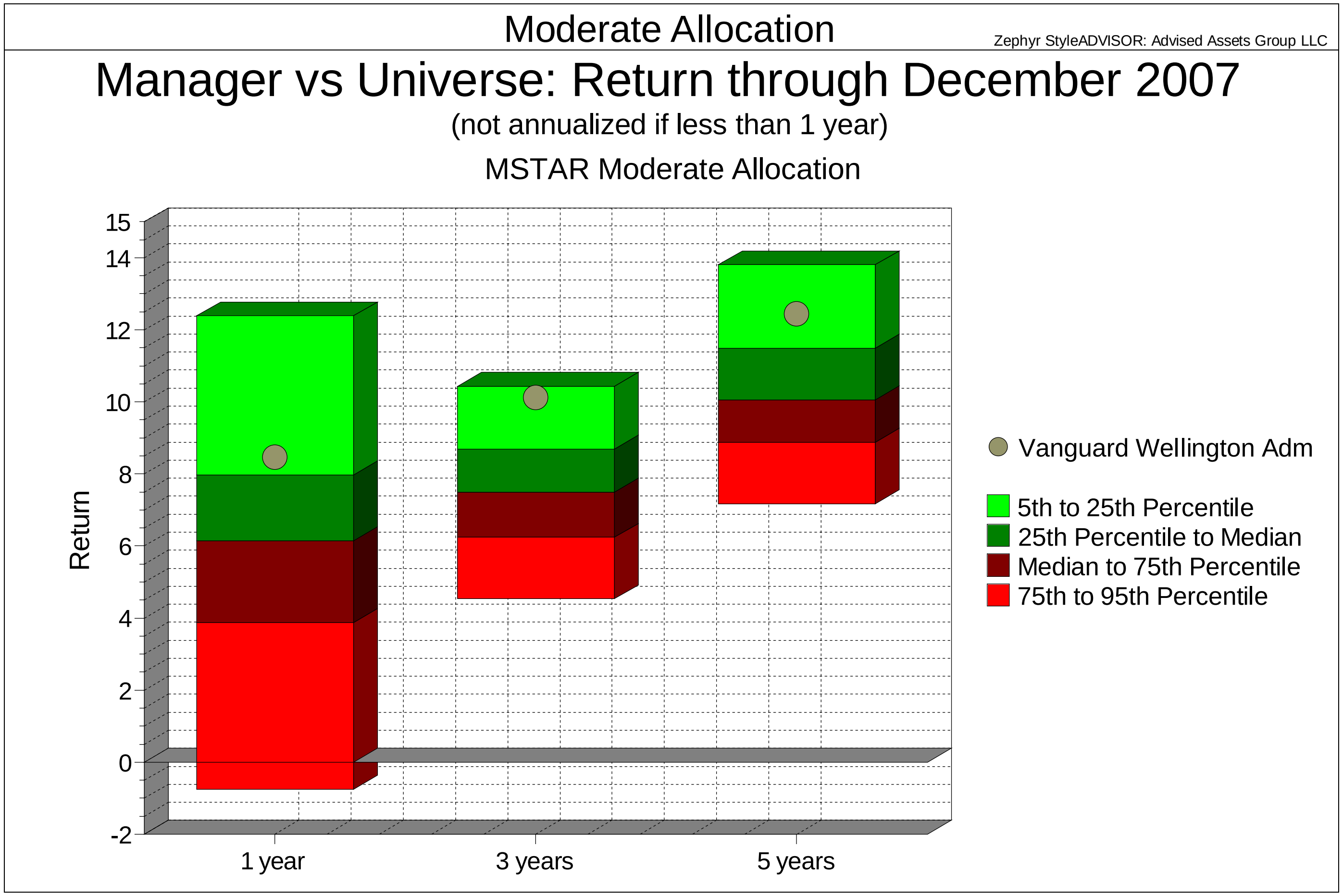
Name	Morningstar Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets $M	% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
Calvert Social Investment Equity I	3	7.61	8.43	1,215.76	0.00	65	34.32	35.00	9	0.67
Fidelity Contrafund	5	9.14	9.12	72,968.96	10.05	410	35.32	76.00	17	0.90
Cat: Large Growth	3	10.09	10.50	3,227.25	3.83	499	35.92	98.65	6	1.40

Performance Benchmarking

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

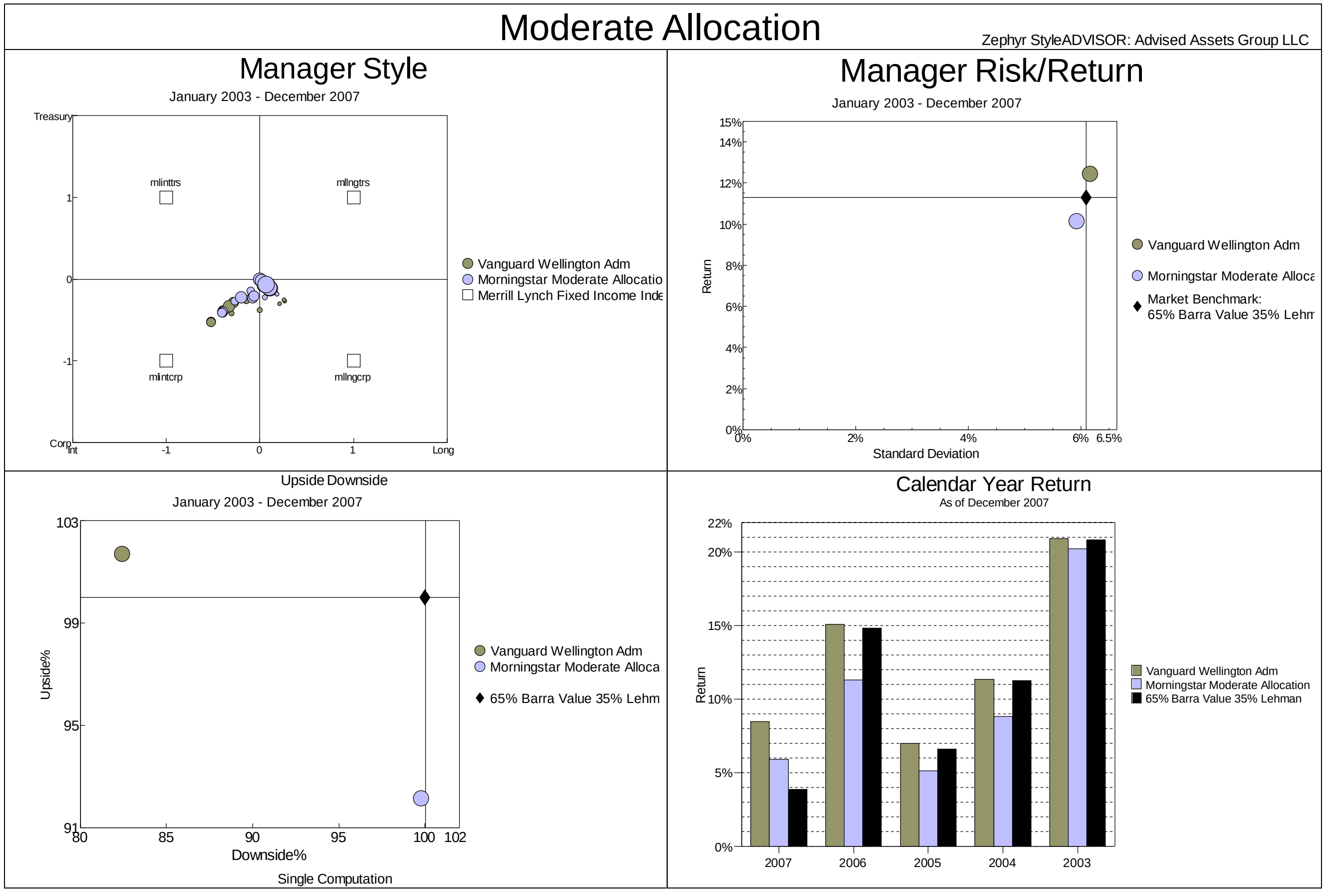
Note that the retail shares are shown to the right for historical purposes. The Plan uses the lower-cost Admiral share class.

DATA SOURCE:
Morningstar
12/31/2007



	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2007)	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)
Vanguard Wellington Adm	8.48	10.12	12.44	5	13	8.48	15.07	6.99	11.34	20.90
Cat: Moderate Allocation	5.99	7.32	10.24	--	--	5.99	11.29	5.13	8.86	20.35

Risk Analysis



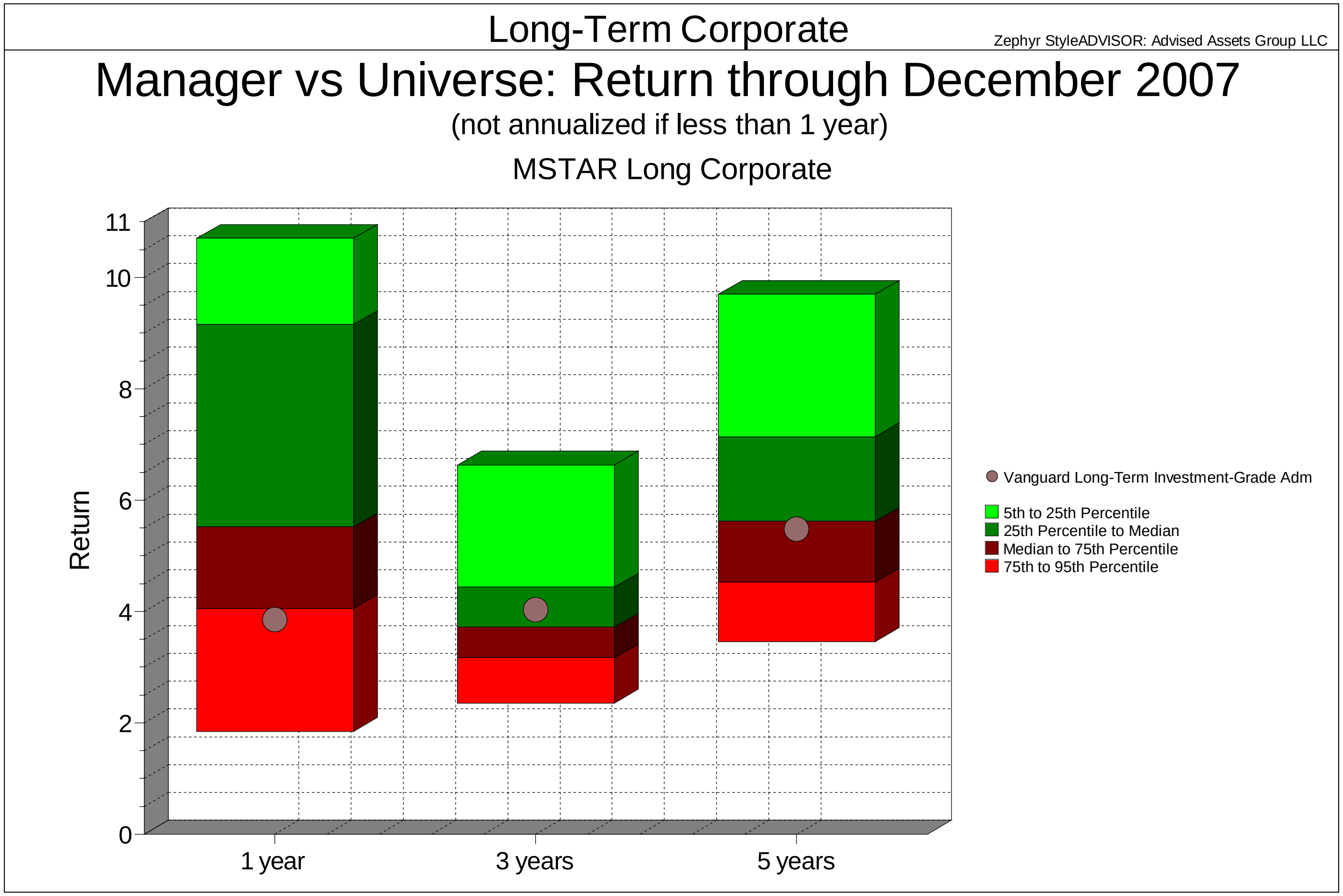
Name	Morningstar Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets $M	% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
Vanguard Wellington Adm	5	5.04	6.16	49,110.76	2.40	2552	17.13	25.00	5	0.17
Cat: Moderate Allocation	3	5.80	6.40	3,458.79	12.45	464	51.87	67.46	6	1.39

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.

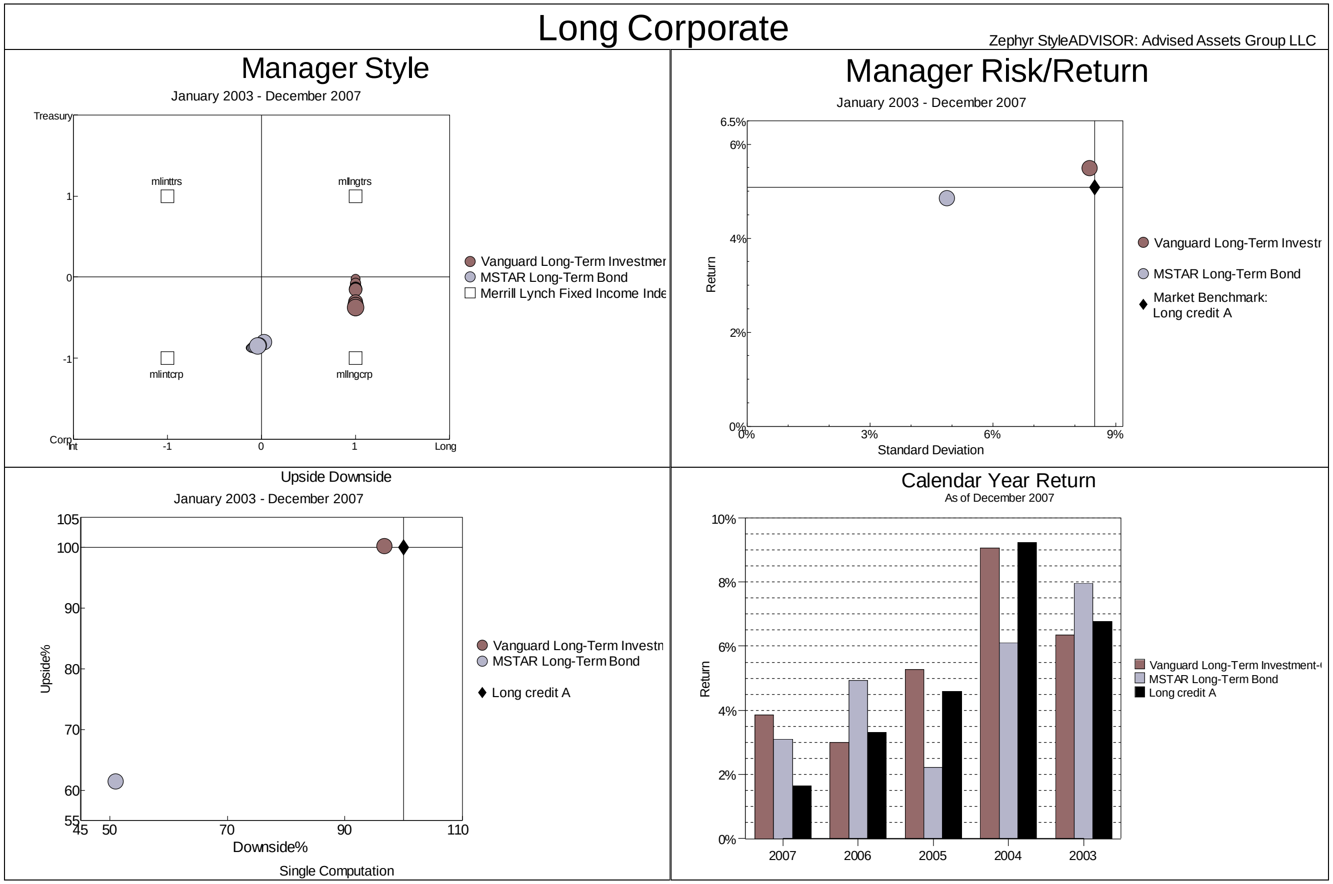
Note that the retail shares are shown to the right for historical purposes. The Plan uses the lower-cost Admiral share class.

DATA SOURCE:
Morningstar
12/31/2007



	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2007)	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)
Vanguard Long-Term Investment-Grade Adm	3.86	4.03	5.48	28	61	3.86	2.99	5.27	9.06	6.36
Cat: Long-Term Bond	3.10	3.75	5.86	--	--	3.10	4.43	2.23	6.47	8.79

Risk Analysis

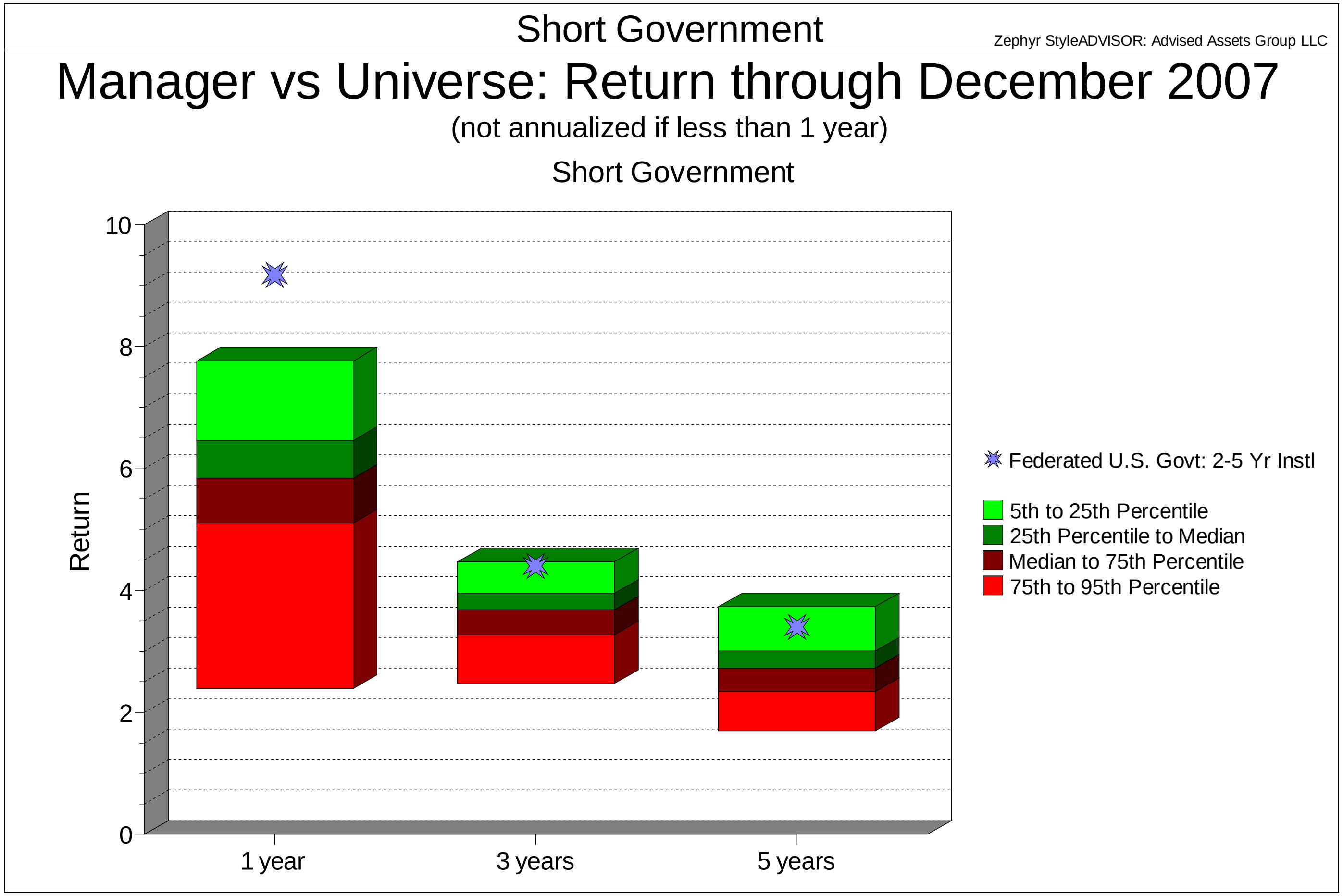


Name	Morningstar Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets $M	% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
Vanguard LT Investment-Grade Adm	2	6.80	8.36	5,738.48	0.58	224	15.82	15.00	14	0.12
Cat: Long-Term Bond	3	4.68	6.85	633.96	25.58	561	47.56	155.33	3	0.84

Performance Benchmarking

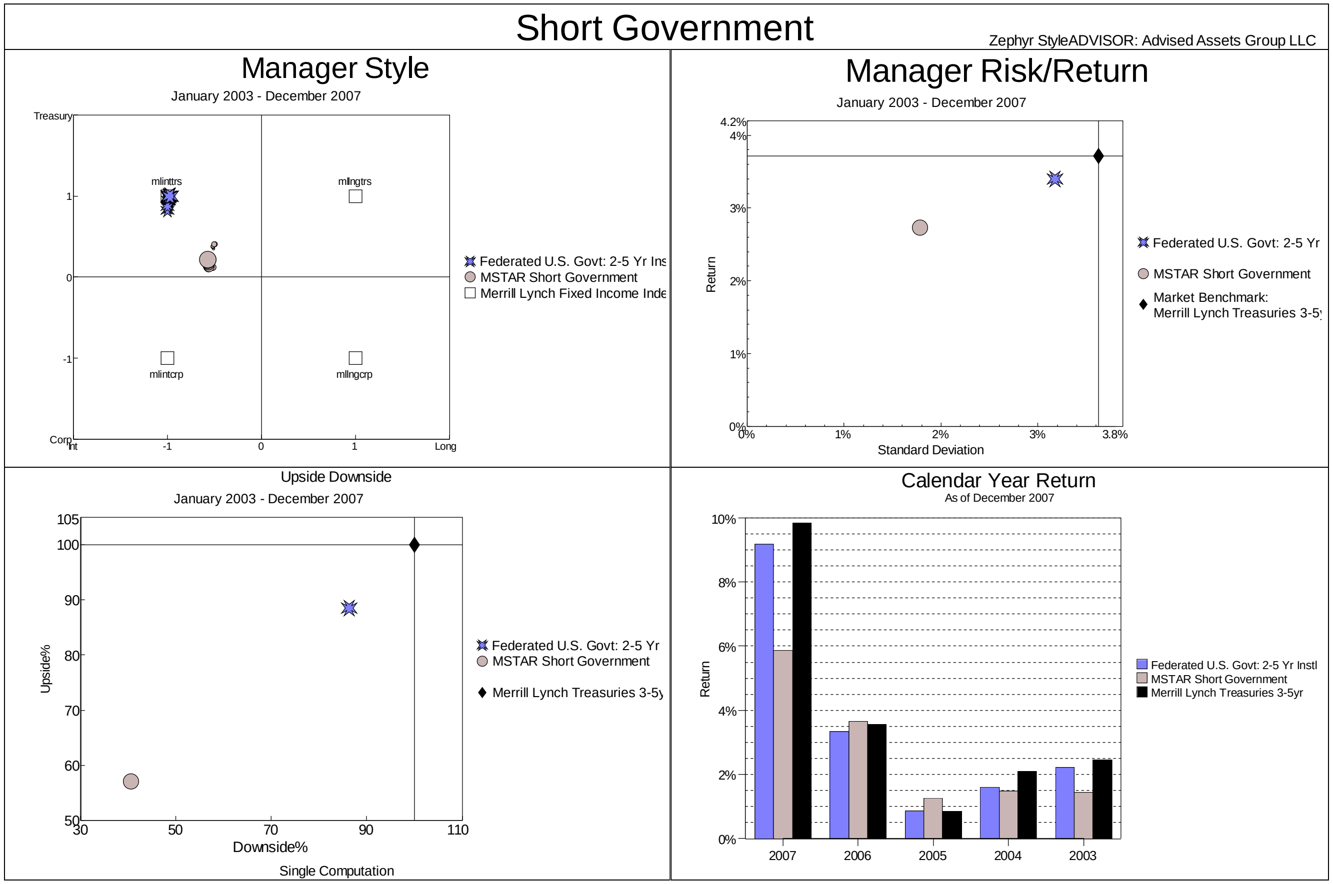
Federated U.S. Government Securities: 2-5 Year Trust seeks current income. The fund invests only in U.S. government securities with a dollar weighted duration between two and five years. It may enter into repurchase agreements.

DATA SOURCE: Morningstar 12/31/2007



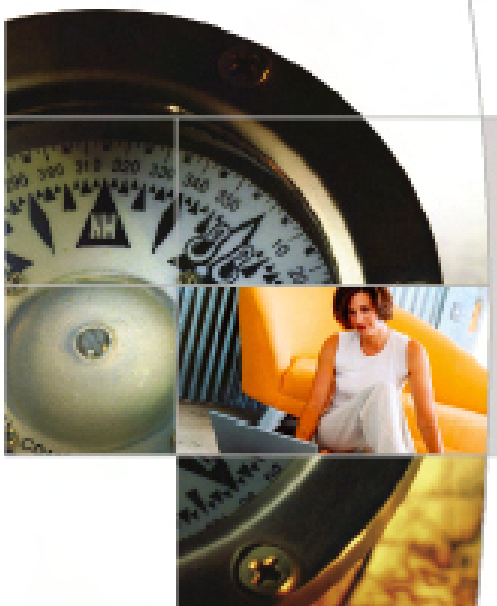
	Tot Ret 1 Yr	Tot Ret Annlzd 3 Yr	Tot Ret Annlzd 5 Yr	Tot Ret % Rank Cat 3 Yr	Tot Ret % Rank Cat 5 Yr	Annual Return (2007)	Annual Return (2006)	Annual Return (2005)	Annual Return (2004)	Annual Return (2003)
Federated U.S. Govt: 2-5 Yr Instl	9.18	4.40	3.40	6	6	9.18	3.34	0.87	1.60	2.22
Cat: Short Government	5.87	3.58	2.66	--	--	5.87	3.67	1.26	1.46	1.45

Risk Analysis



Name	Morningstar Rating Overall	Std Dev 3 Yr	Std Dev 5 Yr	Total Net Assets $M	% Cash	Total # of Holdings	% Assets in Top 10	Turnover Ratio	Mgr Tenure	Expense Ratio
Federated U.S. Govt: 2-5 Yr Instl	5	2.78	3.18	731.92	5.02	21	66.09	128.00	3	0.60
Cat: Short Government	3	1.46	1.81	480.40	15.55	295	58.91	142.59	8	0.93

Lifecycle Options



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Lifecycle Option Report Card

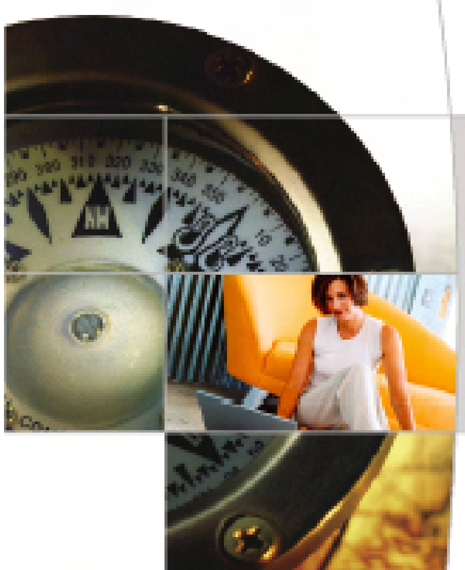
Name	Tot Ret 3 Mo	Tot Ret 6 Mo	1 year	3 year	Annual Return (2007)	Annual Return (2006)	Annual Return (2005)	% Short Term	% US Stocks	% Non US Stocks	% Inv Grade Bond	% High Yield Bond
Vanguard Target Retirement 2015	**-0.67**	**1.75**	**7.55**	**7.94**	**7.55**	**11.42**	**4.94**	**0**	**51**	**13**	**36**	**0**
Fidelity Freedom 2015	-0.78	1.33	7.82	8.39	7.82	10.36	7.01	7	44	11	33	6
T. Rowe Price Retirement 2015	-1.60	-0.04	6.75	9.01	6.75	13.73	6.69	4	59	11.5	20.25	5.25
Composite Returns*			7.50	7.96	7.50							
Dow Jones Target 2015	0.60	3.58	7.78	7.59	7.78	9.49	5.54					
Vanguard Target Retirement 2025	**-1.62**	**0.71**	**7.59**	**8.71**	**7.59**	**13.24**	**5.45**	**0**	**63**	**16**	**21**	**0**
Fidelity Freedom 2025	-1.32	0.88	8.64	9.55	8.64	11.84	8.19	0	56	14	22	8
T. Rowe Price Retirement 2025	-2.30	-1.18	6.81	9.82	6.81	15.44	7.42	0	71	13.5	11.25	4.25
Composite Returns*			7.61	8.79	7.61							
Dow Jones Target 2025	-0.95	1.33	8.31	10.34	8.31	13.75	9.03					
Vanguard Target Retirement 2035	**-2.23**	**-0.14**	**7.49**	**9.61**	**7.49**	**15.24**	**6.30**	**0**	**72**	**18**	**10**	**0**
Fidelity Freedom 2035	-1.83	0.56	9.27	10.40	9.27	12.94	9.04	0	66	17	10	8
T. Rowe Price Retirement 2035	-2.79	-1.70	6.81	10.27	6.81	16.18	8.05	0	76.5	15	5.75	2.75
Composite Returns*			7.50	9.73	7.50							
Dow Jones Target 2035	-2.02	-0.20	8.48	11.90	8.48	16.25	11.10					
Vanguard Target Retirement 2045	**-2.29**	**-0.20**	**7.47**	**10.06**	**7.47**	**15.98**	**6.95**	**0**	**72**	**18**	**10**	**0**
Fidelity Freedom 2045	-2.03	0.51	9.50		9.50			0	68	17	4	10
T. Rowe Price Retirement 2045	-2.83	-1.67	6.84		6.84	16.15		0	76.5	15	5.75	2.75
Composite Returns*			7.50	10.15	7.50							
Dow Jones Target 2045	-2.25	-0.53	8.46	12.11	8.46	16.64	11.36					
Vanguard Target Retirement Income	**1.63**	**4.63**	**8.17**	**5.94**	**8.17**	**6.38**	**3.33**	**5**	**24**	**6**	**65**	**0**
Fidelity Freedom Income	0.08	1.47	4.83	4.99	4.83	6.37	3.78	40	20	0	35	5
T. Rowe Price Retirement Income	-0.10	1.71	6.10	6.96	6.10	9.98	4.87	30	35.25	6.25	24	4.5
Composite Returns*			8.09	5.96	8.09							
Dow Jones Target Today	1.44	4.12	6.48	5.20	6.48	6.52	2.64					

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

Lifecycle Option Observations

- Vanguard Target Retirement Funds are in-line with their composite indices over the 1 year and 3 year periods.
- Vanguard mostly trails the Dow Jones Indices.
- The Vanguard Target Retirement Funds are in-line with their competitors over the near term periods, but mostly trail over the 3 year period.
- Vanguard's target allocations give them equity exposure that is in-line with their competitors, and international exposure that is greater than most of their competitors.
- Vanguard has a smaller allocation to short term debt than its peers, but a greater allocation to investment grade bonds than its peers.

Economic Overview



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Key Themes:

- Turmoil in credit markets likely to continue in first months of 2008. Ongoing uncertainty surrounding structured products likely to keep stock markets volatile.

- Credit problems are spilling over into the broader economy; lending standards are tightening, impacting both the consumer and business. Investors worry about recession.

- The Fed has become more aggressive, cheering equity markets but providing the bond market with worries about inflation. For the foreseeable future, the Fed is likely to concern itself more with the increasing risks to economic growth rather than inflation.

- While earnings profits for most U.S. corporations are expected to soften further, stock valuations remain quite favorable, especially for larger companies with international exposure. This will help cushion the impact of further stock market volatility.

- Developed international markets are responding in varying degrees to credit problems and U.S. economic slowing. European markets may be peaking, while Japanese stocks look increasingly attractive to analysts.

- Emerging markets are still being propelled by strong growth, although the underlying economies should take a breather as the U.S. and Europe work through the present cycle. Investors should be wary of the possibility that a bubble is forming for the asset class as a whole.

- Long-term changes are taking place in the U.S. global economic structure. Markets will digest new information on a periodic basis, creating an environment more prone to volatility than investors have grown used to over the past few years. A disciplined long-term approach will serve most investors well in this environment.

Investors are concerned about recession in the U.S. as 2008 begins. While a definite risk, it needs to be viewed in perspective. Recent history shows that it's usually the anticipation leading up to a recession that depresses stock prices rather than the actual experience of the recession itself. Stocks normally begin to stabilize within a short period following the official recognition of the recession. In three of the last four recessions, stocks actually gained ground.

A number of analysts are anticipating that, just as the U.S. market led into this down cycle, it is historically likely that it will begin to strengthen before most other markets.

Global Economy

The collapse of the U.S. housing market bubble continues to reverberate, impacting economic activity to varying degrees throughout the world. While **global recession remains unlikely**, the increasing economic slowdown and risk of recession in the U.S. is making itself felt in myriad ways.

Most visible at present, of course, are the **ongoing problems in the credit markets**. Central Banks have been responding both by injecting liquidity directly into the banking system and by providing some easing of broad interest rates. Unfortunately, the sheer scale of the problems in the credit markets – mortgages, bond insurers, private equity and buyout activity, as well as all the uncertainty surrounding structured products – means that the world's large banks have some way to go yet to fully rebuild their capital structures; until that process completes, new credit issuance will remain limited, affecting both business and consumers.

Regions are being affected differently; the **developed economies in Europe are struggling with issues similar to those in the U.S.,** including home price deflation—particularly in Spain and the U.K.—and the unraveling of the structured products market. The business cycle there had not yet advanced as far as in the U.S., so the turmoil in the financial markets was offset to a degree by economic momentum that was still in a strong uptrend. In fact, the European Central Bank has yet to cut interest rates.

The developing economies of **Asia and Latin America are being affected by wholly different dynamics.** Strong internal growth and high savings rates, coupled with negligible participation in the structured products markets, translated to significantly less immediate reaction to the ongoing turmoil in the developed world. The impact there is likely to be felt as a more measured business slowdown. For instance, economies like Taiwan, Singapore and South Korea are already experiencing slowing in key areas such as electronics exports—the U.S. consumer, representing 19% of world economic activity, has pulled back on non-essentials. The cascading effect of this type of business slowdown will in part be the basis for overall slowing in these economies.

Given these effects, **the idea that developed and developing markets have somehow "decoupled" seems overblown**. Still, the strong internal growth due to ongoing restructuring within both Europe and a large number of developing economies has effectively counterbalanced much of the deflationary effects from the U.S. housing market. "Desynchronization" seems a more accurate depiction of present economic activity, as new dynamics have certainly come into play. Global economic activity is being driven by a widening array of sources, providing a broader base of support. At the same time, economic ties between countries and regions have grown in both complexity and number. It seems more accurate, then, to note that developing economies have gained a measure of independence from the day-to-day impact of short-term economic disruptions in the developed world, but remain tied through longer-term business cycles.

This combination of increased interdependence and visible desynchronization actually complicates the job of central bankers. Their focus and primary influence is domestic, but global pressures increasingly have a countervailing effect that can limit the effectiveness of monetary actions. In the U.S., where growing economic weakness is the central issue, the Fed is under pressure to ease. Continued strong growth outside the U.S., however, means other central banks are more concerned with inflation. Pressure there has been to tighten. Easing in the U.S., then, weakens the dollar against other currencies, and imports inflation as U.S. purchasing power declines. The Fed has been increasingly torn between fighting inflation and stimulating the economy.

Further, **monetary stimulus may have a limited effect in this environment**. Each time the Fed has cut in the past few months, the equity markets have rallied for one day, then resumed their downward trend. This underscores the concern that the economy is facing structural issues that a less restrictive credit environment cannot entirely address.

Unarguably, there are myriad components of high importance to global economic growth. Over the past several months, there has been a slow unwinding of the vast leverage that had gradually grown within the credit markets. The ongoing uncertainty as to how and when this process will ultimately end is affecting both financial markets and business planning.

A strong case can be made that another important component for global growth is the ongoing health of the U.S. consumer. Despite the impressive economic gains being made worldwide, the U.S. remains the primary force in the global economy. *One fifth of world GDP is tied to the U.S. consumer*. In turn, the consumer constitutes an even more elemental force in the U.S. economy: fully 70% of domestic GDP is attributable to this sector.

The slow but constant increase in pressure on the U.S. consumer is a subject under much scrutiny. The deflation in home prices is only the latest challenge. Real income growth has been stagnating for decades. Households initially compensated by adding a second household income as women entered the workforce in record numbers. As the percentage of income taken up by healthcare, education and retirement steadily increased, Americans took on more household debt. Ultimately, of course, they tapped into their most important asset and utilized the equity in their homes. At each stage, **household balance sheets have become less resilient to financial shock.**

U.S. consumer spending has been a closely watched statistic these past few months; indeed, the "resiliency" of this sector has been lauded as one of the important pillars holding up the U.S. economy following the spread of the subprime contagion. Holiday spending was down, however, and the effects were felt from the local mall to Asian manufacturers. While much has been made of the strength in corporate balance sheets, it seems counterintuitive to expect robust overall economic growth when the engine that is the U.S. consumer is sputtering.

Global growth is set to slow to 4.6% in 2008, down from 5% in 2007. This is likely to be a net positive for the global economy, as it will lower inflationary pressure and allow central banks outside the U.S. to begin easing interest rates. Pressure will ease on the U.S. currency and, in turn, the U.S. consumer.

Regions

U.S. – what has long been characterized as a mid-cycle slowdown appears to be developing into a full-blown recession. Factors contributing to the economic slowdown include an ongoing decline in residential construction activity, a flattening of business equipment investment, financial market turbulence, tighter lending standards, a weakening jobs market, eroding home prices and deteriorating consumer confidence. In the positive column, strong growth in much of the rest of the world, coupled with strong corporate balance sheets and a favorable exchange rate mean that most larger corporate entities will continue to do relatively well.

The Fed has been responding to increased downside economic risks slowly, but as the new year began, promised to move more aggressively "as the situation warrants." Even with economic growth now at the top of the agenda, inflation remains a central concern. Oil prices continue to wreak havoc on the consumer price index. Even though oil prices are expected to moderate slightly, it seems doubtful that they'll move back to levels below $70. Long-term structural changes in the global economy—particularly the voracious energy appetite throughout the developing world—appear to have shifted equilibrium prices for both food and energy into new territory. This inflationary pressure doesn't just affect the U.S., of course, but the concomitant erosion in U.S. purchasing power represented by the ongoing decline in the dollar makes the Fed's job extremely difficult.

GDP growth in the U.S. is expected to run well below trend throughout 2008. Expectations run in a range from 0.9% to 1.5%, with the first half of the year possibly running in the negative.

Europe

Eurozone GDP growth was strong throughout the past year, gaining 2.9% in 2007. Business investment was stimulated by a continuing increase in exports. Unlike in the U.S., a robust business environment did not extend to any degree into the Continent's consumer sector (the U.K. more so), so the expansion appears to have topped out in mid-year. This coincides with the beginning of a tightening cycle by the European Central Bank (ECB), and a currency that continued to gain in strength throughout the year.

The credit crisis extended well into the U.K., Germany and France, the big three economies in Europe. Many of their financial institutions are finding themselves in similar straits to their U.S. brethren, so those economies are also struggling with credit difficulties. Higher energy prices and strong currencies contribute to a less accommodative business environment; **growth throughout the region is expected to slow to 1.9% in 2008**.

As in the U.S., these factors provide competing priorities for the two central banks to consider. The Bank of England, dealing with softening in both housing and consumer spending, as well as the virtual implosion of a large mortgage lender, has lowered rates. Further cuts may be considered. The ECB, with a more benign environment, remains focused strongly on inflation. Concerns there center around the so-called "second round" effects from the run-up in energy prices; a move to tighten in the first half of 2008 is not out of the question.

Japan

Good strides have been made in the Japanese economy throughout the decade. Excess debt and capacity have been eliminated, paving the way for a self-sustaining recovery beginning in 2003. Business investment and consumer spending both have made positive contributions to growth in the period since, putting in place an expansion that is both more broad-based and resilient than past expansions, which were essentially export-led.

The last three quarters have proved disappointing, however. Housing has been contracting, and both business investment and consumer spending have stalled. Once again, the economy finds itself dependent on exports.

This puts Japan in a difficult position. A slowdown in the U.S. economy clearly affects it, and it is increasingly vulnerable to any pronounced slowdown in China. If there is a silver lining, it is that businesses in Japan have been operating in a difficult environment for the better part of two decades, and they know how to operate "lean and mean." As the rest of the world cycles into its own more difficult environment, investors are likely to find that Japanese companies have already made the adjustments their competition is now facing.

Still, Japan struggles with deflationary tendencies, and it has few tools to combat it. Interest rates, at 0% for six years, remain at 0.5% going into 2008 – monetary stimulus is clearly not an option. An aging population and an environment where real incomes have not advanced in decades is likely to mean that Japan's economy and its export-oriented corporations will once again pursue different paths.

GDP for 2008 is expected to be about 1.4%.

Developing Economies

Western investors are not used to thinking of the world's developing economies in terms of "sustainability"; financial crises are still expected at every turn. Since the Asian crisis in 1998, though, a lot of these economies have put in place better economic and political structures. **Globalization has benefited these economies enormously**, and their participation in world trade flows is up commensurately. All of these factors have contributed to the current account surpluses that have been building now for years, culminating in their now becoming the *supplier of capital* to the developed economies as they deal with the self-inflicted pain of the credit crisis.

Most investors need to begin the process of thinking about these economies more broadly. While export is clearly still the major focus, some are exporting raw materials, but others have moved quite far up the chain into sophisticated manufactured products. Nearly all of them have an ongoing focus on building modern infrastructure that will ultimately allow them to compete on any playing field. The bottom line is, they are still big suppliers of raw materials, but they are now major consumers of those very same raw materials. This is a different set of dynamics than existed just a few short years ago.

Growth in most of these economies is likely to moderate in line with the slowing in the more developed economies. On a relative basis, however, look for the developing world to remain an important engine of growth.

Volatility – a fancy word for what happens when we are surprised. - *Robert Schiller*

Index	Asset Class	Q4	YTD
Russell 1000 Growth	Large Cap Growth	-0.77	11.81
Russell 1000 Value	Large Cap Value	-5.80	-0.17
Russell Mid Cap Growth	Mid Cap Growth	-1.70	11.43
Russell Mid Cap Value	Mid Cap Value	-5.97	-1.42
Russell 2000 Growth	Small Cap Growth	-2.10	7.05
Russell 2000 Value	Small Cap Value	-7.28	-9.78

Source: Russell

Markets

Volatility characterized markets throughout the world in 2007, and investors should expect more of the same in 2008. This is market reaction to the ongoing uncertainty surrounding the unwinding of the leverage inherent in the structured products market. Both stock and bond markets are affected by the still-extending credit crisis, and inter-day market moves are to be expected.

Sector Name	Q4 2007	YTD
Energy	4.73	34.56
Materials	.09	22.64
Industrials	-4.35	12.80
Consumer Disc	-10.25	-13.44
Consumer Staples	-0.97	14.03
Financials	-14.07	-18.42
Healthcare	0.14	8.02
Information Technology	-0.61	15.43
Media	-3.66	-15.77
Telecomm Services	-5.12	11.87
Transportation (DJ)	-5.17	1.43
Utilities	6.78	16.46

Source: Standard & Poor's

In the U.S., 2007 ushered out the long dominance of value stocks over growth stocks. The aging of both the business cycle and the bull market also shifted investors' focus away from smaller companies. Large companies not only have collective strength in their balance sheets, but benefit more from global trade and currency shifts. Smaller companies tend to be more dependent on the domestic economy.

Uncertainty about the credit crisis on financial markets has also extended to widespread uncertainty about the U.S. economy as a whole, adding new worries for stocks.

There was wide disparity in the performance of market sectors throughout the year, as well. Energy and Materials companies both benefited from the global economic boom, as did Information Technology companies. Healthcare and Utilities managed to stay in positive territory throughout the year, as well.

Not surprisingly, Financials led the pack to the downside. The good news here is that banks and brokerage houses are aggressively writing down their losses and bringing problem instruments directly onto their balance sheets. This is having the desired effect of wringing uncertainty regarding their actual value out of investors' minds. The market is actively pricing this sector, and a degree of comfort is slowly being restored.

Were only the same to be said for the Consumer Discretionary sector. The Housing industry falls within this sector, and analysts still expect more contraction in new residential construction. Most of that negative sentiment is probably already priced into the stocks of builders and suppliers. Still declining home values and increasing job uncertainty appear to be leading households to pull back on their overall spending, which is likely to challenge many manufacturers and retailers, at least over the near term.

Looking forward into 2008, most analysts believe that much of the bad news is already priced into the market. Large companies with solid balance sheets, particularly those with familiar brands and product lines that households routinely purchase, should weather this market downturn fairly well.

Sectors such as Energy and Materials, facing some measure of economic slowing worldwide, are likely to begin a consolidation phase. Few analysts expect past levels of gains to continue, at least for the near term. Orders for IT equipment are beginning to show signs of slowing as well.

Above all, this is most likely to be a "stock picker's market." Broad gains are not expected, but good companies should perform reasonably well. Active management has the opportunity to beat index returns in this environment.

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Global stock markets ended the year in positive territory, with the developed markets represented by the EAFE Index (Europe, Australia, Far East) posting combined gains similar to those found in U.S. large and mid-cap growth stocks. Emerging markets, powered by strong economic growth, continued to provide investors with high average returns almost across the board.

Country/Region	YTD	1 Yr	3 Yrs	5 Yrs
United Kingdom	8.39	8.39	15.00	19.15
Germany	35.93	35.93	27.14	31.62
France	14.03	14.03	19.53	23.49
Japan	-4.14	-4.14	8.59	15.11
Hong Kong	41.20	41.20	25.89	28.06
Eastern Europe	25.98	25.98	40.45	43.27
Latin America	50.67	50.67	48.15	51.13
Far East	37.04	37.04	31.38	31.05

Source: Zephyr Analytics

Regionally, market returns provide a good snapshot of which countries are benefiting most from the global themes of economic liberalization, trade globalization and infrastructure development. The U.S. and **U.K.**, long practioners of liberal economic policies, benefit little internally from the kinds of deregulation happening in formally Socialist and Communist economies. **Japan** has completed a great deal of needed reform, but there are still many areas that hamper internal economic activity.

Germany and France are still enjoying a renaissance as they tear down old barriers, both the economic ones of Socialism and the physical ones represented by the Berlin Wall. As well, German companies in particular find their expertise in advanced-engineering products and services much in demand.

Emerging market countries are now referred to as developing economies, a linguistic shift that quite accurately portrays the sea change that has occurred in may countries of Asia and Latin America. During the 4th quarter, when global banks were busy writing off more than $35 billion in mortgage-related securities, asset-backed commercial paper fell sharply, interbank lending nearly froze, and the U.S. and European central banks were announcing emergency funding arrangements, **these markets as an asset class still rose 3.6%**.

Looking into 2008, we find a more mixed environment for international markets. There

	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
MSCI EAFE	11.63	11.63	17.32	22.08	9.04
Emerging Markets	39.78	39.78	35.60	37.46	14.53
S&P 500	5.49	5.49	8.62	12.83	5.91

Source: Zephyr Analytics

are few signs that the ongoing credit crisis is truly stabilizing; indeed, more areas continue to be affected. As credit generally contracts, it will likely have a dampening effect on business in developed countries. Some sectors, of course, will be more susceptible than others to this type of credit environment, so, as in the U.S. equities market, careful stock selection will be important.

In addition, the slowing in the key U.S. economy will affect the global business environment as a whole. **European markets** in particular face some headwinds from this combination of factors, and most market analysts expect these markets to struggle a bit this year.

In Asia, investor sentiment is largely dependent on developments in China. At present, China represents 6.8% of global output—greater than Brazil, Russia and India combined—and in 2008 is set to surpass Germany as the world's third largest economy. China's demand for raw materials—from ores and metals to meats and grains and, especially, for hydrocarbons—is the lynchpin for the growth in other emerging economies. Capital outflows from China are expected to continue supporting emerging Asian equities as well as markets rich in natural resources. Bottom line, emerging markets in Asia, which represent about 55% of the asset class, is much better positioned to weather a downturn in the U.S. economy than it was a decade ago.

For all developing economies, the long-term drivers of technology, media, and infrastructure development all remain in place. The market cycle itself, however, faces rising uncertainty. Even with the severe credit contraction taking place throughout the U.S. and European economies, **the developing world remains awash in cash.** Multiple years of high rates of growth have generated capital surpluses looking for a place to work. Petrodollars add to this stockpile, changing the world's financial balance. The rise of Sovereign Wealth funds and the entry into the markets of other newly-wealthy key players is another source of uncertainty that all markets struggle to digest.

Because of the ongoing strength in the underlying economies of these markets, they are likely to continue to attract investor funds in 2008 and beyond. This creates the potential for bubbles to form, taking on a life of their own. As with the recent bubbles in U.S. residential real estate and the dot.coms before that, there is always the prospect of things turning ugly. Investors should keep this in mind in their asset allocations.

The Fixed Income markets have had a very interesting year. Yield curves in the first half of the year had nearly flattened as investors appeared to be almost indifferent to risk levels. That began to change to a degree in the second quarter, as both the European Central Bank and the Bank of England, responding to strong economic growth, began to raise interest rates. Investors slowly demanded more payment for riskier assets such as high yield corporate bonds and emerging market debt, but it wasn't until June that they seemed to awake fully to the problems in the U.S. subprime mortgage sector.

The action picked up smartly in the third quarter, with the realization that the problems with subprime were distributed fairly generously throughout the system via such structured products as collateralized debt obligations (CDOs) and structured investment vehicles (SIVs). Worse, they were highly leveraged. Thus began the credit contraction that is still affecting the economy and markets alike.

Investors subsequently fled to government bonds, stodgy and safe. Prices rose and yields fell, providing holders of these bonds a stellar two quarters. Holders of other fixed income instruments haven't fared quite as well.

Looking forward, while the Fed appears ready to continue cutting interest rates, the shorter end of the U.S. yield curve seems to have priced much of this in. The longer end is now grappling with worrisome inflation data. Most analysts generally agree that government bonds no longer provide attractive valuations. Many investors are looking now to inflation-protected bonds and, for the more risk tolerant, higher grade corporate bonds.

Amer Funds EuroPac A

Analyst Pick	Ticker	Load	NAV	Yield	Total Assets	Mstar Category
	AEPGX	5.75%	$47.04	2.0%	$114,471 mil	Foreign Large Blend

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

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

Strategy

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

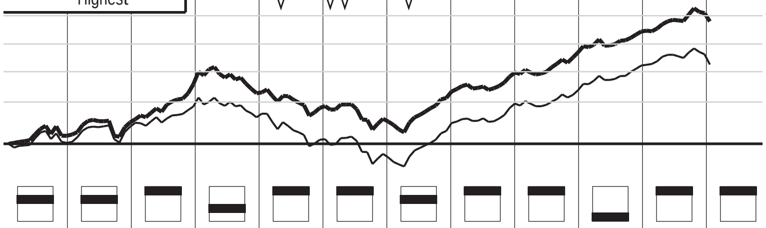
Historical Profile

Return: High
Risk: Average
Rating: ★★★★★ Highest

Investment Style
Equity
Stock %: 80% 82% 86% 86% 91% 86% 93% 92%

▼ Manager Change
∇ Partial Manager Change

Growth of $10,000
▬ Investment Values of Fund
— Investment Values of MSCI EAFE



Performance Quartile (within Category)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
26.02	28.40	42.66	31.35	26.87	22.97	30.21	35.63	41.10	46.56	50.87	47.04	NAV
9.19	15.54	56.97	-17.84	-12.17	-13.61	32.91	19.69	21.12	21.87	18.96	-7.53	Total Return %
7.41	-4.39	29.94	-3.67	9.27	2.33	-5.68	-0.56	7.58	-4.47	7.79	1.71	+/-MSCI EAFE
6.92	-3.15	28.99	-4.49	9.23	2.19	-6.51	-0.69	6.65	-3.84	6.52	1.49	+/-MSCI Wd xUS
1.78	1.40	1.03	0.50	2.09	0.90	1.35	1.68	2.02	1.88	2.16	0.00	Income Return %
7.41	14.14	55.94	-18.34	-14.26	-14.51	31.56	18.01	19.10	19.99	16.80	-7.53	Capital Return %
32	38	17	60	4	20	49	20	7	82	9	12	Total Rtn % Rank Cat
0.45	0.36	0.29	0.19	0.66	0.24	0.31	0.51	0.72	0.77	1.01	0.00	Income $
1.93	1.26	1.39	3.74	0.00	0.00	0.00	0.00	1.32	2.71	3.63	0.00	Capital Gains $
0.90	0.86	0.84	0.84	0.84	0.88	0.90	0.87	0.82	0.76	0.75	—	Expense Ratio %
1.77	1.64	1.45	0.93	1.89	1.21	1.06	1.08	1.31	1.58	1.54	—	Income Ratio %
26	31	32	29	37	27	29	25	30	35	27	—	Turnover Rate %
18,854	20,798	34,783	31,496	27,153	22,601	29,908	36,920	45,485	56,109	63,433	58,035	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-9.66	17.98	9.27	14.13	32.91
2004	6.79	-1.83	0.47	13.63	19.69
2005	0.00	0.79	12.25	7.06	21.12
2006	7.54	-0.68	4.99	8.67	21.87
2007	2.92	8.43	5.23	1.29	18.96

Trailing	Total Return%	+/- MSCI EAFE	+/- MSCI Wd xUS	%Rank Cat	Growth of $10,000
3 Mo	-11.70	2.50	2.52	10	8,830
6 Mo	-1.01	6.51	5.76	8	9,899
1 Yr	9.16	8.94	7.48	5	10,916
3 Yr Avg	18.01	4.19	3.50	10	16,434
5 Yr Avg	21.68	1.40	0.91	12	26,674
10 Yr Avg	11.06	3.93	3.54	4	28,548
15 Yr Avg	12.55	3.69	3.39	3	58,909

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	14.07	26	1.41	51
5 Yr (estimated)	19.02	30	1.02	53
10 Yr (estimated)	9.18	6	1.11	57

Potential Capital Gain Exposure: 29% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	2.88			
3 Yr	15.70	+Avg	Avg	★★★★
5 Yr	20.25	+Avg	Avg	★★★★
10 Yr	10.41	High	-Avg	★★★★★
Incept	13.59			

Other Measures	Standard Index MSCI EAFE	Best Fit Index MSCI Wd xUS
Alpha	3.9	3.4
Beta	0.98	0.97
R-Squared	92	93

Standard Deviation	11.44
Mean	18.01
Sharpe Ratio	1.14

Portfolio Analysis 09-30-07

Share change since 06-07 Total Stocks:300	Sector	Country	% Assets
⊕ Roche Holding Ltd	Health	Switzerland	3.39
Bayer	Ind Mtrls	Germany	2.46
Novo-Nordisk A S	Health	Denmark	1.89
⊕ Banco Santander	Financial	Spain	1.88
⊖ America Mobile ADR	Telecom	Mexico	1.87
⊕ Hon Hai Precision Indust	Hardware	Taiwan	1.51
Nestle	Goods	Switzerland	1.45
⊕ Samsung Electronics	Goods	Korea	1.44
Kookmin Bank	Financial	Korea	1.40
AXA	Financial	France	1.36
⊖ Nokia	Hardware	Finland	1.27
⊕ Brazilian Petroleum Corp	Energy	Brazil	1.21
Vodafone Grp	Telecom	U.K.	1.17
Reliance Industries Ltd	Ind Mtrls	India	1.02
⊕ Inditex Grp	Goods	Spain	1.01
⊕ MTN Grp Ltd	Telecom	South Africa	0.98
POSCO	Ind Mtrls	Korea	0.92
Linde	Ind Mtrls	Germany	0.92
Continental	Ind Mtrls	Germany	0.89
Koninklijke KPN	Telecom	Netherlands	0.89

Current Investment Style

Value Blnd Growth; Large Mid Small

Market Cap	%
Giant	57.6
Large	37.3
Mid	5.1
Small	0.0
Micro	0.0
Avg $mil: 38,710	

Value Measures		Rel Category
Price/Earnings	14.73	1.00
Price/Book	2.24	0.99
Price/Sales	1.28	1.06
Price/Cash Flow	8.81	0.99
Dividend Yield %	2.87	0.98

Growth Measures	%	Rel Category
Long-Term Erngs	14.27	1.06
Book Value	13.00	1.22
Sales	10.12	1.04
Cash Flow	16.50	1.08
Historical Erngs	16.06	0.74

Composition

Cash	6.5	Bonds	1.1
Stocks	92.4	Other	0.0
Foreign (% of Stock)	99.5		

Sector Weightings	% of Stocks	Rel MSCI EAFE	3 Year High	3 Year Low
Info	21.72	1.73		
Software	0.80	1.51	1	0
Hardware	8.48	2.17	10	6
Media	1.74	1.05	3	2
Telecom	10.70	1.65	17	7
Service	40.61	0.93		
Health	9.19	1.36	10	9
Consumer	4.76	0.96	5	5
Business	4.06	0.79	4	1
Financial	22.60	0.84	26	22
Mfg	37.68	0.86		
Goods	14.25	1.08	18	14
Ind Mtrls	13.20	0.76	13	10
Energy	7.71	1.04	9	6
Utilities	2.52	0.44	3	1

Regional Exposure			% Stock
UK/W. Europe	54	N. America	3
Japan	10	Latn America	6
Asia X Japan	22	Other	5

Country Exposure			% Stock
Germany	10	U.K.	8
France	10	Switzerland	8
Japan	10		

Morningstar's Take by Michael Breen 11-01-07

American Funds EuroPacific Growth is still special.

This fund continues to buck conventional wisdom. At more than $120 billion in assets, it's the largest portfolio in its category by a wide margin: It's 4 times the size of the next-largest foreign large-blend fund. Many would say this makes the fund too big to maneuver. And when the fund took a breather in 2006 after trouncing its competitors in eight of the 10 prior years, some took it as a sign that the fund was permanently slowing down.

Such is not the case. For one, the fund lagged its peers in 2006, but still returned 21.9%--solid by anyone's standards. And its managers remain strong stock-pickers who handle the fund's big asset base with aplomb. Although the fund is underweight in the hot-performing energy sector, its picks have doubled the returns for the index's energy stocks so far in 2007. And several longtime top holdings, such as Bayer and America Mobile, have gained more than 50% in 2007. The fund is up 19.7% for the year to date through October 23, 2007, topping nearly all of its peers and the benchmark. Its long-term record remains nearly unmatched. Its returns land in or near the category's top quintile in every trailing period.

We're also not worried about a couple of other longtime concerns: Portfolio breadth and emerging-markets exposure. The portfolio currently holds 285 names, but such expansiveness is not new. It started holding between 200 and 300 names about 15 years ago. And its top 100 holdings soak up about 70% of assets--a similar level as in 1992. The fund's emerging-markets stocks are big, leading firms, such as Brazilian Petroleum and Telephones of Mexico, that are concentrated in the so-called top-tier countries such as Mexico, Brazil, Russia, and South Africa. The fund doesn't hold tiny fly-by night firms in exotic locales like Kazakhstan.

This remains a topnotch foreign fund. Low expenses add to its appeal.

Address:	333 S Hope St - 55th FL Los Angeles, CA 90071 800-421-0180
Web Address:	www.americanfunds.com
Inception:	04-16-84
Advisor:	Capital Research & Mgmt Company
Subadvisor:	None
NTF Plans:	Federated Tr NTF, Schwab Instl NTF

Minimum Purchase:	$250	Add: $0	IRA: $0
Min Auto Inv Plan:	$250	Add: $50	
Sales Fees:	5.75%L, 0.25%S		
Management Fee:	0.69% mx./0.40% mn.		
Actual Fees:	Mgt:0.43%	Dist:0.25%	
Expense Projections:	3Yr:$813	5Yr:$989	10Yr:$1497
Income Distrib:	Annually		

DFA U.S. Micro Cap I

Ticker	Load	NAV	Yield	Total Assets	Mstar Category
DFSCX	None	$12.44	1.8%	$4,176 mil	Small Blend

Governance and Management

Stewardship Grade:

Portfolio Manager(s)

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

Strategy

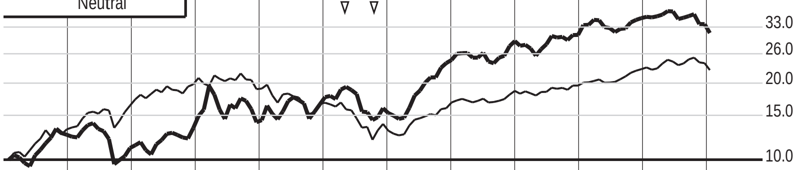
The fund invests in the smallest 5% of U.S. exchange-listed stocks to take advantage of the small-cap effect. The portfolio contains anywhere between 2,500 and 3,000 holdings, but it does not contain REITs, newly minted IPOs, or firms that management identifies as merger candidates or too highly leveraged.

Historical Profile

Return Above Avg
Risk Above Avg
Rating ★★★ Neutral

Investment Style
Equity
Stock %

▼ Manager Change
∇ Partial Manager Change



Growth of $10,000
▬ Investment Values of Fund
— Investment Values of S&P 500

Performance Quartile (within Category)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
				99%		98%	99%	98%	98%	99%	100%		Stock %
	11.78	10.76	12.61	9.64	10.01	8.53	13.32	15.12	14.77	15.70	13.47	12.44	NAV
	22.78	-7.32	29.79	-3.60	22.77	-13.27	60.72	18.39	5.69	16.16	-5.22	-7.65	Total Return %
	-10.58	-35.90	8.75	5.50	34.66	8.83	32.04	7.51	0.78	0.37	-10.71	-1.65	+/-S&P 500
	0.42	-4.77	8.53	-0.58	20.28	7.21	13.47	0.06	1.14	-2.21	-3.65	-0.83	+/-Russ 2000
	0.23	1.28	3.49	3.89	0.51	0.16	2.42	2.04	2.38	2.02	1.55	0.00	Income Return %
	22.55	-8.60	26.30	-7.49	22.26	-13.43	58.30	16.35	3.31	14.14	-6.77	-7.65	Capital Return %
	57	72	22	87	9	32	7	53	61	37	74	76	Total Rtn % Rank Cat
	0.03	0.15	0.38	0.49	0.05	0.02	0.21	0.27	0.36	0.30	0.24	0.00	Income $
	1.89	0.00	0.89	1.99	1.71	0.14	0.18	0.36	0.84	1.13	1.16	0.00	Capital Gains $
	0.60	0.59	0.61	0.56	0.56	0.56	0.56	0.16	0.55	0.53	—	—	Expense Ratio %
	0.21	0.18	0.30	0.34	0.41	0.24	0.25	0.64	0.48	0.64	—	—	Income Ratio %
	28	26	23	37	—	—	—	—	—	24	—	—	Turnover Rate %
	1,437	1,360	1,452	1,378	1,663	1,533	2,685	3,380	3,912	4,881	4,562	4,176	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-3.99	27.35	12.56	16.77	60.72
2004	6.46	0.14	-4.32	16.06	18.39
2005	-6.43	3.93	6.78	1.78	5.69
2006	14.39	-7.11	-0.21	9.55	16.16
2007	1.66	4.35	-4.03	-6.91	-5.22

Trailing	Total Return%	+/- S&P 500	+/- Russ 2000	%Rank Cat	Growth of $10,000
3 Mo	-15.47	-4.92	-1.91	82	8,453
6 Mo	-11.75	-7.43	-4.24	71	8,825
1 Yr	-13.46	-11.15	-3.67	75	8,654
3 Yr Avg	3.87	-3.41	-1.94	72	11,207
5 Yr Avg	15.90	3.86	0.64	26	20,913
10 Yr Avg	9.77	4.63	3.27	22	25,400
15 Yr Avg	12.43	2.45	3.09	19	57,974

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	2.13	61	1.68	43
5 Yr (estimated)	14.34	28	1.35	43
10 Yr (estimated)	7.75	25	1.84	78

Potential Capital Gain Exposure: 7% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	-13.46			
3 Yr	3.87	-Avg	+Avg	★★
5 Yr	15.90	+Avg	+Avg	★★★
10 Yr	9.77	+Avg	+Avg	★★★
Incept	12.77			

Other Measures	Standard Index S&P 500	Best Fit Index Russ 2000
Alpha	-3.8	-1.8
Beta	1.38	1.01
R-Squared	69	97
Standard Deviation	14.10	
Mean	3.87	
Sharpe Ratio	0.03	

Portfolio Analysis 10-31-07

Share change since 09-07 Total Stocks:0	Sector	PE	Tot Ret%	% Assets
⊖ Dimensional U.S. Micro C	—	—	—	100.00

Morningstar's Take by Marta Norton 11-01-07

DFA U.S. Micro Cap has considerable appeal, but it's not appropriate for all investors.

Dimensional Fund Advisors bases this fund on economic theory that says small-cap stocks outpace their larger brethren. The fund owns the smallest 5% of exchanged-listed stocks (generally that means somewhere between 2,000 and 3,000 stocks) and stays diversified across industries and sectors. Lately, this approach hasn't borne out as economic theory suggests. The fund's 4.4% gain trails the S&P 500's 10.8% climb for the year-to-date period ending Oct. 15, 2007.

We're not worried by the lagging short-term returns. Small-cap stocks have been due a breather after a long multiyear rally. Plus, the fund has managed to outstrip the broad market over the long haul. Its annualized 13.7% return since its late 1981 inception edges past that of the S&P 500 and that of its typical small-blend rival. A low expense ratio and low transaction costs (the fund minimizes turnover and uses techniques like block trading to keep trading efficient) have helped in that regard.

The higher long-term returns are attractive, but we'd suggest that investors do a gut check before investing here. Tiny companies are often in the early stages of development and while that gives them tremendous growth potential, they can also easily go bankrupt or, at the very least, face serious financial problems. As a result, this fund is much more volatile than the S&P 500 and the typical small-value fund. Moreover, the fund has been particularly hard hit in years like 1998, when small-cap stocks sold off sharply. Indeed, that year the typical small cap lost 3%, while this fund dropped more than 7%.

Thus, while this well-structured fund can be a good diversifier for investors with plenty of large-cap exposure, we recommend it only to those who can handle the fits and starts. Even then, we suggest investors limit it to a small portion, say 5%, of their total portfolios.

Current Investment Style

Value Blnd Growth / Large Mid Small

Market Cap	%
Giant	0.0
Large	0.0
Mid	0.3
Small	39.8
Micro	59.9
Avg $mil: 444	

Value Measures		Rel Category
Price/Earnings	15.34	0.96
Price/Book	1.94	0.96
Price/Sales	0.92	0.92
Price/Cash Flow	7.17	0.87
Dividend Yield %	0.77	0.68

Growth Measures	%	Rel Category
Long-Term Erngs	14.39	1.06
Book Value	3.48	0.41
Sales	-24.78	NMF
Cash Flow	-19.46	NMF
Historical Erngs	-14.91	NMF

Profitability	%	Rel Category
Return on Equity	5.79	0.43
Return on Assets	1.21	0.21
Net Margin	5.38	0.54

Sector Weightings	% of Stocks	Rel S&P 500	3 Year High	3 Year Low
Info	20.45	1.03		
Software	5.76	1.44	6	6
Hardware	11.14	1.18	11	10
Media	1.28	0.44	2	1
Telecom	2.27	0.65	2	1
Service	50.13	1.19		
Health	15.53	1.28	16	15
Consumer	9.13	1.29	10	9
Business	11.44	2.57	13	11
Financial	14.03	0.76	16	13
Mfg	29.42	0.77		
Goods	6.25	0.68	7	6
Ind Mtrls	17.61	1.34	18	15
Energy	4.02	0.33	5	4
Utilities	1.54	0.42	2	1

Composition

Cash	0.3
Stocks	99.5
Bonds	0.0
Other	0.1
Foreign (% of Stock)	0.0

Address:	1299 Ocean Ave, Santa Monica, CA 90401, 310-633-7885	Minimum Purchase:	$0	Add: $0	IRA: $0
Web Address:	www.dfafunds.com	Min Auto Inv Plan:	$0	Add: —	
Inception:	12-23-81	Sales Fees:	No-load		
Advisor:	Dimensional Fund Advisors Ltd	Management Fee:	—		
Subadvisor:	None	Actual Fees:	—	Dist: —	
		Expense Projections:	3Yr:$170	5Yr:$296	10Yr:$665
		Income Distrib:	Quarterly		
NTF Plans:	N/A				

Data through January 31, 2008

T. Rowe Price Mid Gr

Ticker	Load	NAV	Yield	Total Assets	Mstar Category
RPMGX	Closed	$52.73	0.1%	$15,906 mil	Mid-Cap Growth

Governance and Management

Stewardship Grade: A

Portfolio Manager(s)

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

Strategy

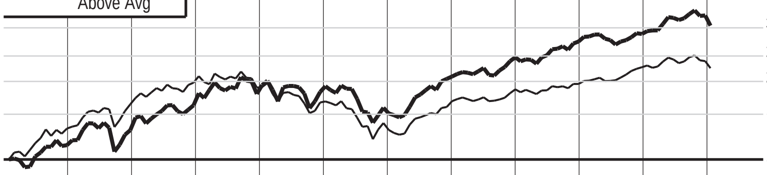
Manager Brian Berghuis looks for companies with sound business models that are growing rapidly. But unlike some other mid-growth managers, he pays close attention to valuations: The fund's average P/E is well below that of its typical rival. He also keeps the fund well diversified across sectors and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

Historical Profile

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

Investment Style: Equity Stock %

1999	2000	2001	2002	2003	2004	2005	2006
96%	94%	95%	94%	96%	97%	96%	94%



▼ Manager Change
∇ Partial Manager Change

Growth of $10,000
- Investment Values of Fund
- Investment Values of S&P 500

Performance Quartile (within Category)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
28.60	34.08	40.13	39.79	39.40	31.04	42.90	49.88	54.14	53.69	57.67	52.73	NAV
18.33	22.00	23.78	7.43	-0.98	-21.22	38.21	18.39	14.82	6.79	17.65	-8.57	Total Return %
-15.03	-6.58	2.74	16.53	10.91	0.88	9.53	7.51	9.91	-9.00	12.16	-2.57	+/-S&P 500
-4.21	4.14	-27.51	19.18	19.17	6.19	-4.50	2.91	2.72	-3.87	6.22	-0.62	+/-Russ MG
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.11	0.00	Income Return %
18.33	22.00	23.78	7.43	-0.98	-21.22	38.21	18.39	14.82	6.64	17.54	-8.57	Capital Return %
47	39	85	26	7	24	33	13	15	64	37	44	Total Rtn % Rank Cat
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.06	0.00	Income $
0.30	0.73	1.88	3.27	0.00	0.00	0.00	0.90	3.15	4.07	5.33	0.00	Capital Gains $
0.95	0.91	0.87	0.86	0.89	0.88	0.87	0.83	0.80	0.80	—	—	Expense Ratio %
-0.14	-0.14	-0.09	-0.09	-0.35	-0.50	-0.44	-0.39	-0.12	0.14	—	—	Income Ratio %
43	47	53	54	43	36	30	30	29	34	—	—	Turnover Rate %
1,839	3,310	5,243	6,589	6,739	5,713	9,869	12,651	15,187	14,629	16,905	15,213	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-1.32	19.62	4.20	12.36	38.21
2004	3.36	4.22	-2.14	12.32	18.39
2005	-2.25	4.12	8.17	4.28	14.82
2006	6.22	-4.69	-0.05	5.54	6.79
2007	3.24	11.53	3.45	-1.23	17.65

Trailing	Total Return%	+/- S&P 500	+/- Russ MG	%Rank Cat	Growth of $10,000
3 Mo	-12.52	-1.97	-0.76	37	8,748
6 Mo	-4.84	-0.52	0.61	49	9,516
1 Yr	4.93	7.24	5.96	28	10,493
3 Yr Avg	10.97	3.69	1.63	26	13,665
5 Yr Avg	17.00	4.96	0.81	20	21,924
10 Yr Avg	10.55	5.41	3.66	13	27,264
15 Yr Avg	14.00	4.02	4.38	5	71,379

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	9.60	26	1.23	44
5 Yr (estimated)	16.06	20	0.80	41
10 Yr (estimated)	9.75	10	0.72	25

Potential Capital Gain Exposure: 26% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	4.93			
3 Yr	10.97	+Avg	-Avg	★★★★
5 Yr	17.00	+Avg	-Avg	★★★★
10 Yr	10.55	+Avg	-Avg	★★★★
Incept	15.11			

Other Measures	Standard Index S&P 500	Best Fit Index Russ MG
Alpha	3.1	1.8
Beta	1.18	0.94
R-Squared	78	93
Standard Deviation	11.39	
Mean	10.97	
Sharpe Ratio	0.60	

Portfolio Analysis 12-31-07

Share change since 09-07 Total Stocks:151	Sector	PE	Tot Ret%	% Assets
Smith International, Inc	Energy	17.5	-30.40	1.87
⊖ Roper Industries, Inc.	Ind Mtrls	22.1	-10.46	1.81
⊖ Amazon.com, Inc.	Consumer	89.3	-16.13	1.69
⊖ VeriSign, Inc.	Software	—	-9.81	1.63
⊖ Consol Energy, Inc.	Energy	35.8	1.80	1.61
Ametek, Inc.	Ind Mtrls	22.0	-6.13	1.52
EOG Resources	Energy	22.5	-1.67	1.51
Juniper Networks, Inc.	Hardware	50.3	-18.22	1.49
⊖ Rockwell Collins, Inc.	Ind Mtrls	17.9	-11.87	1.42
DST Systems, Inc.	Business	5.7	-13.39	1.39
International Game Tech.	Consumer	28.3	-2.50	1.24
⊕ FLIR Systems, Inc.	Ind Mtrls	35.7	-3.16	1.23
⊕ Harman International Ind	Goods	10.5	-36.97	1.14
⊕ Lamar Advertising Compan	Business	87.7	-10.30	1.12
⊕ Cephalon, Inc.	Health	—	-8.54	1.11
⊕ The Western Union Compan	Business	20.8	-8.24	1.09
⊖ Crown Castle Internation	Telecom	—	-13.32	1.05
⊖ Chipotle Mexican Grill,	Consumer	49.5	-22.19	1.03
SAIC, Inc.	Ind Mtrls	21.5	-6.06	1.02
Seagate Technology	Hardware	7.6	-21.87	1.00

Current Investment Style

Value Blnd Growth / Large Mid Small

Market Cap	%
Giant	0.7
Large	20.5
Mid	69.5
Small	9.2
Micro	0.0
Avg $mil: 6,261	

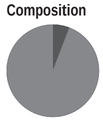
Value Measures		Rel Category
Price/Earnings	16.87	0.80
Price/Book	3.01	0.90
Price/Sales	1.69	0.92
Price/Cash Flow	13.12	1.04
Dividend Yield %	0.46	0.85

Growth Measures	%	Rel Category
Long-Term Erngs	15.33	0.94
Book Value	10.06	0.67
Sales	14.55	1.61
Cash Flow	11.76	0.84
Historical Erngs	22.75	0.93

Profitability	%	Rel Category
Return on Equity	17.44	0.94
Return on Assets	6.48	0.77
Net Margin	8.54	0.74

Sector Weightings	% of Stocks	Rel S&P 500	3 Year High	3 Year Low
Info	24.92	1.26		
Software	6.38	1.59	7	6
Hardware	11.41	1.21	13	10
Media	2.70	0.94	4	2
Telecom	4.43	1.27	6	4
Service	46.32	1.10		
Health	15.13	1.24	19	15
Consumer	13.75	1.94	14	11
Business	12.87	2.89	15	13
Financial	4.57	0.25	10	5
Mfg	28.77	0.76		
Goods	2.48	0.27	3	2
Ind Mtrls	15.11	1.15	15	9
Energy	11.18	0.93	11	8
Utilities	0.00	0.00	0	0

Composition



Cash	5.6
Stocks	94.4
Bonds	0.0
Other	0.0
Foreign (% of Stock)	4.9

Morningstar's Take by Bridget Hughes 12-07-07

No surprise: The remarkably steady T. Rowe Price Mid-Cap Growth remains a favorite.

This fund is a model of consistency. That's true not only in its performance figures--it regularly lands in the mid-growth category's best third or better--but its Morningstar risk scores are below average, suggesting a stable ride. Its predictability extends to other areas. Manager Brian Berghuis has been with the fund since its mid-1992 inception. His 15-plus year tenure is more than three times as long as that of the average mutual fund manager--mid-cap growth or otherwise. Another member of this fund's investment advisory committee, John Wakeman, has worked with Berghuis for as long on the fund.

The portfolio's characteristics have also been reliable. Berghuis' unwavering commitment to his criteria--strong management teams, good business models, steady growth, and reasonable valuations--has produced a diversified portfolio, albeit with some emphases on health-care, consumer-services, and business-services stocks. While Berghuis loves to buy small-cap stocks and hold them as they grow up the market-cap ladder, the portfolio tends to land smack in the middle of the cap spectrum. Berghuis doesn't trade as much as other mid-growth funds, and the fund's turnover rate has hovered around 30% for the past five years.

All that dependability doesn't mean Berghuis is rigid. For example, over the past couple of years, the fund has had more in technology than it has in some time. He's been encouraged by tech firms' flush balance sheets and their stocks' valuations and by his opinion that capital spending would pick up. Still, moderation is a hallmark at T. Rowe Price, so while hardware stocks are on the high side of the fund's historical range, Berghuis is hardly making a bold sector call.

Shareholders should hang on to this one.

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

Calvert Soc Inv Equity A

Ticker	Load	NAV	Yield	Total Assets	Mstar Category
CSIEX	4.75%	$35.91	0.0%	$1,216 mil	Large Growth

Governance and Management

Stewardship Grade:

Portfolio Manager(s)

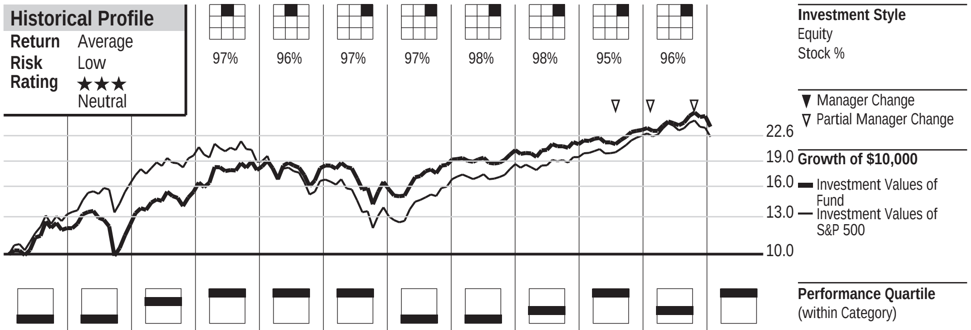
Dan Boone is a manager for subadvisor Atlanta Capital Management, and he has run this fund since September 1998. Boone is assisted by three other portfolio managers, as well as a team of industry-specific analysts at his firm. Calvert does the fund's social screening.

Strategy

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

Historical Profile

Return Average
Risk Low
Rating ★★★ Neutral



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
23.28	25.80	29.88	31.72	31.06	26.40	32.29	34.45	35.30	37.30	38.61	35.91	NAV
19.33	10.89	23.17	11.61	0.67	-14.93	22.31	6.69	4.16	10.16	9.94	-6.99	Total Return %
-14.03	-17.69	2.13	20.71	12.56	7.17	-6.37	-4.19	-0.75	-5.63	4.45	-0.99	+/-S&P 500
-11.16	-27.82	-9.99	34.03	21.09	12.95	-7.44	0.39	-1.10	1.09	-1.87	0.81	+/-Russ 1000Gr
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Income Return %
19.33	10.89	23.17	11.61	0.67	-14.93	22.31	6.69	4.16	10.16	9.94	-6.99	Capital Return %
91	94	29	4	2	5	87	86	70	22	69	20	Total Rtn % Rank Cat
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Income $
3.36	0.01	1.83	1.63	0.88	0.02	0.00	0.00	0.59	1.59	2.43	0.00	Capital Gains $
1.20	1.16	1.22	1.13	1.24	1.29	1.29	1.24	1.25	1.23	1.21	—	Expense Ratio %
0.03	-0.14	-0.28	-0.20	-0.07	-0.12	-0.26	-0.32	0.08	-0.06	-0.01	—	Income Ratio %
93	110	51	49	43	28	29	17	31	35	35	—	Turnover Rate %
146	157	203	253	312	380	619	783	883	948	978	903	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-4.28	14.25	1.94	9.72	22.31
2004	-0.81	2.12	-3.30	8.92	6.69
2005	-2.21	2.49	2.46	1.42	4.16
2006	3.80	-2.46	3.92	4.71	10.16
2007	-0.64	5.45	5.04	-0.11	9.94

Trailing	Total Return%	+/- S&P 500	+/- Russ 1000Gr	%Rank Cat	Growth of $10,000
3 Mo	-9.26	1.29	2.26	5	9,074
6 Mo	-0.99	3.33	2.16	28	9,901
1 Yr	0.90	3.21	0.39	48	10,090
3 Yr Avg	6.36	-0.92	-0.62	56	12,032
5 Yr Avg	9.84	-2.20	-1.00	68	15,988
10 Yr Avg	6.83	1.69	4.14	16	19,361
15 Yr Avg	7.97	-2.01	0.00	51	31,590

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	4.05	74	0.57	26
5 Yr (estimated)	8.40	79	0.35	22
10 Yr (estimated)	5.82	16	0.46	24

Potential Capital Gain Exposure: 21% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	-3.90			
3 Yr	4.65	-Avg	Low	★★
5 Yr	8.78	-Avg	Low	★★
10 Yr	6.31	+Avg	-Avg	★★★★
Incept	7.88			

Other Measures	Standard Index S&P 500	Best Fit Index Russ 1000Gr
Alpha	-0.7	-0.3
Beta	0.95	0.86
R-Squared	87	95
Standard Deviation	8.62	
Mean	6.36	
Sharpe Ratio	0.26	

Portfolio Analysis 12-31-07

Share change since 11-07 Total Stocks:46	Sector	PE	Tot Ret%	% Assets
⊕ Cisco Systems, Inc.	Hardware	19.4	-9.86	4.22
Microsoft Corporation	Software	18.5	-8.43	3.98
Procter & Gamble Company	Goods	20.7	-9.91	3.56
FMC Technologies, Inc.	Energy	23.3	-15.06	3.55
Colgate-Palmolive Compan	Goods	24.3	-0.96	3.49
Aflac, Inc.	Financial	19.2	-2.47	3.27
Medtronic, Inc.	Health	18.8	-7.27	3.19
Cooper Industries, Ltd.	Ind Mtrls	12.9	-15.94	3.16
Emerson Electric Company	Ind Mtrls	19.1	-10.48	2.96
Respironics Inc.	Health	37.9	0.05	2.93
⊕ EOG Resources	Energy	22.5	-1.67	2.66
Dover Corporation	Ind Mtrls	12.7	-12.50	2.58
Air Products and Chemica	Ind Mtrls	18.6	-8.96	2.58
Bank of New York Mellon	Financial	20.7	-4.03	2.55
☼ FHLBA	—	—	—	2.54
Kohl's Corporation	Consumer	12.8	-0.59	2.48
Stryker Corporation	Health	29.5	-10.18	2.34
Questar Corporation	Energy	17.9	-5.56	2.26
Texas Instruments, Inc.	Hardware	17.8	-7.21	2.24
SEI Investments Company	Business	20.8	-13.70	2.16

Current Investment Style

Value Blnd Growth; Large Mid Small

Market Cap	%
Giant	31.0
Large	38.8
Mid	30.2
Small	0.0
Micro	0.0
Avg $mil: 31,071	

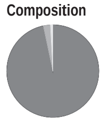
Value Measures		Rel Category
Price/Earnings	18.69	0.94
Price/Book	3.84	1.07
Price/Sales	1.84	0.92
Price/Cash Flow	12.86	0.97
Dividend Yield %	0.93	1.04

Growth Measures	%	Rel Category
Long-Term Erngs	14.13	0.96
Book Value	10.71	0.74
Sales	13.18	1.15
Cash Flow	13.25	0.91
Historical Erngs	19.73	0.84

Profitability	%	Rel Category
Return on Equity	25.16	1.12
Return on Assets	11.21	1.15
Net Margin	14.73	1.03

Sector Weightings	% of Stocks	Rel S&P 500	3 Year High	3 Year Low
Info	22.95	1.16		
Software	7.18	1.79	7	2
Hardware	15.77	1.67	16	10
Media	0.00	0.00	0	0
Telecom	0.00	0.00	0	0
Service	46.15	1.09		
Health	17.52	1.44	21	15
Consumer	12.85	1.81	19	13
Business	6.15	1.38	14	5
Financial	9.63	0.52	15	10
Mfg	30.90	0.81		
Goods	7.31	0.80	7	4
Ind Mtrls	14.80	1.12	17	11
Energy	8.79	0.73	9	5
Utilities	0.00	0.00	0	0

Composition



Cash	0.0
Stocks	96.4
Bonds	2.5
Other	1.0
Foreign (% of Stock)	4.2

Morningstar's Take by Annie Sorich 11-21-07

A manager change at Calvert Social Investment Equity is disappointing, but not a reason to abandon ship.

This fund's long-tenured manager, Dan Boone of subadvisor Atlanta Capital Management, will retire at the end of December, leaving Richard England at the helm. Although England has only been a manager since July 2006, he joined the firm in 2004, and Atlanta created a succession plan in 2001 (and sold 70% to asset manager Eaton Vance). Boone will remain at the firm managing high-net-worth portfolios and will contribute to the firm's research process. This isn't England's first stint as a portfolio manager, either. He worked as a comanager at Putnam Investors from 1996 to 2004 and as a manager of Putnam Health Sciences from mid-1997 through 2001. Along with England, William Hackney III and Marilyn Irvin will remain as comanagers, keeping the analyst team intact.

Much of the fund's success hinges on stock-picking ability. Management invests in companies, such as Microsoft and Medtronic, with rock-solid balance sheets, dominant business franchises, and good earnings prospects that pass Calvert's social screens. This taste for steady growers, along with a few deft moves, served shareholders well in the last bear market. And although Boone won't be in charge of pulling the trigger going forward, he never was alone in making investment decisions. All of the portfolio managers attempt to reach consensus before picks are added or subtracted from the relatively compact portfolio. Still, it remains to be seen if the fund's past success can be repeated.

Overall, Boone's departure is a loss. In addition to his solid track record here, he has more than 30 years of investment experience. Yet, we still think this is one of the more solid offerings for socially responsible investors given its proven approach and reasonable expenses.

Address:	4550 Montgomery Ave Bethesda, MD 20814 800-368-2748
Web Address:	www.calvert.com
Inception:	08-24-87
Advisor:	Calvert Asset Management Co., Inc.
Subadvisor:	Atlanta Capital Management Co.
NTF Plans:	DATALynx NTF, Federated Tr NTF

Minimum Purchase:	$1000	Add: $250	IRA: $1000
Min Auto Inv Plan:	$0	Add: —	
Sales Fees:	4.75%L, 0.25%S, 2.00%R		
Management Fee:	0.50%, 0.20%A		
Actual Fees:	Mgt:0.70%	Dist:0.25%	
Expense Projections:	3Yr:$841	5Yr:$1108	10Yr:$1871
Income Distrib:	Annually		

Fidelity Contrafund

Ticker	Load	NAV	Yield	Total Assets	Mstar Category
FCNTX	Closed	$66.16	0.6%	$72,969 mil	Large Growth

Governance and Management

Stewardship Grade: C

Portfolio Manager(s)

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

Strategy

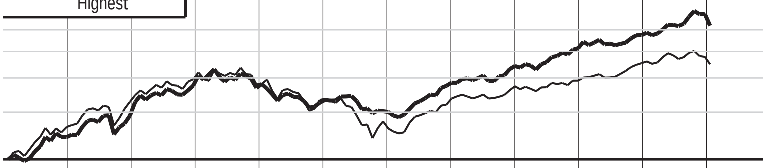
Call it forced evolution: As this fund's asset base grew in the 1990s, manager Will Danoff had to move away from mid-caps and small caps and adopt a growth-at-a-reasonable-price philosophy. He continues to own a substantial stake in mid-caps, but it is now dominated by larger fare. It has been more conservative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

Historical Profile

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

Investment Style: Equity Stock % — 91% 90% 90% 94% 89% 90% 92% 83%

▼ Manager Change
∇ Partial Manager Change



Growth of $10,000
- Investment Values of Fund
- Investment Values of S&P 500

Performance Quartile (within Category)

History	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08
NAV	46.63	56.81	60.02	49.18	42.77	38.60	49.35	56.74	64.76	65.21	73.11	66.16
Total Return %	23.00	31.57	25.03	-6.80	-12.59	-9.63	27.95	15.07	16.23	11.54	19.78	-9.51
+/-S&P 500	-10.36	2.99	3.99	2.30	-0.70	12.47	-0.73	4.19	11.32	-4.25	14.29	-3.51
+/-Russ 1000Gr	-7.49	-7.14	-8.13	15.62	7.83	18.25	-1.80	8.77	10.97	2.47	7.97	-1.71
Income Return %	0.84	0.64	0.50	0.41	0.45	0.12	0.10	0.09	0.41	0.61	0.68	0.00
Capital Return %	22.16	30.93	24.53	-7.21	-13.04	-9.75	27.85	14.98	15.82	10.93	19.10	-9.51
Total Rtn % Rank Cat	85	7	21	40	51	2	39	5	3	14	19	67
Income $	0.35	0.30	0.28	0.24	0.22	0.05	0.04	0.05	0.23	0.39	0.44	0.00
Capital Gains $	4.56	4.22	10.22	6.62	0.00	0.00	0.00	0.00	0.97	6.49	4.48	0.00
Expense Ratio %	0.67	0.61	0.62	0.84	0.91	0.99	0.98	0.92	0.88	0.89	—	—
Income Ratio %	0.91	0.70	0.48	0.45	0.49	0.14	0.01	0.08	0.46	0.62	—	—
Turnover Rate %	144	197	177	166	141	80	67	64	60	76	—	—
Net Assets $mil	30,809	38,821	46,927	40,220	32,321	27,695	36,051	44,484	60,094	68,576	80,864	72,969

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-2.15	11.83	5.02	11.34	27.95
2004	3.75	2.36	-0.63	9.04	15.07
2005	0.33	2.95	8.41	3.79	16.23
2006	4.75	-0.77	0.79	6.46	11.54
2007	1.41	7.50	7.16	2.53	19.78

Trailing	Total Return%	+/- S&P 500	+/- Russ 1000Gr	%Rank Cat	Growth of $10,000
3 Mo	-11.65	-1.10	-0.13	31	8,835
6 Mo	0.27	4.59	3.42	18	10,027
1 Yr	6.10	8.41	5.59	16	10,610
3 Yr Avg	12.51	5.23	5.53	5	14,242
5 Yr Avg	16.37	4.33	5.53	5	21,341
10 Yr Avg	9.65	4.51	6.96	4	25,124
15 Yr Avg	12.64	2.66	4.67	3	59,620

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	11.36	6	1.02	46
5 Yr (estimated)	15.64	5	0.63	39
10 Yr (estimated)	8.38	5	1.16	64

Potential Capital Gain Exposure: 26% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	6.10			
3 Yr	12.51	High	Avg	★★★★★
5 Yr	16.37	High	Avg	★★★★★
10 Yr	9.65	High	Low	★★★★★
Incept	13.17			

Other Measures	Standard Index S&P 500	Best Fit Index Mstar Mid Growth TR
Alpha	4.6	1.4
Beta	1.13	0.80
R-Squared	77	87
Standard Deviation	10.97	
Mean	12.51	
Sharpe Ratio	0.74	

Portfolio Analysis 12-31-07

Share change since 11-07 Total Stocks:347	Sector	PE	Tot Ret%	% Assets
⊕ Google, Inc.	Business	44.0	-18.39	5.42
Apple, Inc.	Hardware	34.5	-31.66	3.71
⊖ Berkshire Hathaway Inc.	Financial	15.2	-3.95	3.19
⊕ ExxonMobil Corporation	Energy	12.4	-8.84	2.92
⊕ Hewlett-Packard Company	Hardware	16.3	-13.35	2.86
Procter & Gamble Company	Goods	20.7	-9.91	2.10
⊕ Schlumberger, Ltd.	Energy	18.8	-23.08	1.79
⊖ America Mobile ADR	Telecom	26.7	-2.69	1.75
⊕ Genentech, Inc.	Health	27.4	4.61	1.54
Walt Disney Company	Media	13.3	-5.82	1.34
⊖ Research in Motion, Ltd.	Hardware	84.8	-17.21	1.32
Merck & Co., Inc.	Health	18.8	-20.30	1.27
⊕ Coca-Cola Company	Goods	25.2	-3.86	1.25
⊕ PepsiCo, Inc.	Goods	18.3	-10.66	1.21
EnCana Corporation	Energy	10.9	-2.75	1.15
⊕ Brazilian Petroleum Corp	Energy	19.0	-3.58	1.00
⊕ Danaher Corporation	Ind Mtrls	19.7	-14.93	0.96
Gilead Sciences, Inc.	Health	—	-0.70	0.92
⊖ Jacobs Engineering Group	Business	29.1	-20.05	0.85
Cooper Industries, Ltd.	Ind Mtrls	12.9	-15.94	0.84

Current Investment Style

Value Blnd Growth — Large Mid Small

Market Cap	%
Giant	57.5
Large	25.2
Mid	14.9
Small	2.2
Micro	0.2
Avg $mil: 50,930	

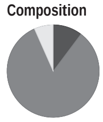
Value Measures		Rel Category
Price/Earnings	18.70	0.94
Price/Book	3.02	0.84
Price/Sales	2.15	1.08
Price/Cash Flow	13.48	1.02
Dividend Yield %	0.78	0.88

Growth Measures	%	Rel Category
Long-Term Erngs	13.45	0.91
Book Value	14.50	1.01
Sales	10.35	0.90
Cash Flow	16.43	1.13
Historical Erngs	28.07	1.20

Profitability	%	Rel Category
Return on Equity	23.05	1.03
Return on Assets	10.61	1.08
Net Margin	15.53	1.09

Sector Weightings	% of Stocks	Rel S&P 500	3 Year High	3 Year Low
Info	23.07	1.16		
Software	3.24	0.81	4	2
Hardware	15.21	1.61	16	5
Media	1.76	0.61	3	2
Telecom	2.86	0.82	7	3
Service	38.28	0.91		
Health	11.06	0.91	16	11
Consumer	4.10	0.58	9	4
Business	11.16	2.51	11	5
Financial	11.96	0.65	23	12
Mfg	38.64	1.02		
Goods	9.41	1.03	10	7
Ind Mtrls	14.30	1.09	18	10
Energy	14.07	1.17	18	8
Utilities	0.86	0.24	1	0

Composition



Cash	10.1
Stocks	83.1
Bonds	0.1
Other	6.8
Foreign (% of Stock)	17.8

Morningstar's Take by Greg Carlson 01-03-08

The veteran manager of Fidelity Contrafund is Morningstar's Domestic-Stock Manager of the Year, but can its future be as good as its past?

This closed large-growth fund isn't a perfect fit in its category. Manager Will Danoff, who's run the fund since 1990, employs a flexible approach. He likes firms with improving prospects, rather than potential turnaround situations, but he'll buy anything that fits that definition, from Internet-search leader Google to oil giant ExxonMobil. Thus, its performance is best measured against its benchmark, the S&P 500.

Versus the S&P, the fund rebounded strongly from a subpar 2006--it crushed the S&P by 14.3 percentage points in 2007. That success owes to solid picks such as Apple and oil-services provider Schlumberger. Apple is an instructive case--Danoff owned only a very tiny position when the firm was struggling through the bear market, but once its fortunes started improving in 2003, he slowly built it into a significant holding and has ridden the stock's tremendous rise since then. (It's now a 3.5% position, the fund's second-largest.)

The fund's fine 2007 campaign owed not just to good stock selection but also a broader move by Danoff toward growth-oriented firms that had previously lagged value names even as they churned out higher profits. That same bias held the fund back in 2006. And just as we didn't conclude that its poor 2006 campaign was proof that Danoff's huge asset pool--he runs roughly $89 billion--was weighing on returns, we don't think that a great year means that asset bloat is not an issue here. We still think Danoff's ability to suss out industry trends and attractive names before most rivals gives the fund an edge. However, his massive workload raises concerns about the fund's long-term prospects, especially since Fidelity has reopened his other, identically managed charge, Fidelity Advisor New Insights. As such, we don't think shareholders should add to their stake in this fund.

Address:	82 Devonshire Street Boston, MA 02109 800-544-9797
Web Address:	www.fidelity.com
Inception:	05-17-67
Advisor:	Fidelity Mgmt & Research (FMR)
Subadvisor:	Fidelity Mgmt & Rsrch Far East Inc
NTF Plans:	Fidelity Retail-NTF, CommonWealth NTF

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

Vanguard Wellington

Analyst Pick	Ticker	Load	NAV	Yield	Total Assets	Mstar Category
	VWELX	None	$31.69	3.3%	$49,111 mil	Moderate Allocation

Governance and Management

Stewardship Grade: A

Portfolio Manager(s)

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

Strategy

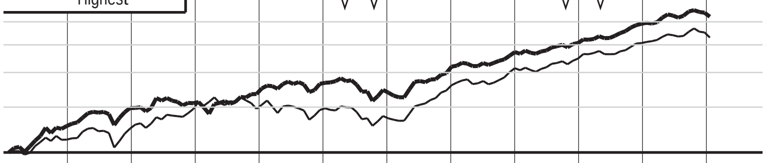
This fund's fixed-income and equity portfolios follow disciplined strategies. The bond portfolio typically emphasizes high-quality issues, but it has often taken on a modest amount of interest-rate risk. On the stock side, Ed Bousa looks for dividend-paying companies with modest valuations and decent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

Historical Profile

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

Investment Style
Equity
Stock %: 64% 68% 66% 66% 65% 65% 66% 66%

▼ Manager Change
∇ Partial Manager Change



Growth of $10,000
Investment Values of Fund
Investment Values of DJ Mod

Performance Quartile (within Category)

History

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
29.45	29.35	27.96	28.21	27.26	24.56	28.81	30.19	30.35	32.44	32.62	31.69	NAV
23.23	12.06	4.41	10.40	4.19	-6.90	20.75	11.17	6.82	14.97	8.34	-2.85	Total Return %
12.42	1.61	-13.59	12.56	6.70	0.15	-6.42	-1.98	-0.43	3.06	0.32	0.83	+/-DJ Mod
4.03	-0.33	-8.44	5.96	4.03	3.66	-3.31	0.00	0.83	4.78	3.47	0.23	+/-DJ US Mod
4.34	3.89	3.94	3.88	3.41	3.12	3.15	3.07	3.01	3.27	3.37	0.00	Income Return %
18.89	8.17	0.47	6.52	0.78	-10.02	17.60	8.10	3.81	11.70	4.97	-2.85	Capital Return %
19	56	80	11	5	10	43	17	20	8	22	23	Total Rtn % Rank Cat
1.12	1.13	1.14	1.07	0.95	0.84	0.77	0.88	0.90	0.98	1.08	0.00	Income $
1.57	2.44	1.50	1.48	1.12	0.00	0.00	0.91	0.97	1.40	1.42	0.00	Capital Gains $
0.29	0.31	0.30	0.31	0.36	0.36	0.36	0.31	0.29	0.30	—	—	Expense Ratio %
3.97	3.68	3.74	3.77	3.42	3.18	3.00	2.99	2.93	3.10	—	—	Income Ratio %
27	29	22	33	33	25	28	24	24	25	—	—	Turnover Rate %
21,812	25,761	25,529	22,799	21,724	19,495	24,326	28,328	26,251	29,675	30,979	30,036	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-3.35	12.55	1.37	9.50	20.75
2004	2.19	0.41	1.65	6.58	11.17
2005	-0.53	1.71	4.22	1.31	6.82
2006	2.99	0.69	5.07	5.51	14.97
2007	1.14	4.91	3.01	-0.88	8.34

Trailing	Total Return%	+/- DJ Mod	+/- DJ US Mod	%Rank Cat	Growth of $10,000
3 Mo	-4.64	1.82	1.27	11	9,536
6 Mo	0.67	1.43	2.10	14	10,067
1 Yr	4.54	1.30	4.36	12	10,454
3 Yr Avg	9.38	1.18	2.89	5	13,086
5 Yr Avg	12.14	-0.52	1.50	9	17,734
10 Yr Avg	7.97	0.41	1.10	7	21,529
15 Yr Avg	10.74	1.98	2.10	5	46,192

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	7.81	4	1.44	52
5 Yr (estimated)	10.75	9	1.24	57
10 Yr (estimated)	6.05	9	1.78	73

Potential Capital Gain Exposure: -6% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	4.54			
3 Yr	9.38	High	-Avg	★★★★★
5 Yr	12.14	+Avg	Avg	★★★★★
10 Yr	7.97	+Avg	-Avg	★★★★★
Incept	8.33			

Other Measures	Standard Index DJ Mod	Best Fit Index S&P 500
Alpha	1.7	3.0
Beta	0.83	0.58
R-Squared	85	88
Standard Deviation	5.33	
Mean	9.38	
Sharpe Ratio	0.91	

Portfolio Analysis 09-30-07

Total Stocks:113 Share change since 06-30-07	Sectors	P/E Ratio	YTD Return %	% Net Assets
⊕ AT&T, Inc.	Telecom	21.6	-10.06	2.55
General Electric Company	Ind Mtrls	16.6	-8.39	2.04
Chevron Corporation	Energy	11.4	-14.97	1.80
Bank of America Corporati	Financial	9.4	2.18	1.75
ExxonMobil Corporation	Energy	13.6	-12.22	1.68
International Business Ma	Hardware	16.2	-4.71	1.61
Total SA ADR	Energy	11.1	-15.54	1.57
⊖ Citigroup, Inc.	Financial	7.9	-10.58	1.40
Exelon Corporation	Utilities	20.2	-4.41	1.37

Total Fixed-Income:2414	Date of Maturity	Amount $000	Value $000	% Net Assets
Illinois St Go Bds 5.1%	06-01-33	109,510	102,579	0.20
FHLBA 4.875%		94,400	95,118	0.19
SIEMENS FIN NV		89,650	90,095	0.18
Unilever Cap 7.125%	11-01-10	77,000	81,706	0.16
Household Fin 6.375%	10-15-11	75,000	77,296	0.15
Hbos Plc Medium Tm Sb Nts	11-01-33	80,500	77,018	0.15
Hewlett Packard 5.25%		75,000	75,473	0.15
Goldman Sachs Grp 5.3%		75,000	74,974	0.15
State Str 5.375%		76,315	74,453	0.15

Equity Style
Style: Blend
Size: Large-Cap

Value Measures		Rel Category
Price/Earnings	15.37	0.97
Price/Book	2.67	1.05
Price/Sales	1.64	1.14
Price/Cash Flow	9.93	0.97
Dividend Yield %	2.10	1.15

Growth Measures	%	Rel Category
Long-Term Erngs	9.78	0.79
Book Value	9.80	0.89
Sales	6.56	0.89
Cash Flow	9.26	1.23
Historical Erngs	14.70	0.81

Market Cap %			
Giant	62.5	Small	0.0
Large	34.5	Micro	0.0
Mid	2.9	Avg $mil:	75,494

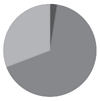
Fixed-Income Style
Duration: Interm-Term
Quality: High

Avg Eff Duration [1]	5.5 Yrs
Avg Eff Maturity	8.8 Yrs
Avg Credit Quality	AA
Avg Wtd Coupon	5.71%

[1]figure provided by fund as of 09-30-07

Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High	3 Year Low
Info	16.41	—		
Software	2.02	—	3	2
Hardware	5.62	—	6	4
Media	3.61	—	5	4
Telecom	5.16	—	5	4
Service	36.74	—		
Health	10.80	—	11	9
Consumer	4.41	—	5	3
Business	4.61	—	7	4
Financial	16.92	—	19	17
Mfg	46.85	—		
Goods	10.76	—	11	7
Ind Mtrls	14.78	—	19	15
Energy	16.19	—	17	13
Utilities	5.12	—	6	5

Composition



Cash	2.4
Stocks	66.5
Bonds	31.0
Other	0.2
Foreign (% of Stock)	20.4

Morningstar's Take by Dan Culloton 12-13-07

Vanguard Wellington, once again, has done its job.

Investors usually sign up for this fund for a few simple reasons; stability is paramount among them. Recently the markets gave the fund a chance to demonstrate its ability to stay calm while the rest of the world trembled, and it delivered. When the broad equity market fell 4.5% in November and the typical moderate-allocation fund fell nearly as far, this fund shed 1.3%. Throughout this volatile year this fund also has held up well. Its more than 9% year-to-date gain through Dec. 12 beats both the broad stock and bond market and 80% of the moderate-allocation category.

Some prescient moves set the stage for the fund's strong showing. On the stock side of the portfolio, manager Ed Bousa trimmed the fund's exposure to financial stocks prior to 2007 because he saw many red flags, not the least of which was the mortgage and housing bubble. Bousa also stuck with big energy stocks, because he thinks tight supply and increasing demand will support their profits. Fixed-income manager John Keogh was similarly cautious, underweighting corporate securities versus the fund's internal benchmark because yields were not high enough to make extra risk pay.

Nice moves, to be sure. But can the fund do it again and again over your time horizon? The odds are good. Though the managers currently running the fund are not solely responsible for its superior long-term record, they are well versed in the offering's style and goals. Bousa tries to put together a diversified portfolio of undervalued stocks with an above-average yield. Keogh favors higher-quality corporate bonds. Both managers look for margins of safety (either low share valuations or favorable bond yields), avoid sector or individual security bets, and hang on for years. Low expenses give this patient approach a chance to work over time.

The fund has proved its worth again, and should do so again in the future.

Address:	PO Box 2600 Valley Forge, PA 19482 800-662-6273
Web Address:	www.vanguard.com
Inception:	07-01-29
Advisor:	Wellington Management
Subadvisor:	None
NTF Plans:	Vanguard NTF

Minimum Purchase:	$10000	Add: $100	IRA: $10000
Min Auto Inv Plan:	$10000	Add: $50	
Sales Fees:	No-load		
Management Fee:	0.28%		
Actual Fees:	Mgt:0.28%	Dist: —	
Expense Projections:	3Yr:$97	5Yr:$169	10Yr:$381
Income Distrib:	Quarterly		

Vanguard Long-Tm InvGrde

Analyst Pick	Ticker	Load	NAV	Yield	SEC Yield	Total Assets	Mstar Category
	VWESX	None	$9.02	5.8%	5.82%	$5,738 mil	Long-Term Bond

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

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

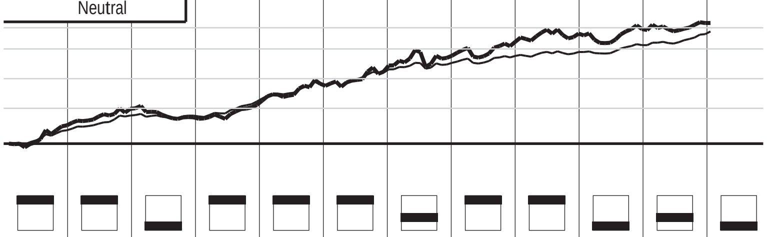
Strategy

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

Historical Profile

Return Average
Risk Above Avg
Rating ★★★ Neutral

Investment Style: Fixed Income — Income Rtn %Rank Cat: 42, 58, 56, 56, 25, 20, 26, 16



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
	9.26	9.29	8.11	8.45	8.68	9.23	9.27	9.55	9.52	9.25	9.06	9.02	NAV
	13.78	9.21	-6.23	11.76	9.57	13.22	6.26	8.94	5.13	2.86	3.75	0.05	Total Return %
	4.13	0.52	-5.41	0.13	1.13	2.97	2.16	4.60	2.70	-1.47	-3.22	-1.63	+/-LB Aggreg
	-0.74	-2.56	1.42	-4.40	2.29	-1.59	0.39	0.38	-0.20	0.15	-2.85	-1.95	+/-LB LongTerm
	7.21	6.56	6.25	7.30	6.86	6.60	5.85	5.77	5.53	5.61	5.81	0.49	Income Return %
	6.57	2.65	-12.48	4.46	2.71	6.62	0.41	3.17	-0.40	-2.75	-2.06	-0.44	Capital Return %
	12	20	91	18	11	5	53	16	12	90	60	84	Total Rtn % Rank Cat
	0.61	0.59	0.56	0.57	0.56	0.56	0.53	0.52	0.52	0.52	0.52	0.04	Income $
	0.07	0.21	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains $
	0.28	0.32	0.30	0.30	0.30	0.32	0.31	0.28	0.25	0.25	0.25	—	Expense Ratio %
	7.06	6.87	6.26	6.59	7.02	6.48	6.24	5.64	5.58	5.35	5.73	—	Income Ratio %
	30	33	43	7	17	39	33	11	16	9	15	—	Turnover Rate %
	3,637	4,153	3,724	3,704	3,550	3,753	3,851	4,213	4,224	4,187	4,273	4,112	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	1.96	6.48	-2.18	0.04	6.26
2004	4.90	-5.01	6.48	2.67	8.94
2005	0.70	6.97	-3.22	0.86	5.13
2006	-3.63	-1.88	7.25	1.42	2.86
2007	0.64	-1.97	2.29	2.82	3.75

Trailing	Total Return%	+/- LB Aggreg	+/- LB LongTerm	%Rank Cat	Growth of $10,000
3 Mo	1.12	-2.68	-1.45	64	10,112
6 Mo	4.58	-2.24	2.56	56	10,458
1 Yr	4.43	-4.38	-5.94	55	10,443
3 Yr Avg	3.02	-1.90	-3.38	68	10,934
5 Yr Avg	5.34	0.59	-2.14	67	12,971
10 Yr Avg	6.19	0.18	-1.81	25	18,232
15 Yr Avg	7.20	0.74	-1.22	1	28,374

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	1.02	68	1.94	75
5 Yr (estimated)	3.30	70	1.94	53
10 Yr (estimated)	3.76	23	2.29	87

Potential Capital Gain Exposure: 1% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	4.43			
3 Yr	3.02	-Avg	High	★★
5 Yr	5.34	-Avg	+Avg	★★
10 Yr	6.19	Avg	Avg	★★★
Incept	8.66			

Other Measures	Standard Index LB Aggr	Best Fit Index LB LongTerm
Alpha	-2.2	-1.3
Beta	2.04	1.02
R-Squared	79	97
Standard Deviation	6.66	
Mean	3.02	
Sharpe Ratio	-0.17	

Portfolio Analysis 09-30-07

Total Fixed-Income:223	Date of Maturity	Amount $000	Value $000	% Net Assets
Illinois St Go Bds 5.1%	06-01-33	145,000	135,823	2.37
FNMA 6.625%	11-15-30	100,000	118,041	2.06
FHLMC 6.25%	07-15-32	100,000	113,525	1.98
General Elec Cap 6.75%	03-15-32	95,975	106,316	1.86
FHLBA 5.5%		100,000	103,138	1.80
Deutsche Telekom Intl Fi	06-15-30	59,000	72,613	1.27
New York Life Ins 144A 5	05-15-33	70,275	68,403	1.19
At&T Wireless Svcs 8.75%	03-01-31	52,725	66,806	1.17
France Telecom Sa 8.5%	03-01-31	48,175	62,114	1.08
Natl Rural Utils Coop Fi	03-01-32	50,000	59,524	1.04
President&Fellow Harvard	10-01-37	55,000	58,112	1.01
Hutchison Whampoa Intl 1	11-24-33	50,000	56,334	0.98
Intl Busn Machs 7%	10-30-25	50,000	55,287	0.96
Hydro-Quebec 9.4%	02-01-21	40,000	54,730	0.96
New Jersey Econ Dev Auth	02-15-29	44,857	54,163	0.95
BANK AMER CHRLT NC MTN		55,000	53,955	0.94
Intl Bk For Recon&Dev 7.	01-19-23	43,320	53,816	0.94
Appalachian Pwr 6.7%		50,000	52,389	0.91
Wal Mart Stores 7.55%	02-15-30	45,000	52,047	0.91
Northn Sts Pwr 6.2%		50,000	51,579	0.90

Current Investment Style

Duration: Short Int Long — Quality: High Med Low

[1] figure provided by fund

Avg Eff Duration[1]	11.4 Yrs
Avg Eff Maturity	22.3 Yrs
Avg Credit Quality	A
Avg Wtd Coupon	6.68%
Avg Wtd Price	105.80% of par

Coupon Range	% of Bonds	Rel Cat
0% PIK	0.0	0.0
0% to 6%	28.4	0.7
6% to 8%	61.9	1.4
8% to 10%	9.7	0.8
More than 10%	0.0	0.0

1.00=Category Average

Credit Analysis		% bonds 09-30-07	
AAA	14	BB	0
AA	27	B	0
A	43	Below B	0
BBB	14	NR/NA	1

Sector Breakdown	% of assets
US Treasuries	0
TIPS	0
US Agency	6
Mortgage Pass-Throughs	0
Mortgage CMO	0
Mortgage ARM	0
US Corporate	81
Asset-Backed	0
Convertible	0
Municipal	7
Corporate Inflation-Protected	0
Foreign Corporate	5
Foreign Govt	1

Composition			
Cash	0.6	Bonds	99.4
Stocks	0.0	Other	0.0

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

Morningstar's Take by Lawrence Jones 01-07-08

Vanguard Long-Term Investment Grade weathered 2007 and is well positioned for 2008.

The risks this fund faced over the past year changed dramatically, but we're impressed with management's ability to stay one step ahead of them. In early 2007, veteran manager Earl McEvoy was worried about leveraged buyout risk (widespread at the time), which can hurt corporate-heavy funds such as this one, as the added leverage used to finance a deal can impair firm ability to pay obligations. However, instead of retreating to the financials sector (often seen as less prone to buyouts) as many others did, McEvoy shifted assets to taxable munis and agency debt (recently near 9% and 6% of assets, respectively). Later in the year this had the effect of insulating returns from trouble in the financials sector, as the subprime mortgage meltdown and liquidity crisis hit that region of the market hard.

Moreover, as the liquidity crisis has depressed bond prices in various areas of the market, McEvoy has used the opportunity to add issues he thinks are undervalued. For instance, he recently purchased some of the very securities he previously avoided, such as higher-quality banking and investment-banking firm issues at what he thinks are attractive prices. Also, he has modestly added to the taxable municipal stake, preferring higher quality bonds, such as debt issued by Harvard University, as valuations in this market have also looked attractive.

Our lone Fund Analyst Pick in the long-term bond category, this fund has both an experienced manager in McEvoy and ample support. McEvoy has worked at subadvisor Wellington Management since 1978, and he's run this fund for more than a dozen years. A team of 16 investment-grade credit analysts back him, providing the resources required for success. He's also aided greatly by the fund's low expenses, which provide it a meaningful and sustainable competitive advantage over costlier rivals.

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

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

Federated US 2-5 Instl

Ticker	Load	NAV	Yield	SEC Yield	Total Assets	Mstar Category
FIGTX	None	$11.60	4.2%	—	$732 mil	Short Government

Governance and Management

Stewardship Grade: D

Portfolio Manager(s)

Don Ellenberger is in charge. Ellenberger, head of government bonds at Federated, joined the fund in June 2005 but has been at Federated since 1996. Previously, he was a portfolio manager at Mellon Bank.

Strategy

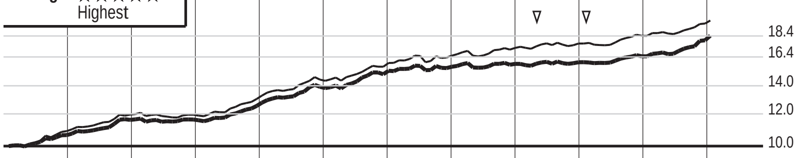
This fund stands apart from most in the short-term government category because it does not invest in mortgage-backed securities. Instead, it holds a mix of Treasuries and agency bonds. Duration is usually relatively long for its group, as the fund stays within 20% of the Merrill Lynch 3-5 Year Treasury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

Historical Profile

Return High
Risk High
Rating ★★★★★ Highest

Investment Style: Fixed Income, Income Rtn %Rank Cat: 51, 39, 24, 18, 15, 18, 27, 34

▼ Manager Change
∇ Partial Manager Change



Growth of $10,000
— Investment Values of Fund
— Investment Values of LB Aggreg

Performance Quartile (within Category)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
10.63	10.91	10.35	10.77	11.09	11.67	11.52	11.30	10.97	10.86	11.35	11.60	NAV
7.12	8.11	-0.52	10.16	8.33	9.92	2.22	1.60	0.87	3.34	9.18	2.57	Total Return %
-2.53	-0.58	0.30	-1.47	-0.11	-0.33	-1.88	-2.74	-1.56	-0.99	2.21	0.89	+/-LB Aggreg
0.01	0.46	-2.48	1.07	-0.31	2.23	0.06	0.06	-0.61	-0.67	1.36	-4.90	+/-LB 1-5 YR GOVT
5.71	5.40	4.71	5.91	5.33	4.56	3.53	3.54	3.83	4.34	4.51	0.37	Income Return %
1.41	2.71	-5.23	4.25	3.00	5.36	-1.31	-1.94	-2.96	-1.00	4.67	2.20	Capital Return %
27	2	91	8	11	3	12	34	73	73	1	1	Total Rtn % Rank Cat
0.58	0.56	0.50	0.60	0.56	0.50	0.41	0.40	0.43	0.47	0.48	0.04	Income $
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains $
0.54	0.54	0.55	0.56	0.57	0.57	0.57	0.57	0.59	0.58	0.58	—	Expense Ratio %
5.42	5.58	5.13	4.80	6.23	4.29	4.29	3.44	3.55	3.82	4.35	—	Income Ratio %
99	71	126	172	77	66	31	52	66	113	128	—	Turnover Rate %
702	723	627	538	603	764	828	740	666	544	585	641	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	0.99	1.67	-0.04	-0.40	2.22
2004	2.06	-2.44	2.02	0.02	1.60
2005	-1.05	2.18	-0.71	0.47	0.87
2006	-0.49	0.31	2.85	0.66	3.34
2007	1.63	-0.22	3.65	3.88	9.18

Trailing	Total Return%	+/- LB Aggreg	+/- LB 1-5 YR GOVT	%Rank Cat	Growth of $10,000
3 Mo	5.99	2.19	2.79	1	10,599
6 Mo	8.79	1.97	3.01	1	10,879
1 Yr	12.00	3.19	4.66	1	11,200
3 Yr Avg	5.31	0.39	0.90	1	11,679
5 Yr Avg	3.96	-0.79	0.37	3	12,143
10 Yr Avg	5.37	-0.64	0.16	1	16,872
15 Yr Avg	5.47	-0.99	-0.03	6	22,230

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	3.78	1	1.45	66
5 Yr (estimated)	2.55	2	1.36	69
10 Yr (estimated)	3.63	1	1.65	51

Potential Capital Gain Exposure: 3% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	12.00			
3 Yr	5.31	High	High	★★★★★
5 Yr	3.96	High	High	★★★★★
10 Yr	5.37	High	High	★★★★★
Incept	7.18			

Other Measures	Standard Index LB Aggr	Best Fit Index LB Interm Tr
Alpha	0.4	-0.2
Beta	0.95	1.05
R-Squared	82	99

Standard Deviation	3.05
Mean	5.31
Sharpe Ratio	0.30

Portfolio Analysis 12-31-07

Total Fixed-Income:19	Date of Maturity	Amount $000	Value $000	% Net Assets
FHLMC 5.125%	08-23-10	67,400	69,972	10.48
FNMA 5.125%	11-02-12	46,000	46,817	7.01
US Treasury Note 4.125%	08-31-12	45,000	46,295	6.93
US Treasury Note 4.75%	03-31-11	42,000	44,030	6.59
US Treasury Note 4.875%	04-30-11	40,000	42,101	6.30
US Treasury Note 4.25%	11-15-14	40,000	41,266	6.18
FNMA 5%	02-16-12	38,000	39,561	5.92
FHLMC 4.75%	01-18-11	37,000	38,117	5.71
US Treasury Note 4%	11-15-12	37,000	37,966	5.68
FNMA 6%	05-15-11	33,000	35,335	5.29
US Treasury Note 3.875%	05-15-10	30,000	30,577	4.58
FNMA 5.4%	04-02-12	30,000	30,084	4.50
US Treasury Note 3%	07-15-12	26,732	28,976	4.34
FHLMC 4.625%	10-25-12	27,000	27,787	4.16
FHLMC 4.75%	03-05-12	20,000	20,640	3.09
FHLBA 5.25%	01-14-09	16,000	16,190	2.42
FHLBA	10-27-11	15,000	15,354	2.30
US Treasury Note 4.25%	11-15-17	12,600	12,822	1.92
US Treasury Note 4.75%	05-31-12	10,000	10,543	1.58

Current Investment Style

Duration: Short Int Long; Quality: High Med Low

[1] figure provided by fund

Avg Eff Duration[1]	3.0 Yrs
Avg Eff Maturity	3.9 Yrs
Avg Credit Quality	AAA
Avg Wtd Coupon	4.71%
Avg Wtd Price	103.57% of par

Coupon Range	% of Bonds	Rel Cat
0% PIK	0.0	0.0
0% to 6%	100.0	1.2
6% to 8%	0.0	0.0
8% to 10%	0.0	0.0
More than 10%	0.0	0.0

1.00=Category Average

Credit Analysis	% bonds 12-31-07		
AAA	100	BB	0
AA	0	B	0
A	0	Below B	0
BBB	0	NR/NA	0

Sector Breakdown	% of assets
US Treasuries	40
TIPS	4
US Agency	51
Mortgage Pass-Throughs	0
Mortgage CMO	0
Mortgage ARM	0
US Corporate	0
Asset-Backed	0
Convertible	0
Municipal	0
Corporate Inflation-Protected	0
Foreign Corporate	0
Foreign Govt	0

Composition			
Cash	5.0	Bonds	95.0
Stocks	0.0	Other	0.0

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

Morningstar's Take by Miriam Sjoblom 09-13-07

Federated U.S. Government: 2-5 Year is behaving itself.

We'd be concerned if this short-term government-bond fund weren't performing well right now amid very favorable conditions. With worries about subprime defaults spilling over into other sectors of the bond and equity markets, investors have been flocking to the safety of U.S. Treasury bonds. While increased demand has pushed Treasury prices higher, this fund, which invests strictly in Treasury and agency bonds, has gone to the head of its class, with a 5.41% return year to date as of September 10, 2007.

As recent performance demonstrates, this fund can clearly offer protection in times of market unrest. However, conditions won't always work in its favor. Whereas this fund avoids mortgage bonds of any type, many funds in this category have a sizable stake in agency mortgage bonds, which have little to no credit risk. This lack of mortgage exposure has been a boon for this fund lately, but it can be expected to lag its peers when higher-yielding mortgage bonds outperform.

And although this fund doesn't take on credit risk, it courts more interest-rate risk than its typical peer, primarily because its interest-rate bogy, the Merrill Lynch 3-5 year Treasury Index, is more interest-rate sensitive than the category norm. As a result, this fund has experienced more volatility than the majority of its peers. In contrast to its recent performance, both rising interest rates and lack of exposure to mortgage bonds created a head wind for this fund in 2005 and 2006.

Taking these risks into consideration, we find it comforting that the fund has behaved as it should over time. Manager Don Ellenberger also deserves credit for making timely moves into and out of agency bonds (typically between 10% and 30% of the portfolio) and to a lesser extent Treasury Inflation-Protected Securities. With reasonable expenses to boot, we think this fund is a decent option for pure-government exposure.

Address:	5800 Corporate Drive Pittsburgh, PA 15237-7000 800-341-7400
Web Address:	www.federatedinvestors.com
Inception:	02-18-83
Advisor:	Federated Investment Magmt Comp
Subadvisor:	None
NTF Plans:	Federated Tr NTF, Schwab Instl NTF

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

Vanguard Inst Idx

Ticker	Load	NAV	Yield	Total Assets	Mstar Category
VINIX	None	$126.08	2.0%	$68,556 mil	Large Blend

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

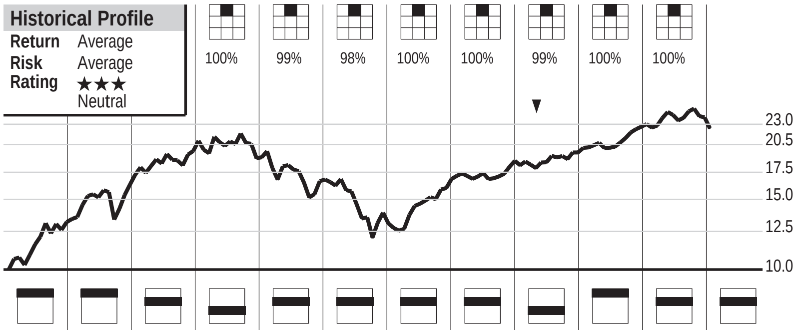
Donald Butler, who joined Vanguard in 1992, has been involved with the day-to-day management of this fund since 2000 and has been lead manager since 2005.

Strategy

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

Historical Profile

Return Average
Risk Average
Rating ★★★ Neutral



Investment Style
Equity
Stock %

▼ Manager Change
∇ Partial Manager Change

Growth of $10,000
▬ Investment Values of Fund
— Investment Values of S&P 500

Performance Quartile (within Category)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
89.56	112.85	134.01	120.72	104.89	80.45	101.78	110.70	114.01	129.59	134.14	126.08	NAV
33.36	28.79	21.17	-8.94	-11.93	-22.03	28.66	10.86	4.91	15.78	5.47	-6.01	Total Return %
0.00	0.21	0.13	0.16	-0.04	0.07	-0.02	-0.02	0.00	-0.01	-0.02	-0.01	+/-S&P 500
0.51	1.77	0.26	-1.15	0.52	-0.38	-1.23	-0.54	-1.36	0.32	-0.30	-0.01	+/-Russ 1000
2.03	1.59	1.35	1.05	1.14	1.35	1.91	2.00	1.86	1.98	1.99	0.00	Income Return %
31.33	27.20	19.82	-9.99	-13.07	-23.38	26.75	8.86	3.05	13.80	3.48	-6.01	Capital Return %
11	14	36	52	36	39	26	34	57	21	49	38	Total Rtn % Rank Cat
1.39	1.42	1.51	1.40	1.38	1.41	1.53	2.02	2.05	2.24	2.56	0.00	Income $
0.71	0.90	0.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains $
0.06	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.05	0.05	—	—	Expense Ratio %
1.77	1.46	1.25	1.10	1.27	1.57	1.74	2.00	1.87	1.87	—	—	Income Ratio %
7	11	14	11	8	10	13	5	9	8	—	—	Turnover Rate %
15,348	22,338	28,918	26,406	24,165	20,361	29,458	34,990	39,154	45,243	45,847	43,486	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	-3.15	15.41	2.63	12.16	28.66
2004	1.69	1.72	-1.87	9.23	10.86
2005	-2.14	1.37	3.60	2.08	4.91
2006	4.21	-1.44	5.66	6.69	15.78
2007	0.63	6.27	2.05	-3.35	5.47

Trailing	Total Return%	+/- S&P 500	+/- Russ 1000	%Rank Cat	Growth of $10,000
3 Mo	-10.57	-0.02	0.02	40	8,943
6 Mo	-4.34	-0.02	-0.07	43	9,566
1 Yr	-2.33	-0.02	0.12	43	9,767
3 Yr Avg	7.27	-0.01	-0.50	39	12,343
5 Yr Avg	12.02	-0.02	-0.57	37	17,639
10 Yr Avg	5.18	0.04	-0.28	37	16,570
15 Yr Avg	10.01	0.03	-0.06	28	41,829

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	6.97	24	0.28	10
5 Yr (estimated)	11.68	27	0.30	15
10 Yr (estimated)	4.71	29	0.45	19

Potential Capital Gain Exposure: 18% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	-2.33			
3 Yr	7.27	Avg	Avg	★★★
5 Yr	12.02	Avg	Avg	★★★
10 Yr	5.18	Avg	Avg	★★★
Incept	10.31			

Other Measures	Standard Index S&P 500	Best Fit Index S&P 500
Alpha	0.0	0.0
Beta	1.00	1.00
R-Squared	100	100
Standard Deviation	8.52	
Mean	7.27	
Sharpe Ratio	0.36	

Portfolio Analysis 09-30-07

Share change since 06-07 Total Stocks:507	Sector	PE	Tot Ret%	% Assets
⊖ ExxonMobil Corporation	Energy	12.4	-8.84	3.79
⊕ General Electric Company	Ind Mtrls	15.9	-4.27	3.14
⊖ AT&T, Inc.	Telecom	20.0	-6.44	1.91
⊖ Microsoft Corporation	Software	18.5	-8.43	1.76
⊕ Citigroup, Inc.	Financial	7.6	-3.23	1.72
⊕ Bank of America Corporat	Financial	10.0	7.08	1.65
⊖ Procter & Gamble Company	Goods	20.7	-9.91	1.62
⊕ Cisco Systems, Inc.	Hardware	19.4	-9.86	1.49
⊖ Chevron Corporation	Energy	10.2	-10.56	1.48
⊕ Johnson & Johnson	Health	17.8	-5.00	1.41
⊖ American International G	Financial	9.6	-5.68	1.28
⊖ Pfizer Inc.	Health	23.1	3.07	1.25
⊕ International Business M	Hardware	16.1	-0.57	1.18
⊖ J.P. Morgan Chase & Co.	Financial	10.3	9.15	1.15
⊕ Intel Corporation	Hardware	20.2	-20.67	1.12
⊕ Altria Group Inc.	Goods	13.2	0.16	1.08
⊕ ConocoPhillips	Energy	12.5	-9.12	1.06
⊕ Apple, Inc.	Hardware	34.5	-31.66	0.99
⊕ Google, Inc.	Business	44.0	-18.39	0.97
⊕ Verizon Communications I	Telecom	19.3	-10.35	0.95

Current Investment Style

Value Blnd Growth / Large Mid Small

Market Cap	%
Giant	52.2
Large	36.7
Mid	11.0
Small	0.1
Micro	0.0
Avg $mil: 57,509	

Value Measures		Rel Category
Price/Earnings	15.72	1.00
Price/Book	2.68	1.03
Price/Sales	1.52	1.06
Price/Cash Flow	10.84	1.05
Dividend Yield %	1.76	1.09

Growth Measures	%	Rel Category
Long-Term Erngs	10.61	0.91
Book Value	11.29	0.98
Sales	9.40	1.09
Cash Flow	9.40	1.04
Historical Erngs	17.09	0.93

Profitability	%	Rel Category
Return on Equity	22.14	1.01
Return on Assets	8.26	0.99
Net Margin	14.67	1.04

Sector Weightings	% of Stocks	Rel S&P 500	3 Year High	3 Year Low
Info	20.96	1.06		
Software	3.61	0.90	4	3
Hardware	10.44	1.10	10	9
Media	3.16	1.10	4	3
Telecom	3.75	1.08	4	3
Service	42.50	1.01		
Health	11.70	0.96	13	12
Consumer	7.23	1.02	9	7
Business	3.89	0.87	4	3
Financial	19.68	1.07	22	20
Mfg	36.53	0.96		
Goods	8.69	0.95	9	8
Ind Mtrls	12.81	0.97	13	12
Energy	11.54	0.96	12	9
Utilities	3.49	0.96	4	3

Composition

Cash	0.4
Stocks	99.5
Bonds	0.0
Other	0.0
Foreign (% of Stock)	0.0

Morningstar's Take by Dan Culloton 01-22-08

Vanguard Institutional Index, which tries to approximate the market average, is anything but.

This fund's recent results may not make you clamor to chase its returns, but it's a better core fund option than most of its large-blend peers. The fund's trailing annualized returns through early January 2008 are just north of mediocre. Part of the blah showing is a hangover from the past few years when small-cap stocks, which are in short supply here, did better than large-cap fare. The fund also hasn't owned enough of the aggressive-growth stocks that roared in 2007, such as Apple, to completely make up for suffering value-oriented holdings, such as Citigroup.

This fund, however, remains as solid as it ever was. It passively tracks the S&P 500 Index, which may not be the perfect gauge of the broad domestic-stock market because of its lack of small-cap exposure and more-subjective construction methods. The index and fund, however, are diversified across big, solid, market-leading U.S. businesses from all sectors. Stocks like ExxonMobil and General Electric have significant competitive advantages, such as enormous scale, operating efficiencies, dominant products, and management expertise, that help them fend off competitors and generate a lot of cash. That makes them strong core holdings because their competitive advantages help them produce steadier results. Indeed, this fund has been less volatile than the typical large-blend fund. In 2007's tumultuous second half, this fund lost less than alternatively weighted rivals, such as PowerShares FTSE RAFI US 1000.

The fund has other advantages. Low turnover has made it very tax-efficient. (For the eighth year in a row, it made no capital gains distributions in 2007.) Vanguard's indexing team has often trailed the fund's benchmark by less than the fund's expense ratio, which is lower than all its rivals'. It has a huge minimum investment, but if you have access to it via a retirement plan, use it.

Address:	Po Box 2600 Valley Forge, PA 19482 800-997-2798
Web Address:	www.vanguard.com
Inception:	07-31-90
Advisor:	Vanguard Advisers, Inc.
Subadvisor:	None
NTF Plans:	Vanguard NTF

Minimum Purchase:	$5000000	Add: $100	IRA: $0
Min Auto Inv Plan:	$5000000	Add: $50	
Sales Fees:	No-load		
Management Fee:	0.05%		
Actual Fees:	Mgt:0.05%	Dist: —	
Expense Projections:	3Yr:$16	5Yr:$28	10Yr:$64
Income Distrib:	Quarterly		

Vanguard Target Rtmt Inc

Analyst Pick	Ticker	Load	NAV	Yield	Total Assets	Mstar Category
	VTINX	None	$11.09	3.9%	$1,690 mil	Target-Date 2000-2014

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

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

Strategy

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

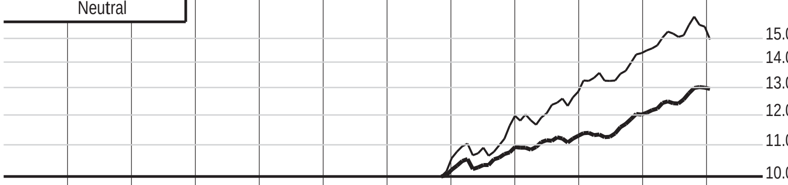
Historical Profile

Return Average
Risk Below Avg
Rating ★★★ Neutral

Investment Style
Equity
Stock %

20% 20% 20% 30% 30%

▼ Manager Change
∇ Partial Manager Change



15.0
14.0
13.0
12.0
11.0
10.0

Growth of $10,000
— Investment Values of Fund
— Investment Values of DJ Mod

Performance Quartile (within Category)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
—	—	—	—	—	—	10.18	10.52	10.44	10.70	11.13	11.09	NAV
—	—	—	—	—	—	—	6.82	3.33	6.38	8.17	-0.36	Total Return %
—	—	—	—	—	—	—	-6.33	-3.92	-5.53	0.15	3.32	+/-DJ Mod
—	—	—	—	—	—	—	-3.94	-0.42	-1.52	0.44	0.35	+/-DJ Target 2010
—	—	—	—	—	—	—	3.38	3.95	3.79	4.08	0.00	Income Return %
—	—	—	—	—	—	—	3.44	-0.62	2.59	4.09	-0.36	Capital Return %
—	—	—	—	—	—	—	42	62	76	3	11	Total Rtn % Rank Cat
—	—	—	—	—	—	0.05	0.34	0.41	0.39	0.43	0.00	Income $
—	—	—	—	—	—	0.02	0.00	0.02	0.00	0.00	0.00	Capital Gains $
—	—	—	—	—	—	—	—	—	—	0.21	—	Expense Ratio %
—	—	—	—	—	—	—	3.62	3.80	4.21	4.03	—	Income Ratio %
—	—	—	—	—	—	—	1	—	22	3	—	Turnover Rate %
—	—	—	—	—	—	47	407	734	897	1,555	1,690	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	—*
2004	3.15	-1.72	2.16	3.15	6.82
2005	-0.76	2.79	0.47	0.81	3.33
2006	0.19	-0.47	3.82	2.76	6.38
2007	1.77	1.58	2.95	1.63	8.17

Trailing	Total Return%	+/- DJ Mod	+/- DJ Target 2010	%Rank Cat	Growth of $10,000
3 Mo	-0.27	6.19	0.60	6	9,973
6 Mo	4.35	5.11	0.54	3	10,435
1 Yr	7.18	3.94	0.40	2	10,718
3 Yr Avg	5.88	-2.32	-0.63	28	11,870
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	4.55	30	1.26	53
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 4% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	7.18			
3 Yr	5.88	Avg	-Avg	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	6.29			

Other Measures	Standard Index S&P 500	Best Fit Index DJ Mod
Alpha	0.3	0.3
Beta	0.30	0.30
R-Squared	41	41
Standard Deviation	2.78	
Mean	5.88	
Sharpe Ratio	0.53	

Portfolio Analysis 09-30-07

Total Stocks:0 Share change since 06-30-07	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Bond Market Index		—	—	44.98
Vanguard Total Stock Mkt Idx		—	—	23.38
Vanguard Inflation-Protected Secs		—	—	19.91
Vanguard European Stock Index		—	—	3.62
Vanguard Pacific Stock Index		—	—	1.63
Vanguard Emerging Mkts Stock Idx		—	—	1.06
Vanguard Total Stock Market ETF		—	—	0.70

Total Fixed-Income:0	Date of Maturity	Amount $000	Value $000	% Net Assets

Equity Style
Style: Blend
Size: Large-Cap

Value Measures		Rel Category
Price/Earnings	15.62	1.00
Price/Book	2.48	1.02
Price/Sales	1.38	1.01
Price/Cash Flow	10.07	1.01
Dividend Yield %	1.93	1.01

Growth Measures	%	Rel Category
Long-Term Erngs	14.40	1.17
Book Value	10.05	0.94
Sales	0.20	0.07
Cash Flow	4.08	1.72
Historical Erngs	17.36	0.94

Market Cap %			
Giant	44.6	Small	5.0
Large	30.8	Micro	1.7
Mid	17.9	Avg $mil:	31,602

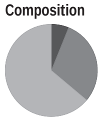
Fixed-Income Style
Duration: Interm-Term
Quality: High

Avg Eff Duration [1]	5.1 Yrs
Avg Eff Maturity	8.0 Yrs
Avg Credit Quality	AAA
Avg Wtd Coupon	4.58%

[1]figure provided by fund as of 09-30-07

Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High	3 Year Low
Info	19.36	—		
Software	3.20	—	4	3
Hardware	8.97	—	10	8
Media	2.89	—	4	3
Telecom	4.30	—	4	3
Service	43.47	—		
Health	10.50	—	13	10
Consumer	6.94	—	10	7
Business	5.23	—	5	5
Financial	20.80	—	24	20
Mfg	37.15	—		
Goods	8.94	—	9	7
Ind Mtrls	13.94	—	14	11
Energy	10.49	—	10	8
Utilities	3.78	—	4	3

Composition



Cash	6.0
Stocks	30.1
Bonds	63.8
Other	0.1
Foreign (% of Stock)	20.6

Morningstar's Take by Marta Norton 12-13-07

Vanguard Target Retirement Income is a good way to keep investing simple.

There are plenty of target-retirement fund providers out there, but Vanguard's lineup still manages to stand out. Unlike many competitors, it relies solely on index funds. That means asset bloat isn't much of an issue, because index funds are better suited to a growing asset base than actively managed funds. Moreover, as can be expected from Vanguard, expenses are kept admirably low. Indeed, this particular fund has a 0.21% expense ratio, which gives it a significant advantage over its pricier competitors.

One complaint investors might have is the conservative asset allocation. A few years after their target dates, the funds in the series will fold into this fund and adopt its 30%/70% split between stocks and bonds. Others, such as those from T. Rowe Price, stick with stocks for much longer. The bigger stake in bonds limits the bumps in the road, but it also hurts return potential, because stocks tend to earn more than bonds over the long haul.

But for those wanting a more conservative approach, this offering is an excellent choice. The underlying funds are well constructed. Vanguard Total Stock Market, the core equity holding, is well diversified and benefits from the expertise of a longtime manager. Vanguard Total Bond Market, the core bond holding, offers similar advantages. It struggled in 2002, but on the whole its management has done a great job of closely tracking, and from time to time outpacing, its benchmark. Plus, we're pleased with the other diversification the fund offers. It has modest stakes in international indexes, such as Vanguard European Stock Index, and also has exposure to Treasury Inflation-Protected Securities through Vanguard Inflation-Protected Securities. That should help minimize the costs of inflation.

In all, we think investors looking for a simple solution have plenty of reasons to give this fund a look.

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-662-6273
Web Address:	www.vanguard.com
Inception:	10-27-03
Advisor:	The Vanguard Group
Subadvisor:	None
NTF Plans:	Vanguard NTF

Minimum Purchase:	$3000	Add: $100	IRA: $3000
Min Auto Inv Plan:	$3000	Add: $50	
Sales Fees:	No-load		
Management Fee:	0.00%		
Actual Fees:	—	Dist: —	
Expense Projections:	3Yr:$68	5Yr:$118	10Yr:$268
Income Distrib:	Quarterly		

Vanguard Target Rtmt 2015

Analyst Pick	Ticker	Load	NAV	Yield	Total Assets	Mstar Category
	VTXVX	None	$12.59	2.7%	$7,256 mil	Target-Date 2015-2029

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

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

Strategy

This fund emphasizes capital growth and income. As of the end of October 2007, it had 35.5% of assets in Vanguard Total Bond Market Index, 51.5% in Vanguard Total Stock Market Index, 7.3% in Vanguard European Stock Index, 3.2% in Vanguard Pacific Stock Index, and 2.5% in Vanguard Emerging Markets Stock Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

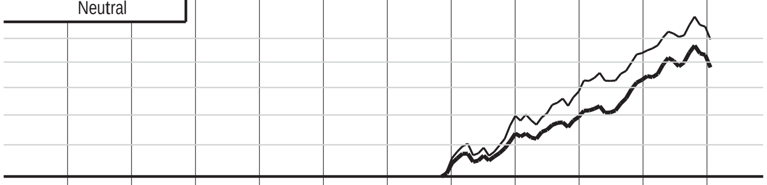
Historical Profile

Return Average
Risk Low
Rating ★★★ Neutral

Investment Style
Equity
Stock %

49% 48% 46% 63% 63%

▼ Manager Change
∇ Partial Manager Change



Growth of $10,000
▬ Investment Values of Fund
— Investment Values of DJ Mod

Performance Quartile (within Category)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
—	—	—	—	—	—	10.43	11.17	11.46	12.46	13.06	12.59	NAV
—	—	—	—	—	—	—	9.04	4.94	11.42	7.55	-3.60	Total Return %
—	—	—	—	—	—	—	-4.11	-2.31	-0.49	-0.47	0.08	+/-DJ Mod
—	—	—	—	—	—	—	-5.89	-4.09	-2.33	-0.76	0.81	+/-DJ Target 2025
—	—	—	—	—	—	—	1.92	2.33	2.71	2.73	0.00	Income Return %
—	—	—	—	—	—	—	7.12	2.61	8.71	4.82	-3.60	Capital Return %
—	—	—	—	—	—	—	46	78	62	32	20	Total Rtn % Rank Cat
—	—	—	—	—	—	0.06	0.20	0.26	0.31	0.34	0.00	Income $
—	—	—	—	—	—	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains $
—	—	—	—	—	—	—	—	—	—	0.21	—	Expense Ratio %
—	—	—	—	—	—	—	2.69	3.11	3.04	2.93	—	Income Ratio %
—	—	—	—	—	—	—	1	1	15	5	—	Turnover Rate %
—	—	—	—	—	—	50	707	2,293	4,355	7,273	7,256	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	— *
2004	2.78	-0.56	0.75	5.89	9.04
2005	-1.16	2.26	2.21	1.57	4.94
2006	2.44	-1.11	4.22	5.53	11.42
2007	1.77	3.86	2.43	-0.67	7.55

Trailing	Total Return%	+/- DJ Mod	+/- DJ Target 2025	%Rank Cat	Growth of $10,000
3 Mo	-6.19	0.27	1.62	12	9,381
6 Mo	-0.32	0.44	1.51	15	9,968
1 Yr	2.52	-0.72	0.06	9	10,252
3 Yr Avg	6.95	-1.25	-2.40	42	12,233
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	6.18	29	0.72	11
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 3% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	2.52			
3 Yr	6.95	Avg	Low	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	7.97			

Other Measures	Standard Index S&P 500	Best Fit Index Russ 1000
Alpha	-0.6	0.5
Beta	0.83	0.58
R-Squared	88	91
Standard Deviation	5.24	
Mean	6.95	
Sharpe Ratio	0.49	

Portfolio Analysis 09-30-07

Total Stocks:0 Share change since 06-30-07	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Stock Mkt Idx		—	—	49.50
Vanguard Total Bond Market Index		—	—	36.35
Vanguard European Stock Index		—	—	7.31
Vanguard Pacific Stock Index		—	—	3.26
Vanguard Emerging Mkts Stock Idx		—	—	2.31
Vanguard Total Stock Market ETF		—	—	1.26

Total Fixed-Income:0	Date of Maturity	Amount $000	Value $000	% Net Assets

Morningstar's Take by Marta Norton 12-13-07

Vanguard Target Retirement 2015 is worthy of serious consideration.

In the crowded target-retirement space, Vanguard's lineup stands out. Unlike competitors, it relies solely on index funds. That means asset bloat isn't much of an issue, because index funds are better suited to a growing asset base than actively managed funds. And as can be expected from Vanguard, expenses are kept admirably low. This particular fund has a 0.21% expense ratio, which gives it a significant advantage over its pricier competitors.

Impressive underlying funds add to the lineup's appeal. Vanguard Total Stock Market, the core equity holding that claims 52% of this fund's assets, is well diversified and benefits from the expertise of a longtime manager. Core bond holding Vanguard Total Bond Market, which has 36% of the fund's assets, has similar advantages. Aside from 2002's slipup, its management has closely tracked its benchmark. Plus, we're pleased with the other diversification found here. This fund invests in international index funds, such as Vanguard European Stock Index. And as it slides into more fixed income, it gains exposure to Treasury Inflation-Protected Securities through Vanguard Inflation-Protected Securities. That should help minimize the costs of inflation.

Some might be put off by the fund's conservative asset allocation. A few years after their target dates, the funds in the series will fold into Vanguard Target Retirement Income and adopt its 30%/70% split between stocks and bonds. Rivals such as T. Rowe Price stick with stocks for much longer. More in bonds limits volatility, but it can also hurt returns, because stocks tend to earn more over the long haul. So for those willing to risk more volatility for more return, we recommend opting for a later target date.

That wrinkle aside, investors will be hard pressed to find better target-retirement options. Give this fund careful consideration.

Equity Style
Style: Blend
Size: Large-Cap

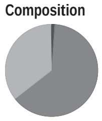
Value Measures		Rel Category
Price/Earnings	15.63	1.00
Price/Book	2.48	1.02
Price/Sales	1.38	1.03
Price/Cash Flow	10.08	1.02
Dividend Yield %	1.92	1.02

Growth Measures	%	Rel Category
Long-Term Erngs	14.50	1.12
Book Value	10.06	0.95
Sales	0.15	0.07
Cash Flow	4.05	4.31
Historical Erngs	17.46	0.97

Market Cap %

Giant	44.5	Small	5.0
Large	30.8	Micro	1.7
Mid	17.9	Avg $mil:	31,555

Composition



Cash	1.1
Stocks	63.1
Bonds	35.5
Other	0.3
Foreign (% of Stock)	20.1

Fixed-Income Style
Duration: Interm-Term
Quality: High

Avg Eff Duration [1]	4.6 Yrs
Avg Eff Maturity	7.3 Yrs
Avg Credit Quality	AAA
Avg Wtd Coupon	5.52%

[1] figure provided by fund as of 09-30-07

Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High	3 Year Low
Info	19.41	—		
Software	3.22	—	3	3
Hardware	9.00	—	9	8
Media	2.89	—	4	3
Telecom	4.30	—	4	4
Service	43.47	—		
Health	10.53	—	12	10
Consumer	6.96	—	9	7
Business	5.23	—	5	5
Financial	20.75	—	24	21
Mfg	37.13	—		
Goods	8.91	—	10	8
Ind Mtrls	13.92	—	14	12
Energy	10.52	—	11	8
Utilities	3.78	—	4	3

Address:	P.O. Box 2600, Valley Forge, PA 19482, 800-662-6273
Web Address:	www.vanguard.com
Inception:	10-27-03
Advisor:	The Vanguard Group
Subadvisor:	None
NTF Plans:	Vanguard NTF

Minimum Purchase:	$3000	Add: $100	IRA: $3000
Min Auto Inv Plan:	$3000	Add: $50	
Sales Fees:	No-load		
Management Fee:	0.00%		
Actual Fees:	—	Dist: —	
Expense Projections:	3Yr:$68	5Yr:$118	10Yr:$268
Income Distrib:	Annually		

Vanguard Target Rtmt 2025

Analyst Pick	Ticker	Load	NAV	Yield	Total Assets	Mstar Category
	VTTVX	None	$13.05	2.4%	$7,239 mil	Target-Date 2015-2029

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

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

Strategy

This fund emphasizes capital growth and income. As of the end of October 2007, it had 20.5% of assets in Vanguard Total Bond Market Index, 63.4% in Vanguard Total Stock Market Index, 9.0% in Vanguard European Stock Index, 4.0% in Vanguard Pacific Stock Index, and 3.1% in Vanguard Emerging Markets Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

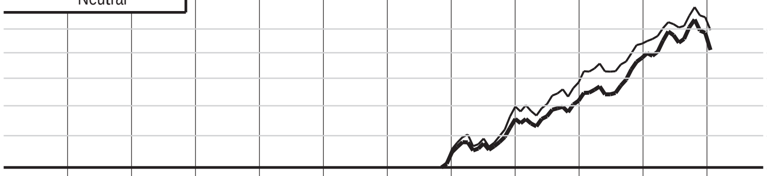
Historical Profile

Return Average
Risk Average
Rating ★★★ Neutral

Investment Style
Equity
Stock %

59% 58% 57% 78% 78%

▼ Manager Change
∇ Partial Manager Change



Growth of $10,000
Investment Values of Fund
Investment Values of DJ Mod

Performance Quartile (within Category)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
—	—	—	—	—	—	10.51	11.39	11.77	13.04	13.72	13.05	NAV
—	—	—	—	—	—	—	10.11	5.45	13.24	7.59	-4.88	Total Return %
—	—	—	—	—	—	—	-3.04	-1.80	1.33	-0.43	-1.20	+/-DJ Mod
—	—	—	—	—	—	—	-4.82	-3.58	-0.51	-0.72	-0.47	+/-DJ Target 2025
—	—	—	—	—	—	—	1.71	2.11	2.46	2.38	0.00	Income Return %
—	—	—	—	—	—	—	8.40	3.34	10.78	5.21	-4.88	Capital Return %
—	—	—	—	—	—	—	23	66	32	31	56	Total Rtn % Rank Cat
—	—	—	—	—	—	0.06	0.18	0.24	0.29	0.31	0.00	Income $
—	—	—	—	—	—	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains $
—	—	—	—	—	—	—	—	—	—	0.21	—	Expense Ratio %
—	—	—	—	—	—	—	2.33	2.84	2.66	2.43	—	Income Ratio %
—	—	—	—	—	—	—	3	2	22	4	—	Turnover Rate %
—	—	—	—	—	—	30	708	2,529	4,605	7,309	7,239	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	—*
2004	2.85	-0.28	0.37	6.95	10.11
2005	-1.32	2.14	2.79	1.78	5.45
2006	3.23	-1.32	4.34	6.55	13.24
2007	1.84	4.89	2.37	-1.62	7.59

Trailing	Total Return%	+/- DJ Mod	+/- DJ Target 2025	%Rank Cat	Growth of $10,000
3 Mo	-8.47	-2.01	-0.66	48	9,153
6 Mo	-2.10	-1.34	-0.27	46	9,790
1 Yr	0.94	-2.30	-1.52	34	10,094
3 Yr Avg	7.35	-0.85	-2.00	32	12,371
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	6.72	15	0.59	1
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 4% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	0.94			
3 Yr	7.35	Avg	Avg	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	8.62			

Other Measures	Standard Index S&P 500	Best Fit Index Russ 1000
Alpha	-0.9	0.4
Beta	1.04	0.73
R-Squared	88	94
Standard Deviation	6.52	
Mean	7.35	
Sharpe Ratio	0.47	

Portfolio Analysis 09-30-07

Total Stocks:0 Share change since 06-30-07	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Stock Mkt Idx		—	—	61.42
Vanguard Total Bond Market Index		—	—	20.87
Vanguard European Stock Index		—	—	9.10
Vanguard Pacific Stock Index		—	—	4.03
Vanguard Emerging Mkts Stock Idx		—	—	2.89
Vanguard Total Stock Market ETF		—	—	1.69

Total Fixed-Income:0	Date of Maturity	Amount $000	Value $000	% Net Assets

Morningstar's Take by Marta Norton 12-13-07

Vanguard Target Retirement 2025 is among the market's best one-size-fits-all funds.

In the crowded target-retirement space, Vanguard's lineup stands out. Unlike competitors, it relies solely on index funds. That means asset bloat isn't much of an issue, because index funds are better suited to a growing asset base than actively managed funds. And as can be expected from Vanguard, expenses are admirably low. This particular fund has a 0.21% expense ratio, which gives it a big edge over pricier competitors.

Some might take issue with the lineup's conservative asset allocation. A few years after their target dates, the funds in the series will fold into Vanguard Target Retirement Income and adopt its 30%/70% split between stocks and bonds. Rivals such as T. Rowe Price stick with stocks for much longer. More in bonds limits volatility, but it can also hurt returns, because stocks tend to earn more over the long haul. But because investors interested in risking more volatility for higher returns can simply opt for a later target date, this concern isn't a sticking point.

Good underlying funds round out the lineup's appeal. Vanguard Total Stock Market, the core equity holding that claims 63% of this fund's assets, is broadly spread across the market and benefits from the expertise of a longtime manager. Core bond holding Vanguard Total Bond Market, which has 21% of the fund's assets, has similar advantages. Aside from 2002's slipup, its management has closely tracked its benchmark. Plus, we're pleased with the other diversification found here. This fund has sizable stakes in international index funds, such as Vanguard European Stock Index. And as it adds more fixed income, it gains exposure to Treasury Inflation-Protected Securities through Vanguard Inflation-Protected Securities. That helps limit the pain of inflation.

There's not much to complain about here. Those wanting ease of use should consider the fund.

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

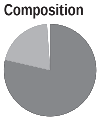
Equity Style
Style: Blend
Size: Large-Cap

Value Measures		Rel Category
Price/Earnings	15.63	1.00
Price/Book	2.48	1.02
Price/Sales	1.38	1.03
Price/Cash Flow	10.08	1.02
Dividend Yield %	1.92	1.02

Growth Measures	%	Rel Category
Long-Term Erngs	14.51	1.13
Book Value	10.06	0.95
Sales	0.15	0.07
Cash Flow	4.05	4.31
Historical Erngs	17.47	0.97

Market Cap %			
Giant	44.5	Small	5.0
Large	30.8	Micro	1.7
Mid	17.9	Avg $mil:	31,557

Composition



Cash	0.8
Stocks	78.4
Bonds	20.4
Other	0.3
Foreign (% of Stock)	20.1

Fixed-Income Style
Duration: Interm-Term
Quality: High

Avg Eff Duration [1]	4.6 Yrs
Avg Eff Maturity	7.3 Yrs
Avg Credit Quality	AAA
Avg Wtd Coupon	5.52%

[1]figure provided by fund as of 09-30-07

Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High	3 Year Low
Info	19.41	—		
Software	3.22	—	3	3
Hardware	9.00	—	9	8
Media	2.89	—	4	3
Telecom	4.30	—	4	4
Service	43.46	—		
Health	10.52	—	12	10
Consumer	6.96	—	9	7
Business	5.23	—	5	5
Financial	20.75	—	24	21
Mfg	37.13	—		
Goods	8.91	—	10	8
Ind Mtrls	13.92	—	14	12
Energy	10.52	—	11	8
Utilities	3.78	—	4	3

Vanguard Target Rtmt 2035

Analyst Pick	Ticker	Load	NAV	Yield	Total Assets	Mstar Category
	VTTHX	None	$13.78	2.1%	$4,737 mil	Target-Date 2030+

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

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

Strategy

This fund emphasizes capital growth and income. As of the end of October 2007, it invested 9.8% of assets in Vanguard Total Bond Market Index, 72% in Vanguard Total Stock Market Index, 10.2% in Vanguard European Stock Index, 4.5% in Vanguard Pacific Stock Index, and 3.5% in Vanguard Emerging Markets Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

Historical Profile

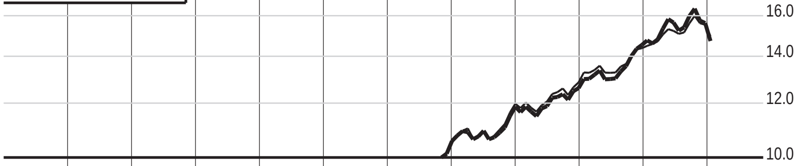
Return Average
Risk Below Avg
Rating ★★★ Neutral

Investment Style
Equity
Stock %

2003	2004	2005	2006	2007
79%	77%	74%	89%	89%

▼ Manager Change
▽ Partial Manager Change

Growth of $10,000
▬ Investment Values of Fund
— Investment Values of DJ Mod



Performance Quartile (within Category)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
—	—	—	—	—	—	10.63	11.73	12.26	13.87	14.62	13.78	NAV
—	—	—	—	—	—	—	11.95	6.30	15.24	7.49	-5.75	Total Return %
—	—	—	—	—	—	—	-1.20	-0.95	3.33	-0.53	-2.07	+/-DJ Mod
—	—	—	—	—	—	—	-4.66	-5.06	-1.40	-0.99	0.64	+/-DJ Target 2040
—	—	—	—	—	—	—	1.60	1.79	2.12	2.09	0.00	Income Return %
—	—	—	—	—	—	—	10.35	4.51	13.12	5.40	-5.75	Capital Return %
—	—	—	—	—	—	—	43	87	35	38	24	Total Rtn % Rank Cat
—	—	—	—	—	—	0.06	0.17	0.21	0.26	0.29	0.00	Income $
—	—	—	—	—	—	0.00	0.00	0.00	0.00	0.00	0.00	Capital Gains $
—	—	—	—	—	—	—	—	—	—	0.21	—	Expense Ratio %
—	—	—	—	—	—	—	1.70	2.33	2.21	2.09	—	Income Ratio %
—	—	—	—	—	—	—	2	—	14	1	—	Turnover Rate %
—	—	—	—	—	—	19	373	1,402	3,050	4,860	4,737	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	—*
2004	2.92	0.46	-0.64	8.98	11.95
2005	-1.62	1.82	4.00	2.04	6.30
2006	4.49	-1.41	4.35	7.20	15.24
2007	1.87	5.66	2.14	-2.23	7.49

Trailing	Total Return%	+/- DJ Mod	+/- DJ Target 2040	%Rank Cat	Growth of $10,000
3 Mo	-10.09	-3.63	1.23	19	8,991
6 Mo	-3.35	-2.59	1.44	23	9,665
1 Yr	-0.19	-3.43	-0.17	27	9,981
3 Yr Avg	8.12	-0.08	-2.34	32	12,639
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	7.62	14	0.46	2
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 4% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	-0.19			
3 Yr	8.12	Avg	-Avg	★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	9.74			

Other Measures	Standard Index S&P 500	Best Fit Index Russ 1000
Alpha	-0.9	0.7
Beta	1.24	0.88
R-Squared	91	96
Standard Deviation	7.72	
Mean	8.12	
Sharpe Ratio	0.50	

Portfolio Analysis 09-30-07

Total Stocks:0 Share change since 06-30-07	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Stock Mkt Idx		—	—	69.86
Vanguard European Stock Index		—	—	10.33
Vanguard Total Bond Market Index		—	—	9.95
Vanguard Pacific Stock Index		—	—	4.60
Vanguard Emerging Mkts Stock Idx		—	—	3.30
Vanguard Total Stock Market ETF		—	—	1.96

Total Fixed-Income:0	Date of Maturity	Amount $000	Value $000	% Net Assets

Equity Style
Style: Blend
Size: Large-Cap

Value Measures		Rel Category
Price/Earnings	15.63	1.00
Price/Book	2.48	1.02
Price/Sales	1.38	1.04
Price/Cash Flow	10.08	1.03
Dividend Yield %	1.92	1.02

Growth Measures	%	Rel Category
Long-Term Erngs	14.53	1.10
Book Value	10.06	0.96
Sales	0.15	0.11
Cash Flow	4.05	15.00
Historical Erngs	17.49	0.95

Market Cap %			
Giant	44.5	Small	5.0
Large	30.8	Micro	1.7
Mid	17.9	Avg $mil:	31,549

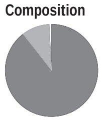
Fixed-Income Style
Duration: —
Quality: —

Avg Eff Duration [1]	—
Avg Eff Maturity	—
Avg Credit Quality	—
Avg Wtd Coupon	—

[1]figure provided by fund

Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High	3 Year Low
Info	19.41	—		
Software	3.22	—	3	3
Hardware	9.00	—	9	8
Media	2.89	—	4	3
Telecom	4.30	—	4	4
Service	43.46	—		
Health	10.52	—	12	10
Consumer	6.96	—	9	7
Business	5.23	—	5	5
Financial	20.75	—	24	21
Mfg	37.13	—		
Goods	8.91	—	10	8
Ind Mtrls	13.92	—	14	12
Energy	10.52	—	11	8
Utilities	3.78	—	4	3

Composition



Cash	0.6
Stocks	89.2
Bonds	9.8
Other	0.3
Foreign (% of Stock)	20.1

Morningstar's Take by Marta Norton 12-13-07

Vanguard Target Retirement 2035 is an excellent way to keep it simple.

In the crowded target-retirement space, Vanguard's lineup stands out. Unlike many competitors, it relies solely on index funds. That means asset bloat isn't much of an issue, because index funds are better suited to a growing asset base than actively managed funds. And as can be expected from Vanguard, expenses are admirably low. This particular fund has a 0.21% expense ratio, which gives it an edge over pricier competitors.

Some might take issue with the lineup's conservative asset allocation. A few years after their target dates, the funds in the series will fold into Vanguard Target Retirement Income and adopt its 30%/70% split between stocks and bonds. Rivals such as T. Rowe Price stick with stocks for much longer. More in bonds limits volatility, but it can also hurt returns because stocks tend to earn more over the long haul. We don't consider this a sticking point, however, because investors interested in risking more volatility for higher returns can simply opt for a later target date.

Good underlying funds round out the lineup's appeal. Vanguard Total Stock Market, the core equity holding that currently claims 72% of this fund's assets, is broadly spread across the market and benefits from the expertise of a longtime manager. Core bond holding Vanguard Total Bond Market, which has less than 10% of the fund's assets, has similar advantages. Its management has closely tracked, and from time to time outpaced, its benchmark. Plus, we're pleased with the other diversification found here. This fund has sizable stakes in international index funds, such as Vanguard European Stock Index. And as it adds more fixed income, it gains exposure to Treasury Inflation-Protected Securities through Vanguard Inflation-Protected Securities. That helps limit the pain of inflation.

Those looking for an all-in-one fund have a good option here.

Address:	P.O. Box 2600 Valley Forge, PA 19482 800-662-6273
Web Address:	www.vanguard.com
Inception:	10-27-03
Advisor:	The Vanguard Group
Subadvisor:	None
NTF Plans:	Vanguard NTF

Minimum Purchase:	$3000	Add: $100	IRA: $3000
Min Auto Inv Plan:	$3000	Add: $50	
Sales Fees:	No-load		
Management Fee:	0.00%		
Actual Fees:	—	Dist: —	
Expense Projections:	3Yr:$68	5Yr:$118	10Yr:$268
Income Distrib:	Annually		

Vanguard Target Rtmt 2045

Analyst Pick	Ticker	Load	NAV	Yield	Total Assets	Mstar Category
	VTIVX	None	$14.23	2.1%	$2,306 mil	Target-Date 2030＋

Governance and Management

Stewardship Grade: B

Portfolio Manager(s)

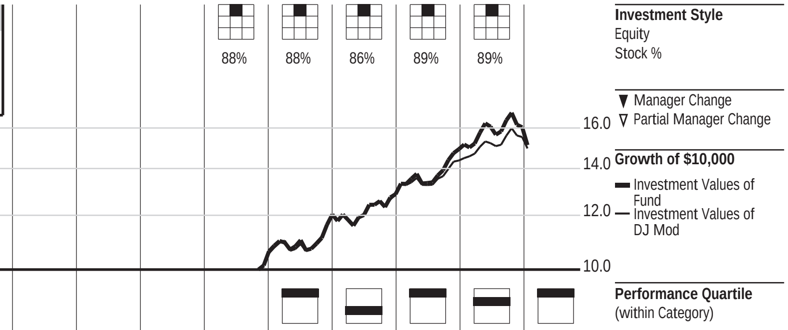
A team led by experienced index-fund manager Duane Kelly oversees this and other Vanguard Target Retirement Funds. Because this fund is composed of various Vanguard index offerings, shareholders tap into the company's skill at running index funds.

Strategy

This fund holds a diverse mix of stocks and bonds. As of the end of October 2007, it had 71.9% of assets in Vanguard Total Stock Market Index, 10.3% in Vanguard European Stock Index, 4.5% in Vanguard Pacific Stock Index, and 3.4% in Vanguard Emerging Markets Index. The remaining 9.9% was devoted to bonds through Vanguard Total Bond Market Index. Allocation to fixed-income securities will increase gradually as the fund nears its target date.

Historical Profile

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



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	01-08	History
—	—	—	—	—	—	10.71	11.93	12.57	14.32	15.09	14.23	NAV
—	—	—	—	—	—	—	12.89	6.95	15.98	7.47	-5.70	Total Return %
—	—	—	—	—	—	—	-0.26	-0.30	4.07	-0.55	-2.02	＋/-DJ Mod
—	—	—	—	—	—	—	-3.72	-4.41	-0.66	-1.01	0.69	＋/-DJ Target 2040
—	—	—	—	—	—	—	1.49	1.59	1.99	2.09	0.00	Income Return %
—	—	—	—	—	—	—	11.40	5.36	13.99	5.38	-5.70	Capital Return %
—	—	—	—	—	—	—	19	74	23	39	22	Total Rtn % Rank Cat
—	—	—	—	—	—	0.07	0.16	0.19	0.25	0.30	0.00	Income $
—	—	—	—	—	—	0.00	0.00	0.00	0.01	0.00	0.00	Capital Gains $
—	—	—	—	—	—	—	—	—	—	0.21	—	Expense Ratio %
—	—	—	—	—	—	—	1.38	2.07	2.03	2.08	—	Income Ratio %
—	—	—	—	—	—	—	7	7	3	1	—	Turnover Rate %
—	—	—	—	—	—	7	142	626	1,446	2,374	2,306	Net Assets $mil

Performance 01-31-08

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2003	—	—	—	—	— *
2004	2.89	0.82	-1.17	10.11	12.89
2005	-1.76	1.62	4.70	2.32	6.95
2006	5.25	-1.44	4.29	7.20	15.98
2007	1.89	5.69	2.14	-2.29	7.47

Trailing	Total Return%	＋/- DJ Mod	＋/- DJ Target 2040	%Rank Cat	Growth of $10,000
3 Mo	-10.09	-3.63	1.23	19	8,991
6 Mo	-3.38	-2.62	1.41	24	9,662
1 Yr	-0.19	-3.43	-0.17	27	9,981
3 Yr Avg	8.69	0.49	-1.77	9	12,840
5 Yr Avg	—	—	—	—	—
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	8.22	2	0.43	1
5 Yr (estimated)	—	—	—	—
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: -10% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	-0.19			
3 Yr	8.69	＋Avg	-Avg	★★★★★
5 Yr	—	—	—	—
10 Yr	—	—	—	—
Incept	10.49			

Other Measures	Standard Index S&P 500	Best Fit Index M* U.S. Mkt TR
Alpha	-0.6	1.0
Beta	1.31	0.89
R-Squared	92	97
Standard Deviation	8.05	
Mean	8.69	
Sharpe Ratio	0.55	

Portfolio Analysis 09-30-07

Total Stocks:0 Share change since 06-30-07	Sectors	P/E Ratio	YTD Return %	% Net Assets
Vanguard Total Stock Mkt Idx		—	—	69.89
Vanguard European Stock Index		—	—	10.49
Vanguard Total Bond Market Index		—	—	9.98
Vanguard Pacific Stock Index		—	—	4.62
Vanguard Emerg Markets Stk Idx Fd		—	—	3.18
Vanguard Total Stock Market ETF		—	—	1.83

Total Fixed-Income:0	Date of Maturity	Amount $000	Value $000	% Net Assets

Morningstar's Take by Marta Norton 12-13-07

Young investors looking for simplicity should consider Vanguard Target Retirement 2045.

In the crowded target-retirement space, Vanguard's lineup stands out. Unlike competitors, it relies solely on index funds. That means asset bloat isn't much of an issue, because index funds are better suited to a growing asset base than actively managed funds. And as can be expected from Vanguard, expenses are admirably low. This particular fund has a 0.21% expense ratio, which gives it an edge over pricier competitors.

Some might take issue with the lineup's conservative asset allocation. A few years after their target dates, the funds in the series will fold into Vanguard Target Retirement Income and adopt its 30%/70% split between stocks and bonds. Rivals such as T. Rowe Price stick with stocks for much longer. More in bonds limits volatility, but it can also hurt returns, because stocks tend to earn more over the long haul. We don't consider this a sticking point, however, because investors interested in risking more volatility for higher returns can simply opt for a later target date.

Good underlying funds round out the lineup's appeal. Vanguard Total Stock Market, the core equity holding that currently claims 72% of this fund's assets, is broadly spread across the market and benefits from the expertise of a longtime manager. Core bond holding Vanguard Total Bond Market, which has 10% of the fund's assets, has similar advantages. Aside from 2002's slipup, its management has closely tracked its benchmark. Plus, we're pleased with the other diversification found here. This fund has sizable stakes in international index funds, such as Vanguard European Stock Index. And as it adds more fixed income, it gains exposure to Treasury Inflation-Protected Securities through Vanguard Inflation-Protected Securities. That helps limit the pain of inflation.

In all, we find this offering a compelling choice among target-retirement funds.

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

Equity Style
Style: Blend
Size: Large-Cap

Value Measures		Rel Category
Price/Earnings	15.63	1.00
Price/Book	2.48	1.02
Price/Sales	1.38	1.04
Price/Cash Flow	10.08	1.03
Dividend Yield %	1.92	1.02
Growth Measures	**%**	**Rel Category**
Long-Term Erngs	14.42	1.09
Book Value	10.05	0.95
Sales	0.16	0.12
Cash Flow	4.05	15.00
Historical Erngs	17.37	0.94

Market Cap %			
Giant 44.6		Small	5.0
Large 30.8		Micro	1.7
Mid 17.9		Avg $mil:	31,593

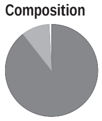
Fixed-Income Style
Duration: —
Quality: —

Avg Eff Duration [1]	—
Avg Eff Maturity	—
Avg Credit Quality	—
Avg Wtd Coupon	—

[1]figure provided by fund

Sector Weightings	% of Stocks	Rel DJ Mod	3 Year High	3 Year Low
Info	19.40	—		
Software	3.21	—	3	3
Hardware	9.00	—	9	8
Media	2.89	—	4	3
Telecom	4.30	—	4	4
Service	43.48	—		
Health	10.53	—	12	10
Consumer	6.96	—	9	7
Business	5.23	—	5	5
Financial	20.76	—	24	21
Mfg	37.13	—		
Goods	8.92	—	10	8
Ind Mtrls	13.92	—	14	12
Energy	10.51	—	11	8
Utilities	3.78	—	4	3

Composition



Cash	0.6
Stocks	89.2
Bonds	9.8
Other	0.3
Foreign (% of Stock)	20.2

Investment Policy Statement and Fund Benchmarks

AdvisedAssetsGroup

Put Our Power Behind You℠

Investment Benchmarks

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

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

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

Objective

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

Investment Spectrum

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

1. *Fixed income/cash investments - FDIC insured bank account option, stable value fund, or money market mutual fund.*

2. *Bond mutual funds - government or corporate bond funds, domestic or international, active or passive management.*

3. *Balanced mutual fund – combining equity and bond investments in one option.*

4. *Domestic large cap equity mutual funds – including both active and passive (index) investments; funds with investment objectives that may include: growth and income, growth, aggressive growth, value, and blend of growth and value.*

5. *Domestic small and mid cap equity mutual funds – growth, value or blend.*

6. *International or foreign equity mutual funds – growth, value or blend.*

7. *Llifecycle 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.

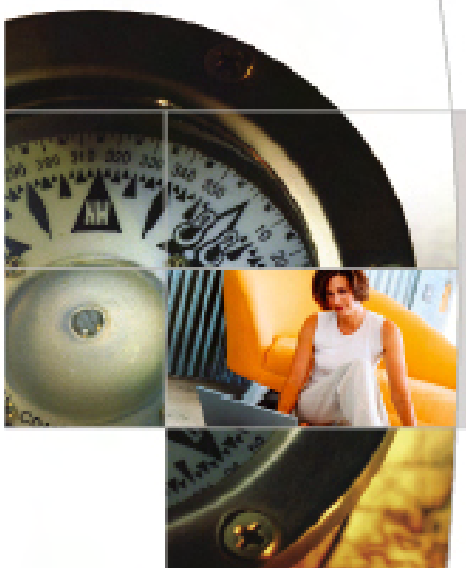
Investment Providers – The companies contracted to provide an investment option to the WDC are responsible for following the investment objectives that were either, identified during the competitive bid process (for fixed income options) or stated in their fund prospectus (for mutual funds).

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	• FDIC insured • Capital ratio as required by US government to maintain FDIC coverage • Minimum size - $1 billion in assets
Insurance Option	• 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	• 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: *Requirements apply to all mutual funds unless specifically waived*	• 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: *Requirements apply to all mutual funds unless specifically waived*	• Performance must meet or exceed one or more of established benchmarks – benchmarks used include, but are not limited to 1) peer group average, 2) appropriate index as determined by Board, and 3) internal benchmark assigned by fund manager. • For specialty funds selected for reasons other than performance (e.g., socially responsive funds or lifecycle funds), performance will only be evaluated based on a comparison to the funds peer group of funds with same specialty objective. [Participants will be fully advised that fund is selected for reasons other than investment returns.] • WDC assets in fund no greater than 10% of the total mutual fund assets • After 5 years in WDC, minimum of 3% of participants or 3% of assets.

Glossary



AdvisedAssetsGroup

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Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

Geometric Mean Return A compounded and annualized rate of return.

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

Institutional Fund Any fund that meets one of the following qualifications:
a) has the word "institutional" in its name.

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 beginnning 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 beginnning 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 Ndtr_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. Ndtr_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, Ndtr_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 Ndtr_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. Ndtr_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, Ndtr_D indexes subtract withholding taxes retained at the source, for foreigners who do not benefit from a double taxation treaty.

MSCI Pacific Ndtr_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. Ndtr_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, Ndtr_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 Ndtr_D Includes all 23 MSCI developed market countries. Ndtr_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, Ndtr_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.

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

CORRESPONDENCE MEMORANDUM

DATE: April 21, 2008

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: Stable Value Fund Sub-Advisor

<u>Department staff recommends that the Board affirm Galliard's recommendation to replace current Stable Value Fund sub-advisor Alliance Bernstein with Aberdeen Asset Management.</u>

At its meeting on March 25, 2008, the Investment Committee and Galliard Capital Management (Galliard) discussed Galliard's evaluation of the investment performance of the Stable Value Fund sub-advisors and the likelihood that Galliard would seek to replace one of the sub-advisors. At present, there are two Stable Value Fund sub-advisors: Alliance Bernstein and Pacific Investment Management Company (PIMCO). The Investment Committee agreed that it would be appropriate for Galliard to attend the next Board meeting to discuss this potential change. This memo and attachment provide background information for that discussion.

BACKGROUND

The Wisconsin Deferred Compensation Program (WDC) offers a Stable Value Fund managed by Galliard. In November of 2001, the Board amended the Investment Advisory Agreement between the Board and Galliard to provide Galliard with limited discretion to change or add sub-advisors for the actively managed bond portion of the Stable Value Fund. This flexibility was desired because market conditions as well as changes in the companies providing sub-advisor services may necessitate quick action to maintain the performance and quality of the Stable Value Fund's portfolio. The Board also delegated authority to the Department of Employee Trust Funds, with prior approval from the Investment Committee, to add or replace sub-advisors for the Stable Value Fund.

Galliard recommends removing and replacing one of the current Stable Value Fund sub-advisors, Alliance Bernstein. Alliance Bernstein, which manages approximately fourteen percent of the Stable Value Fund portfolio, has been on Galliard's watch list for performance. Through the end of 2007, Alliance Bernstein's 3-Year and 5-Year performance returns have ranked in the 60th to 80th percentile, resulting in a "D" grade from Galliard.

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature ______________________ Date ______________________

Board	Mtg Date	Item #
DC	05/06/2008	3

Galliard recommends moving the Stable Value Fund assets currently managed by Alliance Bernstein to Aberdeen Asset Management. In addition to moving to a sub-advisor with a low style correlation to Galliard, changing sub-advisors will result in a slightly lower sub-advisor administrative fee, as Aberdeen Asset Management charges 22 basis points and Alliance Bernstein charges 23 basis points.

INVESTMENT ADVISORY AGREEMENT

In November of 2001, the Board approved an amendment to its contract agreement with the Stable Value Fund provider, Galliard. Section Two of the amended agreement states that Galliard:

> "…shall have full discretionary authority to manage and direct investment of the assets of the Account in accordance with the written investment objectives and guidelines as communicated to the Advisor and amended from time to time and included as Exhibit 1. […] Advisor will have authority to select sub-advisors from time to time, up to four not including the Advisor, to manage certain of the assets of the Account. Advisor shall review with the Department of Employee Trust Funds staff any changes to existing sub-advisors, including adding new sub-advisors, and provide a written document as to the reasons for any change. A manager profile of each proposed new sub-advisor shall also be provided. Advisor may proceed with the change only upon receiving the written approval of the Department of Employee Trust Funds. […] Advisor will monitor the investment activity of each sub-advisor, review compliance with investment guidelines and monitor their performance. Advisor is responsible for implementing changes in sub-advisors as deemed appropriate, including adding or removing sub-advisors, with the approval of the Department of Employee Trust Funds."

Staff from Galliard and the Department will be available at the Board meeting to discuss the information in this memo.

Attachment

Galliard Capital Management, Inc.

GALLIARD CAPITAL

MANAGEMENT

Experience. Consistency.
Performance.

State of Wisconsin

May 6, 2008

Presenters:

John Caswell, CFA	Mike Norman
Managing Partner	Principal

Section I: External Manager Review

Section II: State of Wisconsin
1Q'08 Portfolio Review

Section I

- Galliard responsible for oversight on overall fund and external managers
- One of the current managers, Alliance Bernstein, on watch list for performance
- Recommending a change to Aberdeen Asset Management
- No change in benchmark
- Alliance currently manages 14.1% of total portfolio

External Manager Review Process

Galliard External Manager Oversight Team
Stable Value Team – Fixed Income Committee – Compliance Team

Monthly Review Process → Performance Grading → Quarterly Review

Monthly Review Process

External managers send:

- Portfolio holdings
- Portfolio key statistics template

Performance Grading

- Peer Group Analysis

or

- Benchmark approach, if no comparable universe

Quarterly Review

- Compliance update
- Portfolio stress test
- Portfolio review conference call with external manager

External Manager Policy Standards

- All externally managed portfolios assigned to a Galliard analyst
- Galliard maintains performance history internally
- Galliard reviews monthly performance against benchmarks
- Manager performance graded against peer group
- Conference call or in person review required at least semi-annually
- Subadvisor required to send quarterly summary report and compliance affirmation

External Manager Review Process

4Q'07 Grading Matrix

External Manager Performance	YTD Returns	YTD Grade	1 Year Returns	1 Year Grade	3 Year Returns	3 Year Grade	5 Year Returns	5 Year Grade
Alliance Bernstein	87	E	87	E	71	D	66	D
PIMCO	2	A	2	A	1	A	2	A

Grading Criteria	Peer Groups
0-20th Percentile = "A" grade 20th-40th Percentile = "B" grade 40th-60th Percentile = "C" grade 60th-80th Percentile = "D" grade 80th-100th Percentile = "E" grade	Use eVestment Alliance comparative universes

The Manager Selection Process

- ➢ The Galliard Alliance multi-manager stable value strategy updated in 2007 with the addition of new external managers
- ➢ Review process included correlation comparison, historic return profile
  - ▪RFP issued to managers meeting initial screens
- ➢ Aberdeen Asset Management selected as new Broad Market Core manager
  - ▪Based in Philadelphia, part of a $204 billion worldwide investment organization
  - ▪Manages over $28 billion in fixed income – more than $14 billion in core mandates

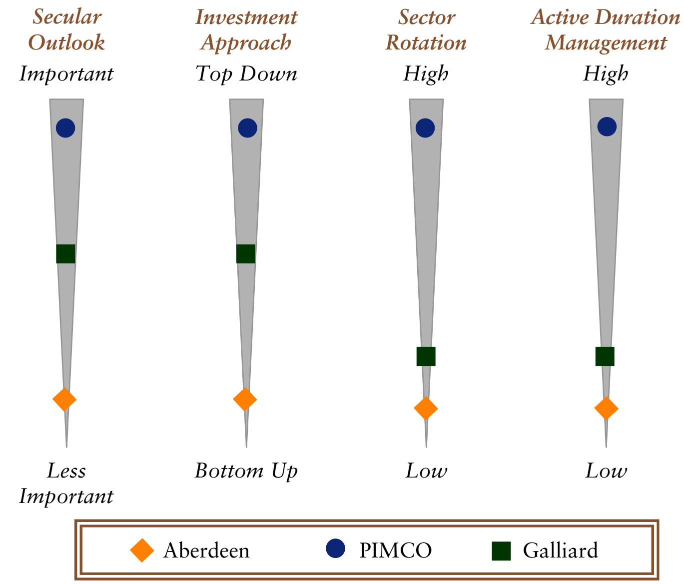
Galliard Alliance
Investment Grade Core Managers

Low Style Correlation

Correlation Matrix: 4/2002 to 12/2007 using Lehman Aggregate Bond

	Aberdeen	PIMCO	Galliard
Aberdeen	1.00	(0.35)	0.65
PIMCO	(0.35)	1.00	0.05
Galliard	0.65	0.05	1.00

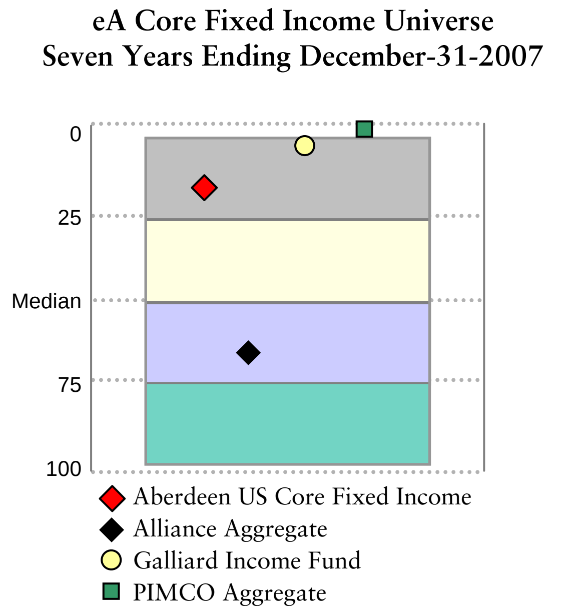
Fixed Income Style Diversification



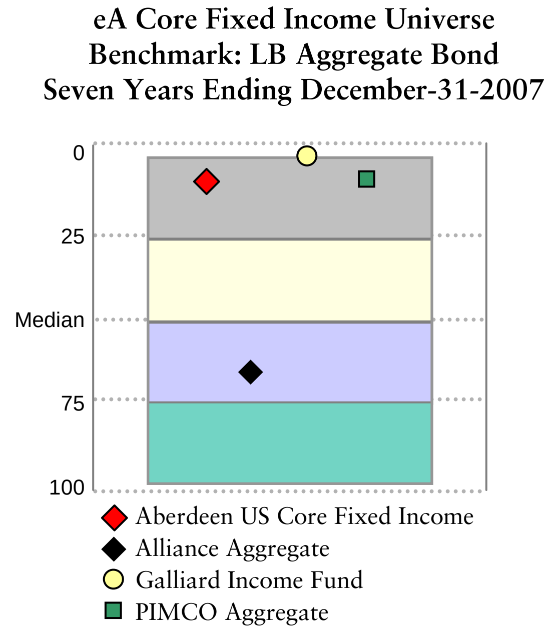
	Total Firm Assets	Strategy Assets	Primary Investment Approach	Style Overview
Aberdeen ◆	$204.8B	$14.2B	Fundamental/ Bottom Up	Emphasize a strictly bottom-up approach which capitalizes on pricing inefficiencies at the individual security level.
PIMCO ●	$746.3B	$10.7B	Top Down	Top-down core approach that combines moderate market timing, active sector rotation and sophisticated analytical capabilities.
Galliard ■	$32.3B	$6.4B	Combined Approach	Emphasize a disciplined security selection approach and broad portfolio diversification.

Returns & Information Ratio
7 Year Period Ending 12/31/07

Returns



Information Ratio



Returns 7-Years				
Firm/Product	**VT**	**RM**	**7 Yrs**	**Rank**
Aberdeen US Core Fixed Income	SA	GF	6.23	16
Alliance Aggregate	CFE	GF	5.8	67
Galliard Income Fund	CFE	GF	6.43	6
PIMCO Aggregate	CFE	GF	6.59	3

Information Ratio				
Firm/Product	**VT**	**RM**	**7 Yrs**	**Rank**
Aberdeen US Core Fixed Income	SA	GF	0.71	11
Alliance Aggregate	CFE	GF	-0.01	67
Galliard Income Fund	CFE	GF	0.89	5
PIMCO Aggregate	CFE	GF	0.72	11

Summary

- Transition will be transparent to participants
- Will work with staff on any additional communication to participants
- Fees will be slightly reduced (22 bp vs 23 bp for Alliance)

Section II

Market Review

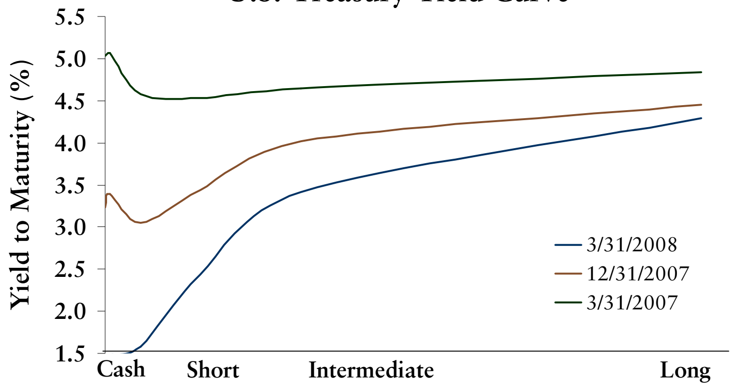
- Interest rates on U. S. Treasury securities continued to decline in the first quarter with the two year Treasury bond yield declining to 1.6%. Once again this large yield decline had little following from other bond market sectors as risk premiums continued to rise to historic levels causing significant under performance in all non Treasury market sectors. As such, most fixed income portfolios had positive returns but lagged benchmarks that have large weightings in U. S. Governments.

Market Outlook

- Judging by several recent reports and economic indicators we may be in a recession today. Certainly housing and autos are experiencing very tough times and now the financial sector is reeling from huge write-offs/losses. Consumers are concerned as evidenced by recent confidence levels reported at a five year low but is the broader economy likely to experience a severe recession? If you strip away autos and housing which constitute about 7% to 8% of real GDP, the economy grew at a 3% to 4% real rate in 2007. Even in the anemic fourth quarter if inventories reductions are ignored, we experienced about 2% real growth. While employment is contracting somewhat now, unemployment is well below the level of past recessions. A key determinant to the severity of this recession will be policy response and current stimulative policy actions by monetary authorities and the U.S. Government have been significant.
- The Federal Funds rate at 2.25% is at or below the rate of inflation and the Fed's extension of credit to Wall Street banks and the Bear Stearns sale has eased liquidity concerns. The Fed's willingness to do whatever it takes has helped ease fears of a meltdown. Additionally, more fiscal stimulus lies just ahead with tax rebates and more mortgage assistance programs. A key to watch is the stock market which has been a leading indicator of future economic trends and it seemed to form a pretty solid bottom following the Bear Stearns rescue. Perhaps the worse will soon be behind us.
- While we may see a few additional decreases in the Fed Funds rate, we are near the end of interest rate declines as the Federal Government will be opting for more targeted programs to support homeowners and to ease the credit crisis. As such, Treasury rates are poised to move higher at some point when signs of improvement emerge. At that point, risk premiums will begin to improve as Treasuries underperform, just the reverse of what we have seen the last six months.

Figure 1

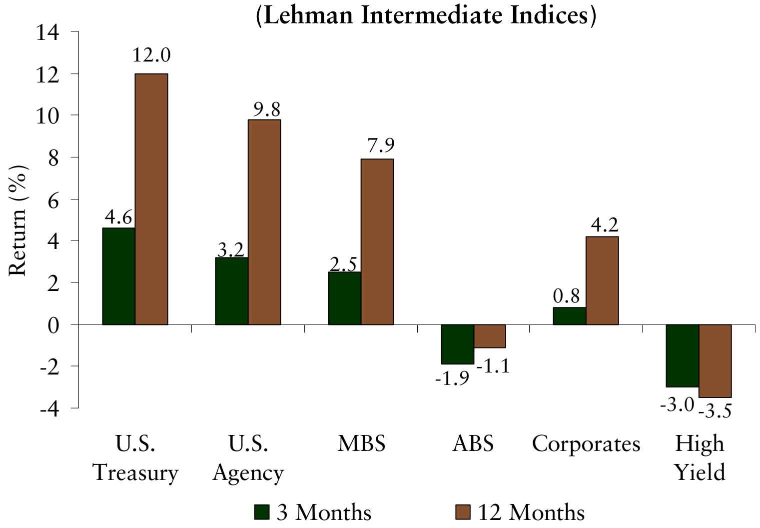
U.S. Treasury Yield Curve



Source: Bloomberg

Figure 2

Fixed Income Performance by Sector (%)
(Lehman Intermediate Indices)



Stable Value Portfolio Review
First Quarter 2008

Annualized Investment Performance*
Periods Ending March 31, 2008

	3 Mo	YTD	1 Yr	3 Yr	5 Yr	Since Inception**
Portfolio (before inv. mgmt. fees)	1.31	1.31	5.32	5.33	5.29	5.86
Portfolio (net of inv. mgmt. fees)	1.27	1.27	5.13	5.14	5.09	5.67
5 Year Contsant Maturity Treasure Yield	0.64	0.64	3.83	4.27	3.89	4.37

Calendar Year Performance

	2007	2006	2005	2004	2003
Portfolio (before inv. mgmt. fees)	5.30	5.39	5.19	5.18	5.41
Portfolio (net of inv. mgmt. fees)	5.11	5.20	4.99	4.97	5.19
5 Year Contsant Maturity Treasure Yield	4.42	4.74	4.05	3.43	2.97
Market Indices					
3 Month Treasury Bills	4.55	4.95	3.54	1.67	1.07
Consumer Price Index	4.05	2.54	3.42	3.26	1.88

*Returns for periods less than one year are not annualized.
**Galliard's management of this portfolio began July 1, 1998.

Stable Value Portfolio Review
First Quarter 2008

Portfolio Characteristics

Total Assets	$389,066,966	Blended Yield (Before fees)	5.31%
Weighted Average Quality	Aa1/AA	Blended Yield (Net of fees)**	5.22%
Market Value to Book Value Ratio	100.6%	Effective Duration	3.7 years

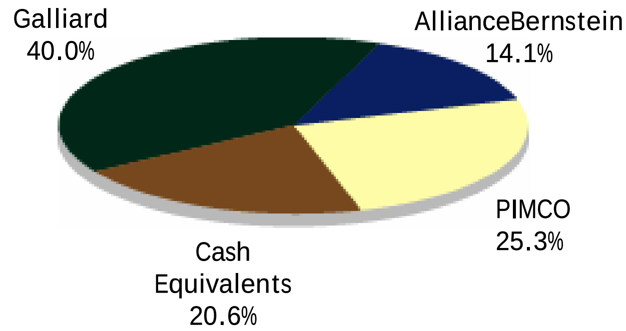
**Net of investment management and other fees

Sector Distribution

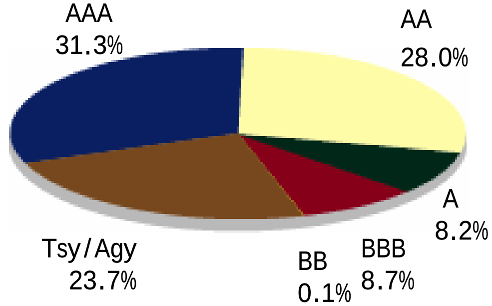
Portfolio Distribution	Contract Value ($)	% of Portfolio 3/31/08	% of Portfolio 12/31/07
Cash Equivalents*	80,146,832	20.6%	19.5%
Security Backed Contracts	308,920,134	79.4%	80.5%
PIMCO	98,432,803	25.3%	25.5%
AllianceBernstein	54,925,983	14.1%	14.6%
Galliard	155,561,348	40.0%	40.4%
Total	**$389,066,966**	**100.0%**	**100.0%**

*Includes Wells Fargo Stable Return Fund

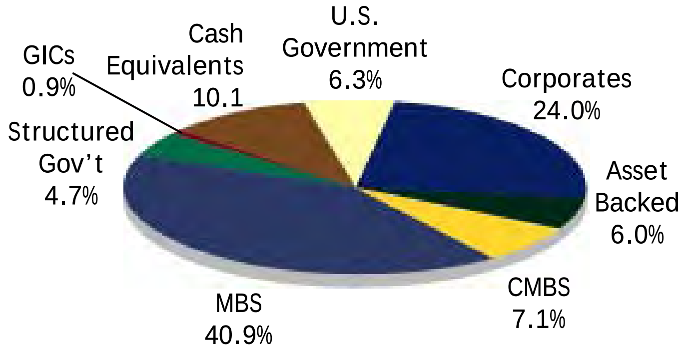
Portfolio Distribution



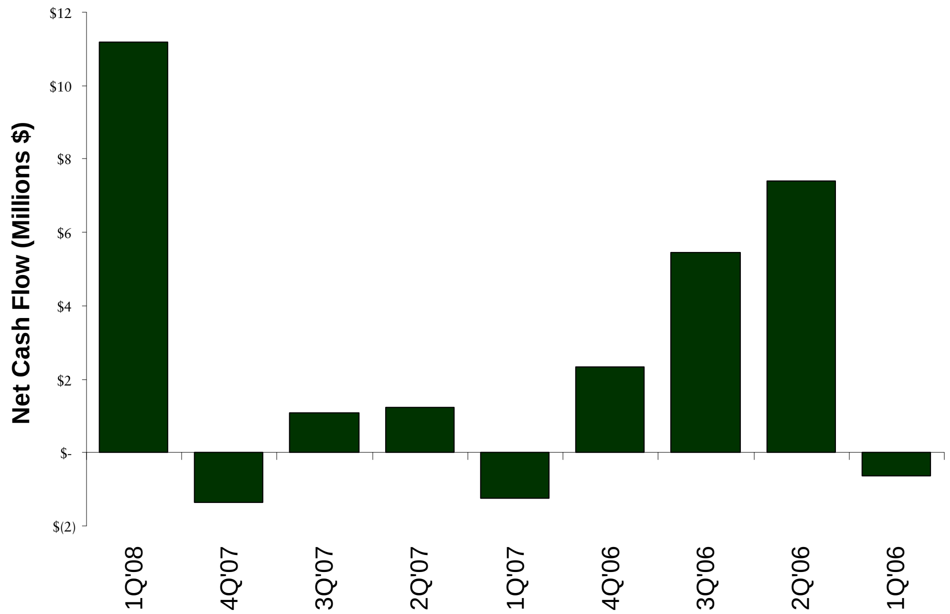
Underlying Fixed Income Credit Quality



Underlying Fixed Income Asset Allocation



Stable Value Portfolio Review
Historical Cashflows



	1Q'08	4Q'07	3Q'07	2Q'07	1Q'07	4Q'06	3Q'06	2Q'06	1Q'06
Beginning Market Value	$ 373,091,904	$ 369,754,872	$ 364,168,916	$ 358,432,662	$ 355,260,849	$ 348,381,998	$ 338,600,898	$ 327,006,383	$ 323,618,500
Contributions	$ 14,787,879	$ 5,427,511	$ 8,924,361	$ 7,914,636	$ 7,665,773	$ 8,979,200	$ 9,677,090	$ 11,161,226	$ 6,265,119
Withdrawals	$ (3,613,234)	$ (6,781,550)	$ (7,852,688)	$ (6,691,477)	$ (8,905,122)	$ (6,631,498)	$ (4,224,337)	$ (3,749,067)	$ (6,900,946)
Net Flow ($)	$ 11,174,645	$ (1,354,039)	$ 1,071,673	$ 1,223,159	$ (1,239,349)	$ 2,347,702	$ 5,452,753	$ 7,412,159	$ (635,827)
Net Flow (%)	3.00%	-0.37%	0.29%	0.34%	-0.35%	0.67%	1.61%	2.27%	-0.20%
Investment Return	$ 4,800,418	$ 4,691,071	$ 4,514,282	$ 4,513,095	$ 4,411,161	$ 4,531,150	$ 4,328,347	$ 4,182,356	$ 4,023,710
Ending Market Value	$ 389,066,966	$ 373,091,904	$ 369,754,872	$ 364,168,916	$ 358,432,662	$ 355,260,849	$ 348,381,998	$ 338,600,898	$ 327,006,383

State of Wisconsin Stable Value Fund
Transaction Report
Period: 1/1/2008 - 3/31/2008

Purchases

Cusip	Issuer	Par Amount	Crediting Rate	Maturity	Trade Date	Settle Date	S&P	Moody's
Security Backed Contracts								
Targeted Benchmark								
149993PY7	Natixis Financial Products Inc.	$1.000.000	5.56		3/3/2008	3/3/2008	AA	Aa2
600996AC6	Monumental Life Ins. Co.	$1.000.000	5.56		3/3/2008	3/3/2008	AA	Aa3
617997BG5	J.P. Morgan Chase Bank N.A.	$1.000.000	5.56		3/3/2008	3/3/2008	AA	Aaa
905992RT2	Union Bank of Switzerland AG	$1.000.000	5.56		3/3/2008	3/3/2008	AA+	Aaa
Total Purchases Targeted Benchmark		$4,000,000						
Total Purchases Security Backed Contracts		$4,000,000						
Total Purchases		**$4,000,000**						

State of Wisconsin Stable Value Fund
Portfolio Holdings
3/31/2008

Security Description	Current Value ($)	% of Portfolio	Crediting Rate/Yield (%)	Maturity	Yrs to Maturity	Moody's	S&P
Cash & Equivalents							
Cash Receivable / (Payable)	-93,518	0.0	3.12		0.0	Aaa	AAA
Total Cash & Equivalents	**-93,518**	**0.0**	**3.12**		**0.0**	**Aaa**	**AAA**
Funds							
Stable Value Funds							
Wells Fargo Stable Return Fund	80,899,306	20.8	4.72	1/5/2013	1.0	Aa1	AA+
Total Stable Value Funds	**80,899,306**	**20.8**	**4.72**		**1.0**	**Aa1**	**AA+**
Total Funds	**80,899,306**	**20.8**	**4.72**		**1.0**	**Aa1**	**AA+**
Security Backed Contracts							
Targeted Benchmark							
Natixis Financial Products Inc.	61,653,825	15.8	5.46	9/11/2012	4.5	Aa2	AA
Monumental Life Ins. Co.	92,476,764	23.8	5.46	9/11/2012	4.5	Aa3	AA
J.P. Morgan Chase Bank N.A.	92,476,764	23.8	5.46	9/11/2012	4.5	Aaa	AA
Union Bank of Switzerland AG	61,653,825	15.8	5.46	9/11/2012	4.5	Aaa	AA+
Total Targeted Benchmark	**308,261,179**	**79.2**	**5.46**		**4.5**	**Aa1**	**AA**
Total Security Backed Contracts	**308,261,179**	**79.2**	**5.46**		**4.5**	**Aa1**	**AA**

State of Wisconsin Stable Value Fund
Portfolio Holdings
3/31/2008

Security Description	Current Value ($)	% of Portfolio	Crediting Rate/Yield (%)	Maturity	Yrs to Maturity	Moody's	S&P
Total Fund	389,066,966	100.0	5.31		3.7	Aa1	AA

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http://etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: April 22, 2008

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: Proposed *Plan and Trust Document* Changes Related to State Statute Revisions

On March 21, 2008, Governor Doyle signed 2007 Assembly Bill 893 into law as 2007 Wisconsin Act 131. 2007 Wis. Act 131 became effective April 5, 2008, and is a compilation of numerous technical changes requested by the Department for the efficient operation of Department programs. The technical bill has two sections that relate to the administration of the Wisconsin Deferred Compensation Program (WDC):

- for more logical placement in the statutes, a provision in Wis. Stats. 40.80 relating to domestic relations order divisions of WDC accounts was renumbered to a provision in Wis. Stats. 40.08[1] relating to assignment of benefits; and

- a change in statutory standard sequence for beneficiaries under Wis. Stats. 40.02 (8) (a) 2. 2007 Wis. Act 131 eliminates the surviving spouse of a deceased child as a default beneficiary so that assets will pass to the children of the deceased child.

<u>Recommendation</u>
Staff is recommending that the Board consider updating the WDC's *Plan and Trust Document* to accurately reference the State Statutes. The recommended changes are as follows:

Article I: Definitions

- A revision to definition 1.01 h. "Domestic Relations Order"
  The current *Plan and Trust Document* refers to Wis. Stats. 40.80 (2r) (b). This should be revised to reflect the correct new reference: Wis. Stats. 40.08, and retain the reference to Wis. Stats. 40.80.

[1] According to the Legislative Reference Bureau staff, because 2007 Wisconsin Act 131 created two Wis. Stats. 40.08 (1r), the provision affecting WDC domestic relations orders is intended to be renumbered Wis. Stats. 40.08 (1u).

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature ____________________ Date ____________________

Board	Mtg Date	Item #
DC	05/06/2008	5

"DOMESTIC RELATIONS ORDER means a judgment, decree, or order issued by a court pursuant to a domestic relations law of any state or territory of the United States relating to a marriage that terminated after December 1, 2001, and that conforms to the requirements of Wisconsin Statutes Sections 40.08 and 40.80 and the BOARD."

Article 5: Beneficiaries

- Article 5.01 explains the rights and responsibilities of WDC beneficiaries. Under Wisconsin State law, when a person does not provide a written beneficiary designation for death benefits under the Wisconsin Retirement System and the WDC, or none of the designated beneficiaries survive, there is a sequence of relatives who become beneficiaries by default. This is known as the "standard sequence."

  Under the standard sequence prior to April 5, 2008, the surviving spouse of a deceased child (i.e., a former son-in-law or daughter-in-law) was among the list of default beneficiaries. As of April 5, 2008, Wis. Act 131 eliminates the surviving spouse of a deceased child as a default beneficiary. In addition, it adds great−grandchildren and other descendants of the deceased employee and nieces, nephews, and other descendents of the deceased employee's brothers and sisters to the list of default beneficiaries. The change in the standard sequence makes it consistent with other Wisconsin laws used to determine a decedent's heirs.

  Article 5.01 should be revised as follows:
  "…In the absence of a written designation of BENEFICIARY, or if all designated BENEFICIARIES ~~so designated~~ who survive the decedent die before the ACCOUNT HOLDER, the ACCOUNT HOLDER's BENEFICIARIES shall be determined pursuant to Wisconsin Statutes 40.02(8)(a)2., as in effect on the date of death, with all relationships determined relative to the deceased ACCOUNT HOLDER. The shares payable to the issue of a person shall be determined per stirpes. At present, the statute provides the following sequence of potential beneficiaries:

Group I	Surviving Spouse;
Group II	Children~~, if at least one child survives,~~of the deceased ACCOUNT HOLDER in ~~which event~~ equal shares, with the share of any deceased child ~~shall be~~ payable to the ~~surviving spouse~~ issue of the child~~, or to the surviving children if there is no spouse, or otherwise~~ or, if there is no surviving issue of a deceased child, to the other eligible children in this group or, if deceased, their issue;
Group III	~~Grandchildren;~~
~~Group IV~~	Parents, in equal share if both survive;
Group ~~V~~IV	~~Siblings~~Brother and sister in equal shares and the issue of any deceased brother or sister. ~~;~~
Group V~~I~~	The estate of the deceased ACCOUNT HOLDER."

Article 11: Domestic Relations Order Account Divisions

- The Article 11.01 reference to Wis. Stats. 40.80 (2r) should be revised to reflect the new reference to Wis. Stats. 40.08, as well as maintain the reference to Wis. Stats. 40.80.

  "When the ADMINISTRATOR receives a judgment, decree or order ("Order") issued by a court pursuant to a domestic relations law of any state or territory of the United States, the ADMINISTRATOR shall adhere to the procedures and requirements of Wisconsin Statutes Sections 40.08 and 40.80~~(2r)~~ and the PLAN in determining whether it is a valid DOMESTIC RELATIONS ORDER."

- Article 11.025.b (i). also references Wis. Stats. 40.80 (2r) and should be revised to reflect the new reference to Wis. Stats. 40.08.

  "Except as provided in paragraph c., if the ADMINISTRATOR has accepted a DOMESTIC RELATIONS ORDER as valid under WIS. STAT. Sections 40.08 and 40.80 ~~(2r)~~ and this Article, then any subsequent DOMESTIC RELATIONS ORDERS pertaining to the same marriage and purporting to divide the same DEFERRED COMPENSATION ACCOUNT shall be rejected."

Department staff will be available at the meeting to discuss this memo and answer any questions you may have regarding the proposed revisions.

Attachment: Draft Revised *Plan and Trust Document*

Wisconsin Plan and Trust Document
Amended and Restated
Draft for May 6, 2008

THE STATE OF WISCONSIN
PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST

The State of Wisconsin hereby amends and restates, effective May 6, 2008, (the Effective Date"), the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (hereinafter called the "PLAN").

ARTICLE I

Definitions

1.01. The following terms shall, for purposes of this PLAN, have the meaning set forth below:

a. ACCOUNT HOLDER means the PARTICIPANT. The term also includes an ALTERNATE PAYEE with respect only to the separate account, which may be established for the ALTERNATE PAYEE by reason of the award to the ALTERNATE PAYEE of a share of a PARTICIPANT'S account under a DOMESTIC RELATIONS ORDER. The term includes a BENEFICIARY who, as determined by the ADMINISTRATOR, has inherited control of a PARTICIPANT'S account under the provisions of the PLAN.

am. ADMINISTRATOR means the DEPARTMENT and, to the extent provided by the terms and conditions of contract, the entity contracted by the TRUSTEES to assist the DEPARTMENT in administering this benefit plan and to provide administrative services to the PLAN. Depending on the responsibilities assigned to the contracted entity, it may or may not be a "plan administrator" within the meaning of 26 U.S.C. §414(g).

b. ALTERNATE PAYEE means the person identified in a DOMESTIC RELATIONS ORDER to whom is awarded a portion of a PARTICIPANT'S account, or to whom is payable a portion or all of a PARTICIPANT'S benefit, under the PLAN.

c. BENEFICIARY means the person or estate entitled to receive benefits under this PLAN after the death of a PARTICIPANT.

d. COMPENSATION means all cash compensation for services to the EMPLOYER, including salary, wages, fees, commissions, bonuses, and overtime pay, that is includable in the EMPLOYEE'S gross income for the calendar year, plus amounts that would be cash compensation for services to the EMPLOYER includable in the EMPLOYEE'S gross income for the calendar year but for a compensation reduction election under IRC Sections 125, 132(f), 401(k), 403(b), or 457(b), including an election to defer COMPENSATION under this PLAN.

e. CORE INVESTMENT SPECTRUM means the slate of investment options selected and monitored by the Deferred Compensation Board for offering to PARTICIPANTS of the PLAN for the investment of DEFERRED COMPENSATION and ELIGIBLE ROLLOVER DISTRIBUTION amounts.

f. DEFERRED COMPENSATION means the amount of COMPENSATION that a PARTICIPANT elects to defer into the PLAN under the PARTICIPATION AGREEMENT.

g. DEFERRED COMPENSATION ACCOUNT means the separate bookkeeping account maintained by the ADMINISTRATOR within the PLAN for a PARTICIPANT for amounts of COMPENSATION deferred into the PLAN.

gm. DEPARTMENT means the Department of Employee Trust Funds.

h. DOMESTIC RELATIONS ORDER means a judgment, decree, or order issued by a court pursuant to a domestic relations law of any state or territory of the United States relating to a marriage that terminated after December 1, 2001 and that conforms to the requirements of Wisconsin Statutes Sections 40.08 and 40.80~~(2r)~~ and the BOARD.

i. ELIGIBLE ROLLOVER ACCOUNT means the separate bookkeeping account maintained by the ADMINISTRATOR within the PLAN for a PARTICIPANT for amounts of ELIGIBLE ROLLOVER DISTRIBUTIONS as defined in Section 1.01(j).

j. ELIGIBLE ROLLOVER DISTRIBUTION means an eligible rollover distribution as defined in IRC Section 402(c)(4), including eligible rollover distributions to a surviving spouse under IRC Section 402(c)(9) or a non-spousal beneficiary as defined by IRC Section 402(c)(11).

k. ELIGIBLE RETIREMENT PLAN means an eligible retirement plan as defined in IRC Section 402(c)(8)(B) as well as a Roth IRA as described in IRC Section 408A.

l. EMPLOYEE means any person, other than independent contractors, who receives any type of compensation from the EMPLOYER, for which services are rendered (including, but not limited to, elected or appointed officials, salaried employees and limited term employees).

m. EMPLOYER means the State of Wisconsin or any governmental unit, any of its agencies, departments, subdivisions, or instrumentalities for which services are performed by a PARTICIPANT.

n. INCLUDIBLE COMPENSATION means an EMPLOYEE'S actual wages in box 1 of Form W-2 for a year for services to the EMPLOYER, but subject to a maximum of $200,000 (or such higher maximum as may apply under IRC Section 401(a)(17)) and increased (up to the dollar maximum) by any compensation reduction election under IRC Sections 125, 132(f), 401(k), 403(b), or 457(b), including an election to defer COMPENSATION under this Plan.

o. IRC means the Internal Revenue Code of 1986 as now in effect or as hereafter amended.

p. NORMAL RETIREMENT AGE means the normal retirement date under WIS. STAT. § 40.02 (42) applicable to the PARTICIPANT based on the category of employment from which the PARTICIPANT retired.

q. PARTICIPANT means an individual who is currently deferring COMPENSATION, or who has previously deferred COMPENSATION under the PLAN by salary reduction and who has not received a distribution of his or her entire benefit under the PLAN. Only individuals who perform services for the EMPLOYER as an EMPLOYEE may defer COMPENSATION under the Plan.

r. PARTICIPATION AGREEMENT means the application of the PARTICIPANT to the ADMINISTRATOR to participate in the PLAN.

s. PLAN means the State of Wisconsin Public Employees Deferred Compensation Plan and Trust as set forth in this document and as it may be amended from time to time.

t. PLAN YEAR means the calendar year in which the PLAN becomes effective, and each succeeding calendar year of existence of this PLAN.

tm. PUBLIC SAFETY OFFICER is a term having the same meaning as provided by 42 USC 3796b(9)(A) for purposes of determining coverage for federal public safety officers' death benefits. A protective occupation participant as defined by WIS. STAT. § 40.02 (48) is not necessarily a PUBLIC SAFETY OFFICER and a person who is not a protective occupation participant may nevertheless qualify as a PUBLIC SAFETY OFFICER.

u. SEVERANCE FROM EMPLOYMENT means the date that the EMPLOYEE dies, retires, or otherwise has a severance from employment with the EMPLOYER, as determined by the ADMINSTRATOR (and taking into account guidance issued under the IRC).

v. SDO means the Self-Directed Brokerage Option offered for additional opportunities for investment of account balance as a transfer of assets from the CORE INVESTMENT SPECTRUM account.

w. TRUSTEES mean the Wisconsin Deferred Compensation Board.

x. UNFORESEEABLE EMERGENCY means a severe financial hardship to the PARTICIPANT or BENEFICIARY resulting from: an illness or accident of the PARTICIPANT or BENEFICIARY, the spouse of the PARTICIPANT or BENEFICIARY, or the PARTICIPANT or BENEFICIARY’s dependent, as that term is defined by 26 USC 152 but without regard to 26 USC 152 (b)(1) or (2) or (d)(1)(B); loss of PARTICIPANT’S or BENEFICIARY’S property due to casualty, including the need to rebuild a home following damage to a home not otherwise covered by homeowner's insurance, such as damage that is the result of a natural disaster; or, other similar or extraordinary and unforeseeable circumstances, arising as a result of events beyond the control of the PARTICIPANT or BENEFICIARY. Examples of circumstances which may constitute an unforeseeable emergency include: the imminent foreclosure of, or eviction from, the participant's or beneficiary's primary residence; the need to pay for medical expenses, including non-refundable deductibles, as well as for the cost of prescription drug medication; the need to pay for the funeral expenses of a PARTICIPANT’s or BENEFICIARY’s spouse or a dependent, as defined by 26 USC 152 without regard for 26 USC 152(b)(1) or (2) or (d)(1)(B). Examples that are not unforeseeable emergencies include: payment of college tuition; and, the purchase of a home, except as expressly provided above concerning the replacement of a home lost due to casualty.

ARTICLE II

Election to Defer Compensation

2.01. The PARTICIPANT may elect to participate by signing the PARTICIPATION AGREEMENT and consenting to a reduction of salary by the deferral amount specified in the PARTICIPATION AGREEMENT.

2.02. The PARTICIPANT may elect to defer accumulated sick pay, accumulated vacation pay, and back pay amounts into the PLAN, provided that a PARTICIPATION AGREEMENT is entered into before the beginning of the month in which the amounts would otherwise be paid or made available and the PARTICIPANT is an EMPLOYEE of EMPLOYER in that month. In the case of accumulated sick pay, vacation pay, or back pay that is payable before the PARTICIPANT has a SEVERANCE FROM EMPLOYMENT, the requirements of the preceding sentence are deemed satisfied if the PARTICIPATION AGREEMENT is entered into before the amount is currently available (as defined in regulations under IRC Section 401(k)).

2.03. The EMPLOYER shall commence the salary reduction no earlier than the first pay period commencing during the first month that begins after the date on which the PARTICIPATION AGREEMENT is filed with the ADMINISTRATOR.

a. The PARTICIPANT may revoke his election to participate and may amend the amount of DEFERRED COMPENSATION by filing with the ADMINISTRATOR a revocation or amendment according to the procedural manner established by the ADMINISTRATOR. In addition, the PARTICIPANT may amend his investment specification in the procedural manner established by the ADMINISTRATOR. Any amendment that increases the amount of DEFERRED COMPENSATION for any pay period shall be effective only if an agreement providing for such additional amount is entered into before the beginning of the month in which the pay period commences. Any revocation or amendment of the amount of DEFERRED COMPENSATION shall be effective prospectively only. Any change in the PARTICIPANT'S investment specification by the PARTICIPANT, whether it applies to amounts previously deferred or amounts to be deferred in the future, shall be effective prospectively only, subject to the underlying restrictions and limitations of the PLAN, the ADMINISTRATOR, the investment option to which, or from which, a change is made, or as may be otherwise required by law. Any change shall be effective on a date consistent with these rules and specifications. Such specifications are available from the ADMINISTRATOR upon request.

b. After the death of the PARTICIPANT, his BENEFICIARY shall have the right to amend the PARTICIPANT'S, or the BENEFICIARY'S own, investment specification by filing with the ADMINISTRATOR an amendment according to the procedural manner established by the ADMINISTRATOR. Any change in an investment specification by a BENEFICIARY shall be subject to the underlying restrictions and limitations of the PLAN, the ADMINISTRATOR, the investment option to which, or from which, a change is made, or as may be otherwise required by law. Any change shall be effective on a date consistent with these rules and specifications. Such specifications are available from the ADMINISTRATOR upon request.

2.04. Except as provided in Sections 2.05 and 2.06, the maximum amount of DEFERRED COMPENSATION under the PLAN for the PARTICIPANT'S taxable year shall not exceed the lesser of (a) the maximum dollar amount under IRC Section 457 (b)(2)(A) as adjusted for cost of living adjustments described in IRC Section 457(e)(15); or (b) 100% of the PARTICIPANT'S INCLUDIBLE COMPENSATION as provided in IRC Section 457(b)(2)(B).

2.05. The maximum deferral amount described in Section 2.04 under the PLAN for the PARTICIPANT'S taxable year may be increased for a PARTICIPANT who has attained age 50 or over by the end of the taxable year pursuant to IRC Section 414(v)(2)(B) and any applicable treasury regulations. This section shall not be applicable for any taxable year for which a higher limitation under Section 2.06 applies.

2.06. If the applicable year is one of a PARTICIPANT'S last 3 calendar years ending before the year in which the PARTICIPANT attains NORMAL RETIREMENT AGE and the amount deferred under this Section exceeds the amount computed under Sections 2.04 and 2.05, then the maximum deferral under this Section shall be the lesser of:

a. An amount equal to 2 times the maximum deferral amount described in Section 2.04 for such year; or

b. The sum of:

(i) An amount equal to (A) the aggregate of maximum deferral amount for the current year plus each prior calendar year beginning after December 31, 2001 during which the PARTICIPANT was an EMPLOYEE under the PLAN, minus (B) the aggregate amount of COMPENSATION that the PARTICIPANT deferred under the PLAN during such years; plus

(ii) An amount equal to (A) the aggregate limit referred to in IRC Section 457(b)(2) for each prior calendar year beginning after December 31, 1978 and before January 1, 2002 during which the PARTICIPANT was an EMPLOYEE (determined without regard to this Section and Section 2.05), minus (B) the aggregate contributions to Pre-2002 Coordination.

However, in no event can the deferred amount be more than the PARTICIPANT'S COMPENSATION for the year. If the PARTICIPANT is or has been a PARTICIPANT in one or more eligible plans within the meaning of IRC Section 457(b), then this PLAN and all such other plans shall be considered as one plan for purposes of applying the foregoing limitations. For this purpose, the ADMINISTRATOR shall take into account any other such eligible plan for which the ADMINISTRATOR receives from the PARTICIPANT sufficient information concerning his or her participation in such other plan. In applying the foregoing limitations, a year shall be taken into account only if (i) the PARTICIPANT was eligible to participate in the PLAN during all or a portion of the year and (ii) COMPENSATION deferred, if any, under the PLAN during the year was subject to the maximum annual limit described in Section 2.04 or any other plan ceiling required by IRC Section 457(b).

The term "contributions to Pre-2002 Coordination Plans" means an employer contribution, salary reduction or elective contribution under any other eligible IRC Section 457(b) plan, or a salary reduction or elective contribution under an IRC Section 401(k) qualified cash or deferred arrangement, IRC Section 402(h)(1)(B) simplified employee pension (SARSEP), IRC Section 403(b) annuity contract, and IRC Section 408(p) simple retirement account, or under any plan for which a deduction is allowed because of a contribution to an organization described in IRC Section 501(c)(18), including plans, arrangements or accounts maintained by the EMPLOYER or any employer for whom the PARTICIPANT performed services. However, the contributions for any calendar year are only taken into account for purposes of Section 2.06(b)(2)(B) to the extent that the total of such contributions does not exceed the aggregate limited referred to in IRC Section 457(b)(2) for that year.

2.07. If the DEFERRED COMPENSATION on behalf of a PARTICIPANT for any calendar year exceeds the limitations described in this Article, or the DEFERRED COMPENSATION on behalf of a PARTICIPANT for any calendar year exceeds the limitations described in this Article when combined with other amounts deferred by the PARTICIPANT under another eligible deferred compensation plan under IRC Section 457(b) for which the PARTICIPANT provides information that is accepted by the ADMINISTRATOR, then the DEFERRED COMPENSATION, to the extent in excess of the applicable limitation (adjusted for any income or loss in value, if any allocable thereto), shall be distributed to the PARTICIPANT.

2.08. An EMPLOYEE whose employment is interrupted by qualified military service under IRC Section 414(u) or who is on a leave of absence for qualified military service under IRC Section 414(u) may elect to make additional deferrals upon resumption of employment with the EMPLOYER equal to the maximum deferral limit that the EMPLOYEE could have elected during that period if the EMPLOYEE’S employment with the EMPLOYER had continued (at the same level of COMPENSATION) without the interruption or leave, reduced by the deferrals, if any, actually made for the EMPLOYEE during the period of the interruption or leave. This right applies for five years following the resumption of employment (or, if sooner, for a period equal to three times the period of interruption or leave).

ARTICLE III

EMPLOYER Contributions

3.01. If the EMPLOYER agrees to make, or any collective bargaining agreement requires to be made, any contributions to the PLAN for PARTICIPANTS, the EMPLOYER may contribute to the PLAN for PARTICIPANTS. If the EMPLOYER makes any contributions, they shall become PARTICIPANT contributions under the PLAN at the time such contributions are made. For purposes of administering Sections 2.04, 2.05 and 2.06 of this PLAN, EMPLOYER contributions shall apply toward the maximum deferral limits in the PLAN YEAR that such contributions are made.

ARTICLE IV

Plan Transfers and Eligible Rollover Distributions

4.01. If a PARTICIPANT terminates employment with the EMPLOYER and accepts employment with another employer which maintains an eligible deferred compensation plan (as defined in IRC Section 457) and the new employer’s plan accepts transfers, the PARTICIPANT may transfer his account balance from the PLAN to the plan maintained by the new employer. The PARTICIPANT'S election to transfer shall be filed with the ADMINISTRATOR before the date for any benefit distributions.

4.02. If the EMPLOYER offers an eligible deferred compensation plan (as defined in IRC Section 457) other than the PLAN, and such other plan accepts transfers, the PARTICIPANT may transfer the account balance from the PLAN to the other plan. The PARTICIPANT'S election to transfer shall be filed with the ADMINISTRATOR.

4.03. Transfer from other eligible deferred compensation plans (as defined in IRC Section 457) to the PLAN will be accepted at the PARTICIPANT'S request if such transfers are in cash or in non-annuity products currently offered under the PLAN. Any such transferred amount shall not be subject to the limitations of Section 2.04, provided, however, that the actual amount deferred during the calendar year under both plans shall be taken into account in calculating the deferral limitation for that year. For purposes of determining the limitation set forth in Section 2.06, years of eligibility to participate in the prior plan and deferrals under that plan shall be considered.

4.04. The PLAN may receive an ELIGIBLE ROLLOVER DISTRIBUTION on behalf of a PARTICIPANT from an ELIGIBLE RETIREMENT PLAN provided (a) the ELIGIBLE ROLLOVER DISTRIBUTION is made entirely in the form of U.S. dollars, and (b) the PARTICIPANT demonstrates to the ADMINISTRATOR'S satisfaction that the amount is a qualifying eligible rollover distribution under IRC Sections 402(c)(4), 403(a)(4) or 408(d)(3).

4.05. Subject to Section 10.01, and the rules of 26 USC 402(c)(2) through (7), (9) and (11) and (f), a PARTICIPANT or BENEFICIARY may elect at the time and in the manner prescribed by the ADMINISTRATOR, to have any portion of an ELIGIBLE ROLLOVER DISTRIBUTION paid directly to an ELIGIBLE RETIREMENT PLAN specified by the PARTICIPANT or BENEFICIARY, provided the PARTICIPANT or BENEFICIARY presents to the satisfaction of the ADMINISTRATOR a letter of acceptance or other written acknowledgment from the accepting plan that it is an ELIGIBLE RETIREMENT PLAN qualified to accept the ELIGIBLE ROLLOVER DISTRIBUTION.

4.06. A PARTICIPANT may use all or a portion of an account balance as a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in IRC Section 414(d)), including the Wisconsin Retirement System ("WRS") to purchase permissive service credit or for the repayment of service credits. Such plan must permit such a transfer, and the PARTICIPANT must demonstrate to the ADMINISTRATOR'S satisfaction that the transfer is to an eligible defined benefit governmental plan and the transfer is permissible for the purchase of service credit (as defined in Code Section 415(n)(3)(A)) or for the repayment of service credits permissible by IRC Section 415(k)(3).

ARTICLE V

Beneficiaries

5.01. The ACCOUNT HOLDER under this PLAN, shall have the right to file, with the ADMINISTRATOR, a written BENEFICIARY designation form designating the person or persons who shall receive the benefits payable under this PLAN in the event of the ACCOUNT HOLDER's death. An ACCOUNT HOLDER who has filed a written BENEFICIARY designation form, accepted by the ADMINISTRATOR, may change his or her BENEFICIARY designations only by filing a new BENEFICIARY designation form. This means, for example, that a BENEFICIARY designation naming a spouse is not affected by a subsequent divorce. The form for this purpose shall be provided by the ADMINISTRATOR and will have no effect unless it is signed and filed with the ADMINISTRATOR prior to the ACCOUNT HOLDER's death, and accepted by the ADMINISTRATOR. In the absence of a written designation of BENEFICIARY, or if all designated BENEFICIARIES ~~so designated~~ who survive the decedent die before the ACCOUNT HOLDER, the ACCOUNT HOLDER's BENEFICIARIES shall be determined pursuant to Wisconsin Statutes 40.02(8)(a)2., as in effect on the date of death, with all relationships determined relative to the deceased ACCOUNT HOLDER. The shares payable to the issue of a person shall be determined per stirpes. At present, the statute provides the following sequence of potential beneficiaries:

Group I	Surviving Spouse;
Group II	Children, ~~if at least one child survives,~~ of the deceased ACCOUNT HOLDER in ~~which event~~ equal shares, with the share of any deceased child ~~shall be~~ payable to the ~~surviving spouse~~issue of the child~~, or to the surviving children if there is no spouse, or otherwise~~or, if there is no surviving issue of a deceased child, to the other eligible children in this group or if deceased, their issue;
Group III	~~Grandchildren;~~
~~Group IV~~	Parents, in equal share if both survive;
Group ~~V~~IV	~~Siblings~~Brother and sister in equal shares and the issue of any deceased brother or sister;
Group V~~I~~	The estate of the deceased ACCOUNT HOLDER.

The current statute provides that payments shall be made equally to each surviving member of a group, except as otherwise specifically indicated. No members of any succeeding group shall have the right to receive any payments if there is a surviving member of a preceding group.

Pursuant to Wisconsin Statutes 40.02(8)(a)2, a BENEFICIARY does not include a person who dies before filing with the ADMINISTRATOR either a beneficiary designation applicable to that death benefit or an application or an application for any death benefit payable to the person except as otherwise provided under Group II above. If a person dies after filing a beneficiary application but before the date on which the benefit check, share draft or other draft is issued or funds are otherwise transferred, any benefit payable shall be paid in accord with the written designation of beneficiary, if any, filed with the ADMINISTRATOR in connection with the application or, if none, in accord with the last designation previously filed by the person, or otherwise to the person's estate.

A BENEFICIARY may waive all or a portion of the right to or the payment of any benefit payable or to become payable under the PLAN to the BENEFICIARY as provided in WIS. STAT. § 40.08 (3). With respect only to the portion of the right to, or payment of, any benefit waived, any beneficiary designation or application filed by the BENEFICIARY shall be void and the BENEFICIARY shall be treated as having predeceased the ACOUNT HOLDER. Once in effect, a waiver is absolute, without right of reconsideration or recovery.

No person may be the BENFICIARY of an ACCOUNT HOLDER he or she has unlawfully and intentionally killed and shall instead be treated as if he or she had previously waived all rights to payment of benefits under the PLAN.

The above provisions reflect applicable Wisconsin State law, in existence as of the Effective Date. Any amendment of State law after the Effective Date, which conflicts with any of these provisions will control, rather than the above provisions, to the extent of such conflict.

Each ACCOUNT HOLDER accepts and acknowledges that he or she had the burden of executing and filing with the ADMINISTRATOR, a proper BENEFICIARY designation form.

ARTICLE VI

Accounts and Reports

6.01. The EMPLOYER shall remit DEFERRED COMPENSATION amounts to the ADMINISTRATOR or his designated agent. The ADMINISTRATOR shall have no duty to determine whether the funds paid to him by the EMPLOYER are correct, nor to collect or enforce such payment. The ADMINISTRATOR shall maintain a DEFERRED COMPENSATION ACCOUNT with respect to each PARTICIPANT'S DEFERRED COMPENSATION amounts. A written report of the status of the PARTICIPANT'S DEFERRED COMPENSATION ACCOUNT shall be furnished quarterly and within twenty (20) days after the end of each calendar quarter to the PARTICIPANT or BENEFICIARY.

6.02. The PARTICIPANT or an ELIGIBLE RETIREMENT PLAN shall remit ELIGIBLE ROLLOVER DISTRIBUTION amounts to the ADMINISTRATOR or his designated agent. The ADMINISTRATOR shall maintain an ELIGIBLE ROLLOVER ACCOUNT with respect to each PARTICIPANT'S ELIGIBLE DISTRIBUTION amounts. A written report of the status of the PARTICIPANT'S ELIGIBLE ROLLOVER ACCOUNT shall be furnished quarterly and within twenty (20) days after the end of each calendar quarter to the PARTICIPANT or BENEFICIARY.

6.03. The statement of accounts furnished by the ADMINISTRATOR to the PARTICIPANT or BENEFICIARY no later than twenty (20) days from the end of the quarter shall reflect the current balance and all activity in each account during the quarter. Amounts corresponding to the CORE INVESTMENT SPECRTUM options will be itemized. Any balance held in the SDO will be shown as the aggregate balance of all investments in the SDO with detail that includes the total of all transfers into and out of the SDO option for the reporting period.

6.04. Within ninety (90) days after the end of the calendar year, the ADMINISTRATOR shall file with the EMPLOYER a balance sheet for the PLAN, showing the total assets at the beginning and end of the calendar year, a schedule of all receipts and disbursements, and a report for all material transactions of the PLAN during the preceding year.

6.05. The ADMINISTRATOR'S records shall be open to inspection on any official State business day between 8:00 a.m. and 4:30 p.m. Central Time, by the EMPLOYER or any PARTICIPANT, or their designated representatives.

6.06. Within thirty (30) days from the end of each quarter, the ADMINISTRATOR shall furnish to the EMPLOYER a quarterly statement that identifies the aggregate balance of all employee accounts in the PLAN. Amounts corresponding to the CORE INVESTMENT SPECTRUM options will be itemized. Any balances held in the SDO will be shown as the aggregate balance of all investments in the SDO with detail that includes the total of all transfers into and out of the SDO option for the reporting period.

ARTICLE VII

Investments of Accounts

7.01. DEFERRED COMPENSATION and ELIGIBLE ROLLOVER DISTRIBUTION amounts shall be delivered to the ADMINISTRATOR or his designated agent for investment as designated by the PARTICIPANT or BENEFICIARY. Such amounts shall be treated as contributed to the PLAN within a period that is not longer than reasonable for the proper administration if the contribution is made within 15 business days following the end of the month in which the amounts would otherwise have been paid to the PARTICIPANT.

7.02. The ADMINISTRATOR, as agent for the TRUSTEES, shall use the PARTICIPANT'S or BENEFICIARY'S investment specifications to determine the value of any DEFERRED COMPENSATION ACCOUNT and/or ELIGIBLE ROLLOVER ACCOUNT maintained with respect to the PARTICIPANT, and shall invest the amounts in each account according to such specifications.

7.03. All interest, dividends, charges for premiums and administrative expenses, and changes in value due to market fluctuations applicable to each PARTICIPANT'S account shall be credited or debited to the account as they occur. Dividends and capital gains distributions shall be automatically reinvested as applicable.

7.04. All assets of the PLAN, including all DEFERRED COMPENSATION and ELIGIBLE ROLLOVER DISTRIBUTION amounts, property and rights purchased with such amounts, and all income attributable to such amounts, property or rights shall be held in Trust, in accordance with the provisions of Section 9.06, by the TRUSTEES (until made available to the PARTICIPANT or BENEFICIARY) for the exclusive benefit of PARTICIPANTS and their BENEFICIARIES. Contracts and other evidence of the investments of all assets under this PLAN shall be registered in the name of the TRUSTEES, who shall be the owners thereof.

7.05. If any contribution (or any portion of a contribution) is made to the PLAN by a good faith mistake of fact, then within one year after the payment of the contribution, and upon receipt in good order of a proper request approved by the ADMINISTRATOR, the amount of the mistaken contribution (adjusted for any income or loss in value, if any, allocable thereto) shall be returned directly to the PARTICIPANT or, to the extent required or permitted by the ADMINISTRATOR, to the EMPLOYER.

ARTICLE VIII

Special Rules Regarding the Self-Directed Option (SDO)

8.01. In addition to the CORE INVESTMENT SPECTRUM, the PLAN also offers an SDO for additional investment choices. Investments can only be made in the SDO as a transfer of assets from the account balance in the CORE INVESTMENT SPECTRUM.

8.02. The PARTICIPANT or BENEFICIARY acknowledge that the TRUSTEES, EMPLOYER, PLAN or its ADMINISTRATOR have no express or implied responsibility for the evaluation, selection, and/or monitoring of the continued offering of additional investment options in the SDO by the PLAN, including any duty to supervise or monitor the PARTICIPANT or BENEFICIARY'S investment experience in the SDO. The PARTICIPANT or BENEFICIARY acknowledge that it is their sole responsibility to determine if the SDO investment options selected are appropriate for long-term retirement savings and the PARTICIPANT or BENEFICIARY hereby agree to remain liable for any investment losses related thereto. It is understood that the TRUSTEES, EMPLOYER, PLAN or its ADMINISTRATOR are held harmless from any liability for investment losses or lost investment opportunities pertaining to the PARTICIPANT'S or BENEFICIARY'S investment in SDO options.

8.03. The PARTICIPANT or BENEFICIARY acknowledge that any PARTICIPANT-related disputes or controversies involving SDO accounts are solely the responsibility of the PARTICIPANT or BENEFICIARY and hereby agree to settle such disputes according to the terms and conditions of the LPOA form referenced in Section 8.05 herein. It is understood that the TRUSTEES, EMPLOYER, PLAN or its ADMINISTRATOR have no responsibility or liability to any PARTICIPANT or BENEFICIARY for any act, error, omission, controversy or dispute involving SDO accounts being offered by the PLAN as additional investment choices.

8.04. A minimum balance of $1,000 in the CORE INVESTMENT SPECTRUM is required for a PARTICIPANT or BENEFICIARY to be eligible to establish an SDO account. A minimum amount of $500 must be maintained in the CORE INVESTMENT SPECTRUM account. If at anytime this account balance falls below $250 the ADMINISTRATOR will provide notification to the PARTICIPANT or BENEFICIARY and may subsequently initiate an automatic transfer from the SDO to restore the CORE INVESTMENT SPECTRUM account balance to the $500 minimum required balance. This liquidation will be made based on the steps identified in Section 10.06(3).

8.05. Once eligible, a PARTICIPANT or BENEFICIARY may elect to participate in the SDO offered by the PLAN by signing a Limited Power of Attorney form (LPOA) to establish a separate account with the SDO provider. By signing this form and submitting it to the ADMINISTRATOR, the PARTICIPANT or BENEFICIARY acknowledges that the options available through the SDO are not evaluated or monitored by the PLAN. The LPOA form filed with the ADMINISTRATOR will be processed on the same business day as received if receipt is by 3:00 p.m. Central Time. All LPOA forms received after 3:00 p.m. Central Time will be processed on the next business day.

8.06. After establishment of the SDO account, the PARTICIPANT or BENEFICARY may initiate a transfer of assets from the CORE INVESTMENT SPECTRUM into the SDO. The minimum initial transfer amount to the SDO is $500 with no minimum amount required for any subsequent transfers.

8.07. Amounts transferred from the CORE INVESTMENT SPECTRUM to the SDO will be initially deposited into the SDO money market account. The PARTICIPANT or BENEFICIARY must initiate transfers from the money market fund to other SDO options by contacting the SDO provider. Transfer activity within the SDO may not take place until the initial transfer to the SDO has been processed by the ADMINISTRATOR and recorded into the SDO account. Transfers to the SDO require one (1) business day to process and the transferred assets will be out of the market during this processing period.

8.08. Amounts transferred from the SDO back to the CORE INVESTMENT SPECTRUM can only be made from the SDO money market account. Prior to initiating a transfer back into the core options, the PARTICIPANT or BENEFICIARY must first liquidate sufficient SDO investments and deposit this amount into the SDO money market fund. Once dollars are available in the SDO money market fund, transfers from the SDO back to the CORE INVESTMENT SPECTRUM require two (2) business days to process and the transferred assets will be out of the market for one business day of this processing period.

8.09. Administrative fees assessed by the PLAN will be based on the PARTICIPANT'S or BENEFICIARY'S entire account balance in the PLAN and include amounts invested in the SDO. The fee will be deducted entirely from the balance in the CORE INVESTMENT SPECTRUM account.

8.10. The PLAN may assess an additional fee to PARTICIPANTS and BENEFICIARIES who have established or maintained an SDO account for administration of this option.

8.11. Notwithstanding any other provision of this Article, the ADMINISTRATOR may compel a PARTICIPANT to liquidate SDO investments, deposit the realized amount into the SDO money market fund and transfer a sum sufficient to enable implementation of a DOMESTIC RELATIONS ORDER into the CORE INVESTMENT SPECTRUM money market account, as provided in Article XI, §11.025 j (i) (D) and (ii) (B). In the event the PARTICIPANT fails to act within 15 days after being sent a request to do so, the PLAN shall liquidate all SDO investments, deposit the realized amount into the SDO money market fund and transfer the entire amount to the CORE INVESTMENT SPECTRUM money market account.

ARTICLE IX

Trust Provisions

9.01. TRUSTEES. The TRUSTEES shall be, at any time, the duly appointed and authorized members of the Wisconsin Deferred Compensation Board ("BOARD"). Resignation, removal, and appointment of TRUSTEES shall be conducted and governed by provisions of Wisconsin law applicable to resignation, renewal and appointment of such Board members. Compensation and expense reimbursement of the TRUSTEES shall also be in accordance with compensation and expenses of Board members.

9.02. The TRUSTEES shall adopt various investment options to establish the CORE INVESTMENT SPECTRUM for the investment of deferred amounts by PARTICIPANTS or their BENEFICIARIES, and shall monitor and evaluate the appropriateness of continued offerings by the PLAN. The TRUSTEES may de-select options that are determined to be no longer appropriate for offering. In adopting or de-selecting such options, the TRUSTEES shall be governed by the applicable Wisconsin Statutes and Wisconsin Administrative Code. Following such adoption or de-selection of investment options by the TRUSTEES, PARTICIPANTS or their BENEFICIARIES shall be entitled to select from among the available options for investment of their accounts. In the event options are de-selected, the TRUSTEES may require PARTICIPANTS or their BENEFICIARIES to move balances to an alternative option offered by the PLAN. If PARTICIPANTS or their BENEFICIARIES fail to act in response to the written notice, the TRUSTEES shall transfer monies out of the de-selected option to an alternative option chosen by the TRUSTEES. By exercising such right to select investment options or by failing to respond to notice to transfer from a de-selected option where the TRUSTEES move the monies on behalf of such PARTICIPANTS or their

BENEFICIARIES, PARTICIPANTS and their BENEFICIARIES agree that none of the PLAN fiduciaries will be liable for any investment losses, or lost investment opportunity in situations were monies are moved by TRUSTEES, that are experienced by a PARTICIPANT or BENEFICIARY in the investment option(s) they selected or are selected for them if they fail to take appropriate action in regard to a de-selected fund.

9.03. Designation of Fiduciaries. The EMPLOYER, ADMINISTRATOR, and TRUSTEES and the persons they designate to carry out or help carry out their duties or responsibilities are fiduciaries under the PLAN. Each fiduciary has only those duties or responsibilities specifically assigned to him under the PLAN or Trust or delegated to him by another fiduciary. Each fiduciary may assume that any direction, information or action of another fiduciary is proper and need not inquire into the propriety of any such action, direction, or information. Except as provided by law, no fiduciary will be responsible for the malfeasance, misfeasance or nonfeasance of any other fiduciary.

9.04. Fiduciary Standards.

a. The TRUSTEES and all other fiduciaries shall discharge their duties with respect to this Trust solely in the interest of the PARTICIPANTS and BENEFICIARIES of the PLAN. Such duties shall be discharged for the exclusive purpose of providing benefits to the PARTICIPANTS and BENEFICIARIES and defraying expenses of the PLAN.

b. All fiduciaries shall discharge their duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and as defined by Wisconsin law.

9.05. TRUSTEES' Powers and Duties. The TRUSTEES' powers and duties shall be those defined for the Board members under applicable Wisconsin State Statutes and the Administrative Code.

9.06. This Trust is intended to be exempt from taxation under Section 501(a) of the Internal Revenue Code ("Code") and is intended to comply with Section 457(g) of such Code. The TRUSTEES shall be empowered to submit or designate appropriate agents to submit this PLAN and TRUST to the Internal Revenue Service for a determination of the eligibility of the PLAN under Section 457, and the exempt status of the Trust under Section 501(a), if the TRUSTEES conclude that such a determination is desirable.

ARTICLE X

Benefits

10.01. Commencement of Distributions. Except for Hardship Withdrawals under Section 10.03 and De Minimus withdrawals under Section 10.04, distributions from the PLAN may not be made to a PARTICIPANT earlier than (a) the calendar year in which the PARTICIPANT attains age 70 ½; or (b) the calendar year in which there is a SEVERANCE FROM EMPLOYMENT by the PARTICIPANT. All irrevocable elections of a Benefit Commencement Date made by PARTICIPANTS or BENEFICIARIES prior to January 1, 2002 shall become revocable as of January 1, 2002. If a PARTICIPANT has an ELIGIBLE ROLLOVER ACCOUNT, the PARTICIPANT may at any time elect to receive a distribution of all or any portion of the amount held in the ELIGIBLE ROLLOVER ACCOUNT subject to any procedures established by the ADMINISTRATOR.

10.02. All distributions under the PLAN must comply with IRC Section 401(a)(9) and the regulations issued thereunder. The provisions of this Section will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year. The term “designated beneficiary” as used in this Section shall have the meaning set forth in Treasury Regulation Section 1.401(a)(9)-4.

a. Requirements of Treasury Regulations Incorporated. All distributions required under this Section will be determined and made in accordance with the Treasury regulations under IRC Section 401(a)(9).

b. Required Beginning Date. The PARTICIPANT’S entire interest will be distributed, or begin to be distributed, to the PARTICIPANT no later than the PARTICIPANT’S required beginning date.

c. Death of PARTICIPANT Before Distributions Begin. If the PARTICIPANT dies before distributions begin, the PARTICIPANT’S entire interest will be distributed, or begin to be distributed, no later than as follows:

(i) If the PARTICIPANT’S surviving spouse is the PARTICIPANT’S sole designated beneficiary, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the PARTICIPANT died, or by December 31 of the calendar year in which the PARTICIPANT would have attained age 70 1/2, if later.

(ii) If the PARTICIPANT’S surviving spouse is not the PARTICIPANT’S sole designated BENEFICIARY, distributions to the designated BENEFICIARY will begin by December 31 of the calendar year immediately following the calendar year in which the PARTICIPANT died.

(iii) If there is no designated BENEFICIARY as of September 30 of the year following the year of the PARTICIPANT’S death, the PARTICIPANT’S entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the PARTICIPANT’S death.

(iv) If the PARTICIPANT'S surviving spouse is the PARTICIPANT'S sole designated BENEFICIARY and the surviving spouse dies after the PARTICIPANT but before distributions to the surviving spouse begin, this Section will apply as if the surviving spouse were the PARTICIPANT.

d. Required Minimum Distributions During PARTICIPANT'S Lifetime. During the PARTICIPANT'S lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(i) the quotient obtained by dividing the PARTICIPANT'S account balance by the distribution period in the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the PARTICIPANT'S age as of the PARTICIPANT'S birthday in the distribution calendar year; or

(ii) if the PARTICIPANT'S sole designated BENEFICIARY for the distribution calendar year is the PARTICIPANT'S spouse, the quotient obtained by dividing the PARTICIPANT'S account balance by the number in the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the PARTICIPANT'S and spouse's attained ages as of the PARTICIPANT'S and spouse's birthdays in the distribution calendar year.

e. Death On or After Date Distributions Begin and PARTICIPANT Survived by Designated BENEFICIARY.

(i) If the PARTICIPANT dies on or after the date distributions begin and there is a designated BENEFICIARY, the minimum amount that will be distributed for each distribution calendar year after the year of the PARTICIPANT'S death is the quotient obtained by dividing the PARTICIPANT'S account balance by the longer of the remaining life expectancy of the PARTICIPANT or the remaining life expectancy of the PARTICIPANT'S designated BENEFICIARY, determined as follows: The PARTICIPANT'S remaining life expectancy is calculated using the age of the PARTICIPANT in the year of death, reduced by one for each subsequent year.

(ii) If the PARTICIPANT'S surviving spouse is the PARTICIPANT'S sole designated BENEFICIARY, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the PARTICIPANT'S death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(iii) If the PARTICIPANT’S surviving spouse is not the PARTICIPANT’S sole designated BENEFICIARY, the designated BENEFICIARY's remaining life expectancy is calculated using the age of the BENEFICIARY in the year following the year of the PARTICIPANT’S death, reduced by one for each subsequent year.

(iv) No Designated BENEFICIARY. If the PARTICIPANT dies on or after the date distributions begin and there is no designated BENEFICIARY as of September 30 of the year after the year of the PARTICIPANT’S death, the minimum amount that will be distributed for each distribution calendar year after the year of the PARTICIPANT’S death is the quotient obtained by dividing the PARTICIPANT'S account balance by the PARTICIPANT’S remaining life expectancy calculated using the age of the PARTICIPANT in the year of death, reduced by one for each subsequent year.

f. Death Before Date Distributions Begin and PARTICIPANT Survived by Designated BENEFICIARY. If the PARTICIPANT dies before the date distributions begin and there is a designated BENEFICIARY, the minimum amount that will be distributed for each distribution calendar year after the year of the PARTICIPANT’S death is the quotient obtained by dividing the PARTICIPANT’S account balance by the remaining life expectancy of the PARTICIPANT’S designated BENEFICIARY.

(i) No Designated BENEFICIARY. If the PARTICIPANT dies before the date distributions begin and there is no designated BENEFICIARY as of September 30 of the year following the year of the PARTICIPANT’S death, distribution of the PARTICIPANT’S entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the PARTICIPANT’S death.

g. Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the PARTICIPANT dies before the date distributions begin, the PARTICIPANT’S surviving spouse is the PARTICIPANT’S sole designated BENEFICIARY, and the surviving spouse dies before distributions are required to begin, this Section will apply as if the surviving spouse were the PARTICIPANT.

If a PARTICIPANT or BENEFICIARY fails to elect a payment option that meets the requirements of IRC Section 401(a)(9), the ADMINISTRATOR will initiate such a distribution. A PARTICIPANT or BENEFICIARY who has chosen a payment option, other than an annuity option, shall have the ability to change his or her payment option subject to any administrative restrictions and charges established by the TRUSTEES.

10.03. **Hardship Withdrawal**: Notwithstanding any other provisions herein, in the event of an UNFORESEEABLE EMERGENCY, a PARTICIPANT or BENEFICIARY may request that benefits be paid to him at any time. Such request shall be filed in accordance with procedures established pursuant to this PLAN. If the application for payment is approved by the TRUSTEE or its designee, payments shall be effected within ten (10) working days of receipt of such approval. The decision whether a PARTICIPANT or BENEFICIARY is faced with an UNFORSEEABLE EMERGENCY will be based upon the relevant facts and circumstances of each case and in accordance with the terms of the PLAN and 26 CFR §1.457-6(c)(2). Benefits to be paid shall be limited strictly to the amount necessary to meet the UNFORESEEABLE EMERGENCY constituting financial hardship, and may include any amounts necessary to pay for any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution, to the extent such UNFORESEEABLE EMERGENCY is not relieved:

a. by reimbursement or compensation from insurance or otherwise;

b. by liquidation of the PARTICIPANT'S assets, to the extent the liquidation of such assets would not itself cause financial hardship; or

c. by cessation of deferrals under the PLAN.

A PARTICIPANT'S deferrals will automatically be terminated upon approval of a hardship application and the PARTICIPANT cannot re-enroll in the PLAN for 180 days from the date of approval of the hardship withdrawal. The ADMINISTRATOR may require such medical, financial or other evidence deemed appropriate for a determination to be made concerning the PARTICIPANT'S or BENEFICIARY's withdrawal request.

Foreseeable personal expenditures normally budgetable, such as a down payment on a home, the purchase of an automobile, college or other educational expenses, etc., may not necessarily constitute an UNFORESEEABLE EMERGENCY. The decision of the TRUSTEE or its designee concerning the payment of benefits under this Section shall be appealable under Wisconsin Statutes Sections 40.80(2g) and 40.08 (12).

10.04. **De Minimus Distributions**: Notwithstanding any other provision of the PLAN, if the PARTICIPANT has not deferred any amount for a two (2) year period, a PARTICIPANT may elect to receive, or the PLAN may elect to distribute without the PARTICIPANT'S consent, the entire account in a lump sum distribution if the value of his DEFERRED COMPENSATION ACCOUNT does not exceed the maximum amount allowed under IRC Section 411(a)(11)(A) for this De Minimus distribution. The amount to be distributed may also include amounts from any ELIGIBLE ROLLOVER ACCOUNT as well as the balance in the DEFERRED COMPENSATION ACCOUNT. No subsequent distribution under this provision to such PARTICIPANT may occur, once distribution occurs. Such distribution shall be made within three (3) days of the receipt, by the ADMINISTRATOR of an appropriate election.

10.05. **Special Rules Regarding Distributions when an SDO Account Exists**: Notwithstanding any other provision of the PLAN, if a PARTICIPANT or BENEFICIARY elects a distribution from the PLAN while maintaining a balance in an SDO account, the following requirements must be met:

a. For distributions of a lump sum, partial lump sum or amount paid under the UNFORESEEABLE EMERGENCY provision: The PARTICIPANT or BENEFICIARY is responsible for liquidating assets in the SDO account and transferring the balance back to the CORE INVESTMENT SPECTRUM account. The ADMINISTRATOR will not process the withdrawal request until a sufficient balance exists in the CORE INVESTMENT SPECTRUM account. For a total lump sum distribution, the SDO account balance must be completely liquidated and transferred back into the CORE INVESTMENT SPECTRUM before the ADMINISTRATOR will process the payment.

b. For periodic distributions from the account: The PARTICIPANT or BENEFICIARY must maintain a sufficient account balance in the CORE INVESTMENT SPECTRUM to cover the periodic payments for a minimum one (1) year period. The PARTICIPANT or BENEFICIARY will be instructed to replenish the balance in the CORE INVESTMENT SPECTRUM on an annual basis to ensure the next year's payments are available. If the PARTICIPANT or BENEFICIARY fails to transfer sufficient assets into the CORE INVESTMENT SPECTRM to meet this requirement, the ADMINISTRATOR will notify the PARTICIPANT or BENEFICIARY that one of the following actions will occur:

(i) If occurrence is prior to the required minimum distribution date, payments will cease and the PARTICIPANT or BENEFICIARY will be required to reapply to continue the distribution.

(ii) If occurrence is after the required minimum distribution date, an automatic distribution will be initiated by the ADMINISTRATOR as specified in paragraph (c).

c. If a PARTICIPANT or BENEFICIARY fails to timely initiate transfer from the SDO account to execute continuing distributions as required in (ii) above, and upon receiving notification from the ADMINISTRATOR, the ADMINISTRATOR is hereby authorized by the PLAN to liquidate assets in the SDO account in accordance with paragraph (2) herein in the following sequence:

(i) Assets will first be liquidated from the SDO money market fund (sweep), then from other money market funds that do not assess a transaction fee, redeeming shares first from those fund(s) with the highest balance;

(ii) Assets will then be liquidated from the SDO account in mutual funds that have been held for more than ninety (90) days and do not assess a transaction fee, redeeming shares first from those fund(s) with the highest balance;

(iii) Assets will then be liquidated from the SDO account in mutual funds held for less than ninety (90) days and do not assess a transaction fee, redeeming shares first from those fund(s) with the highest balance;

(iv) Assets will then be liquidated from the remaining SDO account held in any other mutual fund(s) according to the highest balance.

The PARTICIPANT or BENEFICIARY will be responsible for any transaction fees assessed and deducted from the SDO account as a result of the automatic transfers initiated by the ADMINISTRATOR to fund benefit payments.

10.06. Subject to the requirements and limitations of 26 USC 402(l), a PARTICIPANT who, by reason of disability or attainment of NORMAL RETIREMENT AGE, is separated from service as a PUBLIC SAFETY OFFICER for the State of Wisconsin, may elect to have distributions made directly from the PLAN to an insurer to pay qualified health insurance premiums for coverage for such eligible retired PUBLIC SAFETY OFFICER, his spouse and their dependents, by an accident or health insurance plan or qualified long-term care insurance contract as defined in IRC Section 7703B(b). Before such distributions may be made, the PARTICIPANT must file with the ADMINISTRATOR a written election for such distributions on the form provided for the purpose by the ADMINISTRATOR, identifying the insurer and specifying the premium amount. In addition, the individual must provide information sufficient to establish to the satisfaction of the ADMINISTRATOR that the PARTICIPANT is a PUBLIC SAFETY OFFICER and that the premiums are for qualified health insurance premiums within the meaning of 26 USC 402(l)(4)(D).

ARTICLE XI

Domestic Relations Order Account Divisions

11.01. When the ADMINISTRATOR receives a judgment, decree or order (“Order”) issued by a court pursuant to a domestic relations law of any state or territory of the United States, the ADMINISTRATOR shall adhere to the procedures and requirements of Wisconsin Statutes Sections 40.08 and 40.80~~(2r)~~ and the PLAN in determining whether it is a valid DOMESTIC RELATIONS ORDER.

a. The ADMINISTRATOR shall promptly notify the PARTICIPANT and ALTERNATE PAYEE of the receipt of the Order and the PLAN’S procedures for determining the status of the Order, and

b. Within a reasonable time, the ADMINISTRATOR will follow the procedures adopted by the PLAN to determine whether the Order meets the requirements of a valid DOMESTIC RELATIONS ORDER and will notify the PARTICIPANT and ALTERNATE PAYEE of such determination.

11.02. A DOMESTIC RELATIONS ORDER is a judgment, decree, or order issued by a court pursuant to a domestic relations law of any state or territory of the United States that conforms with this Article as determined by the ADMINISTRATOR and the provisions of 26 USC §414(p) applicable to a governmental plan and does all of the following:

a. Relates to a marriage that terminated after December 1, 2001.

b. Assigns all or part of a PARTICIPANT'S accumulated assets held in the PLAN to one or more persons known as "ALTERNATE PAYEEs." A person may be an ALTERNATE PAYEE if the PLAN PARTICIPANT is both required to satisfy a marital property or family support obligation to the person under both the applicable law and the court's judgment, decree or order terminating the marriage, and the person is one of the following:

(i) The PARTICIPANT's spouse, but only in the event the action terminating the marriage is a court-ordered, legal separation which includes a final property division.

(ii) The PARTICIPANT's former spouse of the marriage terminated by the court's judgment, decree or order.

(iii) A child of the PARTICIPANT who is dependent upon the PARTICIPANT for his or her support. "Child" includes a natural child, stepchild, adopted child or child in court-ordered adoptive placement, regardless of age, provided the PARTICIPANT is legally obligated to support the child.

c. Names the PLAN and is submitted to the ADMINISTRATOR.

d. Is actually received by the Administrator while the PLAN PARTICIPANT is still living.

e. Is on the form approved by the DEPARTMENT for the purpose.

NOTE: See "Order to Divide Wisconsin Deferred Compensation Program Account," form ET-2367 and "Supplement To Order To Divide Wisconsin Deferred Compensation Program Account," form ET-2368.

f. Was issued by the court having jurisdiction over the property division while the court still had jurisdiction.

g. The Order clearly specifies the following:

(i) The name, last known mailing address, date of birth, and tax reporting identification numbers of the PARTICIPANT and each and every

ALTERNATE PAYEE, as well as the relationship of each ALTERNATE PAYEE to the PARTICIPANT.

(ii) The dollar amount or percentage of the PARTICIPANT'S PLAN account to be paid to each ALTERNATE PAYEE, in the form of the specific award option available under s. 11.025 of the PLAN. All awards to all ALTERNATE PAYEES in a DOMESTIC RELATIONS ORDER must be expressed in the options under s. 11.025.

(iii) That the Order is intended to be a permanent, not temporary, division and is issued only after the termination of the marriage is final and either the property division is final and there is no pending appeal which could potentially affect the assignment to the ALTERNATE PAYEES ordered in the DOMESTIC RELATIONS ORDER.

(iv) That the Order does not require a form of payment or any other benefit to the ALTERNATE PAYEE that is not otherwise provided under the PLAN.

(v) That the Order does not require the payment of benefits to an ALTERNATE PAYEE which are required by a prior DOMESTIC RELATIONS ORDER to be paid to another ALTERNATE PAYEE.

(vi) That the Order does not apply to any portion of a PARTICIPANT'S PLAN account that has already been distributed or paid to the participant, including a distribution in the form of the purchase of an annuity.

11.025. Division of a PLAN account under a DOMESTIC RELATIONS ORDER is subject to the following requirements and limitations:

a. There are three different permitted options for dividing a WDC account. Exactly the same option choice must be applied to each ALTERNATE PAYEE named in the DOMESTIC RELATIONS ORDER, although differing percentages or dollar amounts (depending on the option chosen) may be assigned to each. All three Options are available for marriages terminated on or after December 1, 2005. Only Option 1 is available for marriages terminated prior to December 1, 2005.

(i) OPTION 1. The ALTERNATE PAYEE may be awarded a sum certain. This award will not be affected by any market gains and losses that may have occurred before the DOMESTIC RELATIONS ORDER is processed by the ADMINISTRATOR. The award is limited to stated dollar amount and may not specify assets to be liquidated. The sum certain will be distributed to the ALTERNATE PAYEE as a lump-sum distribution if an approved ALTERNATE PAYEE distribution request is received on or before the date the DOMESTIC RELATIONS ORDER is received by the ADMINISTRATOR. Otherwise, when the DOMESTIC RELATIONS

ORDER is processed by the ADMINISTRATOR, the sum certain will be deposited into a DEFERRED COMPENSATION ACCOUNT established for the ALTERNATE PAYEE and thereafter will be subject to the investment instructions of the ALTERNATE PAYEE and to gains and losses. A DOMESTIC RELATIONS ORDER making an Option 1 award shall be rejected if there are insufficient funds in the PARTICIPANT'S DEFERRED COMPENSATION account to process the DOMESTIC RELATIONS ORDER. Option 1 is the only option available if the marriage terminated prior to December 1, 2005.

(ii) OPTION 2. The ALTERNATE PAYEE may be awarded a share of the PARTICIPANT'S DEFERRED COMPENATION ACCOUNT determined by dollar value as of the date the marriage is terminated, along with all subsequent gains and losses experienced by the assets awarded to the ALTERNATE PAYEE to make up that dollar value, beginning on the date the marriage is terminated. The award is limited to a dollar value and may not specify assets to be transferred.

(iii) OPTION 3. The ALTERNATE PAYEE may be awarded a percentage of the PARTICIPANT'S DEFERRED COMPENATION ACCOUNT, as of the date the marriage is terminated, along with all subsequent gains and losses experienced by the share of the assets awarded to the ALTERNATE PAYEE, beginning on the date the marriage is terminated. The award is limited to a percentage and may not specify assets to be transferred. The percentage awarded may be expressed to a maximum of two decimal places. The aggregate of all percentages awarded to all ALTERNATE PAYEES by the DOMESTIC RELATIONS ORDER may not exceed 100%.

b. A PLAN PARTICIPANT'S account may be affected only once by a DOMESTIC RELATIONS ORDER for each terminated marriage to which the PARTICIPANT is a party. All ALTERNATE PAYEES awarded an interest in the PARTICIPANT'S DEFERRED COMPENSATION ACCOUNT as a result of the termination of the marriage must be named in the same DOMESTIC RELATIONS ORDER.

(i) Except as provided in paragraph c., if the ADMINISTRATOR has accepted a DOMESTIC RELATIONS ORDER as valid under WIS. STAT. §§ 40.08 and 40.80 ~~(2r)~~ and this Article, then any subsequent DOMESTIC RELATIONS ORDERS pertaining to the same marriage and purporting to divide the same DEFERRED COMPENSATION ACCOUNT shall be rejected.

(ii) Remarriage of the parties to a divorce shall not result in voiding the effects of a previous DOMESTIC RELATIONS ORDER division of the PLAN PARTICIPANT'S account between the parties.

(iii) If the ADMINISTRATOR has accepted and acted upon a DOMESTIC RELATIONS ORDER based upon a judgment of legal separation, then the subsequent conversion of the judgment of legal separation into a judgment of divorce shall have no effect under this Article.

c. Notwithstanding paragraph a., in order to enable correction of an error by the court, a DOMESTIC RELATIONS ORDER may be amended for up to six months after the order is first received and accepted by the ADMINISTRATOR, provided that:

(i) The court terminating the marriage retains jurisdiction.

(ii) The amended order must be clearly identified as such.

(iii) The amended order must be received by the ADMINISTRATOR while the PARTICIPANT and each affected ALTERNATE PAYEE is still living.

(iv) There have been no intervening withdrawals of assets or other transactions, during the period between receipt of the original and amended DOMESTIC RELATIONS ORDERS, that make the amended division impossible, as determined by the ADMINISTRATOR.

(v) In recreating the PLAN PARTICIPANT account as if the original division had not occurred, any asset investments made in the interim in an ALTERNATE PAYEE account created by the original DOMESTIC RELATIONS ORDER shall be attributed to the PLAN PARTICIPANT, who shall bear any resulting gains or losses.

(vi) The amended assignment must be in the same Option 1, 2 or 3 form as the original. That is, an assignment of a percentage may not be amended into the assignment of a dollar amount, or vice versa. An assignment of a sum certain may not be amended into the award of a dollar or percentage share as of the termination of the marriage.

(vii) No ALTERNATE PAYEE may be added to or deleted from the original DOMESTIC RELATIONS ORDER by an amended order.

(viii) The amended DOMESTIC RELATIONS ORDER complies in all respects with this Article.

d. Paragraph c. above shall apply only to amending a DOMESTIC RELATIONS ORDER accepted by the ADMINISTRATOR. Paragraph c. shall not be construed to prevent a court from issuing a DOMESTIC RELATIONS ORDER to replace an order rejected by the ADMINISTRATOR.

e. If both parties to the action to terminate a marriage are each a PLAN PARTICIPANT through his or her individual employment, then the PLAN PARTICIPANT account of each may be divided by using two separate DOMESTIC RELATIONS ORDERS.

f. Each and every ALTERNATE PAYEE to whom an assignment of any part of the PLAN PARTICIPANT'S account is made in the course of the termination of the particular marriage must be named in the same DOMESTIC RELATIONS ORDER.

g. The PARTICIPANT must be living on the date the DOMESTIC RELATIONS ORDER is received by the ADMINISTRATOR, or the DOMESTIC RELATIONS ORDER is void.

h. The ADMINISTRATOR shall make all reasonable efforts to restore a DEFERRED COMPENSATION ACCOUNT divided in error under a DOMESTIC RELATIONS ORDER. The ADMINISTRATOR shall not be required to attempt to collect distributions made in the good faith belief that the PARTICIPANT was alive on the date the DOMESTIC RELATIONS ORDER was received by the ADMINISTRATOR.

j. Upon determining that a DOMESTIC RELATIONS ORDER is valid, the ADMINISTRATOR shall create a separate account for the ALTERNATE PAYEE and transfer into it from the PLAN PARTICIPANT'S account assets sufficient to satisfy the ordered assignment. Except, if the ALTERNATE PAYEE has filed an approved ALTERNATE PAYEE distribution request for a lump-sum distribution on or before the date the DOMESTIC RELATIONS ORDER is received, then in lieu of creating a separate account for the ALTERNATE PAYEE, the ADMINISTRATOR shall make the appropriate lump-sum distribution to the ALTERNATE PAYEE.

(i) If the assignment to the ALTERNATE PAYEE is of a specific dollar amount (Note: this refers to Options 1 and 2 on form ET-2367):

(A) The ADMINISTRATOR shall transfer assets into the ALTERNATE PAYEE account (or make a lump-sum distribution to the ALTERNATE PAYEE) having the stated dollar value. If the dollar award is under Option 2, the stated dollar valued shall first be adjusted by the interest and investment gains and losses attributable to the ALTERNATE PAYEE'S share since the date the marriage was terminated.

(B) The ADMINISTRATOR shall transfer any such assets, or liquidate assets and transfer funds, as the ADMINISTRATOR deems necessary to satisfy the dollar amount stated in the DOMESTIC

RELATIONS ORDER, beginning with existing assets in the CORE INVESTMENT SPECTRUM.

(C) If the ALTERNATE PAYEE’S dollar amount exceeds the dollar value of the PARTICIPANT’S account, the DOMESTIC RELATIONS ORDER shall be rejected.

(D) If the ALTERNATE PAYEE’S dollar amount exceeds the dollar value of the PARTICIPANT’S CORE INVESTMENT SPECTRUM account, the ADMINISTRATOR shall notify the PARTICIPANT in writing of the necessary remaining sum from the SDO that needs to be liquidated and transferred into the CORE INVESTMENT SPECTRUM to enable the implementation of the DOMESTIC RELATIONS ORDER. If the PARTICIPANT fails to immediately comply, the ADMINISTRATOR shall liquidate all the SDO assets as provided in Article VIII, Section 8.11.

(ii) If the assignment to the ALTERNATE PAYEE is of a percentage of the PLAN PARTICIPANT’S account (Note: this refers to Option 3 on form ET-2367):

(A) The DOMESTIC RELATIONS ORDER shall be rejected if the aggregate of the percentages assigned to all ALTERNATE PAYEES exceeds 100%.

(B) The ADMINISTRATOR shall value the PARTICIPANT’S entire account including both the CORE INVESTMENT SPECTRUM and SDO assets and liquidate or transfer to the ALTERNATE PAYEE account, insofar as possible, and except as otherwise expressly provided in this subdivision, the same stated percentage of each fund or other investment in the PLAN PARTICIPANT’S s account, so that the award to the ALTERNATE PAYEE consists of essentially the same asset mix as the PARTICIPANT’S account. However, the ADMINISTRATOR may, in order to achieve the overall percentage award ordered, vary the transfer of portions of particular assets to the extent necessary. If the PARTICIPANT’S account includes assets in the SDO, the ADMINISTRATOR shall first apply existing assets in the CORE INVESTMENT SPECTRUM to satisfy the award to the ALTERNATE PAYEE. If these assets are insufficient to satisfy the award to the ALTERNATE PAYEE, the ADMINISTRATOR shall follow the same procedure as described above in Section 11.025 j (i) (D) to liquidate SDO assets.

k. Following a division under a DOMESTIC RELATIONS ORDER, and establishment of a DEFERRED COMPENATION ACCOUNT for the

ALTERNATE PAYEE, the ALTERNATE PAYEE shall then be responsible for transferring assets to achieve whatever investment goals or diversification the ALTERNATE PAYEE desires.

l. Prior to receiving a total distribution under the PLAN of all assigned assets, an ALTERNATE PAYEE shall have the same rights, benefits and interests in his or her ALTERNATE PAYEE account as a former employee, no longer employed by an employer participating in the PLAN, has in his or her PLAN PARTICIPANT account, including but not limited to the right to designate a BENEFICIARY for death benefit purposes and the right to direct PLAN investments to the extent permitted under the PLAN and generally being treated as a PARTICIPANT. Except, however:

(i) Benefits will be payable to the ALTERNATE PAYEE in any form or permissible option available to PARTICIPANTS under the terms of the PLAN.

(ii) An ALTERNATE PAYEE account created in response to a DOMESTIC RELATIONS ORDER may not be merged or otherwise joined with any other PLAN account held by the individual.

(iii) An ALTERNATE PAYEE account is not subject to division by a DOMESTIC RELATIONS ORDER.

m. Unless an Internal Revenue Service or Wisconsin Department of Revenue levy or attachment exceeds the remainder or jointly names an ALTERNATE PAYEE, to whom the levy or attachment shall then also apply, any levy or attachment against the PARTICIPANT'S account shall continue to apply only to the remainder of the PARTICIPANT'S account.

11.03. The ADMINISTRATOR shall make no distributions from a PARTICIPANT'S account while it determines the validity of or processes a DOMESTIC RELATIONS ORDER.

11.04. The ADMINISTRATOR shall establish a separate account for the ALTERNATE PAYEE and transfer the assigned value or benefit from the PARTICIPANT'S account into the ALTERNATE PAYEE'S account, unless the ALTERNATE PAYEE has timely and appropriately applied for a lump-sum distribution of the entire award on or before the date the DOMESTIC RELATIONS ORDER is received. In all other circumstances, a DEFERRED COMPENSATION ACCOUNT shall be established for the ALTERNATE PAYEE.

11.05. The ALTERNATE PAYEE shall be treated as a PARTICIPANT who is no longer employed by a participating employer, except as otherwise provided in this Article.

a. Distributions made to an ALTERNATE PAYEE are reported as taxable income to the ALTERNATE PAYEE. State taxes, if applicable, and federal taxes will be withheld from any distribution on the ALTERNATE PAYEE'S account based upon the tax withholding elections of the ALTERNATE PAYEE.

b. The ALTERNATE PAYEE may not make any contributions to his or her account.

c. The ALTERNATE PAYEE is permitted to designate beneficiaries for the account and to exercise exchanges among the investment options as permitted by the PLAN.

d. Unless otherwise provided in this Article, all other PLAN rules and procedures applicable to a PARTICIPANT shall be applicable to the ALTERNATE PAYEE'S account.

11.06. The TRUSTEES, DEPARTMENT, EMPLOYER and ADMINISTRATOR, and any member, employee, or agent thereof shall be immune from civil liability for any act or omission while performing duties relating to implementing a DOMESTIC RELATIONS ORDER and for any act or omission of a PARTICIPANT with respect to the PARTICIPANT'S account under the PLAN, including specifically any deferral or investment election or distribution during the period that begins on the day on which the PARTICIPANT'S marriage is terminated by a court and ends on the day on which his or her account is divided pursuant to a DOMESTIC RELATIONS ORDER.

11.07. **Tax Treatment of Distributions**. For purposes Sections 402(a)(1) and 72 of the Internal Revenue Code, any ALTERNATE PAYEE shall be treated as the distributee of any distribution or payments made to the ALTERNATE PAYEE under the terms of the DOMESTIC RELATIONS ORDER, including for purposes of reporting the distributions or payments for income tax purposes.

11.08. **Responsibility for Errors**.

a. In the event that the ADMINISTRATOR pays to the PARTICIPANT any benefits that are assigned to the ALTERNATE PAYEE pursuant to the terms of a DOMESTIC RELATIONS ORDER, the PARTICIPANT shall immediately, within ten days, report the error to the ADMINISTRATOR and is personally liable for reimbursement to the ALTERNATE PAYEE.

b. In the event that the ADMINISTRATOR pays to the ALTERNATE PAYEE any benefits that were not assigned to the ALTERNATE PAYEE pursuant to the terms of a DOMESTIC RELATIONS ORDER, and instead remained the property of the PARTICIPANT, the ALTERNATE PAYEE shall immediately, within ten days, report the error to the ADMINISTRATOR and is personally liable for reimbursement to the PARTICIPANT.

c. The entity contracted to assist the DEPARTMENT and provide administrative services for the PLAN may be held liable to the PLAN, TRUSTEES or DEPARTMENT for any damages resulting from a division performed contrary to the terms and conditions of the PLAN contrary to the terms and conditions of a

DOMESTIC RELATIONS ORDER or under an order which did not qualify as a DOMESTIC RELATIONS ORDER. Aside from actions undertaken consistent with written DEPARTMENT determinations, the contracted entity shall hold harmless and indemnify the DEPARTMENT, its employees, and agents and the TRUSTEES and Deferred Compensation Board employees and agents, from liability for any action or omission by the contracted entity regarding handling of any order purporting to be, or treated, as a DOMESTIC RELATIONS ORDER.

11.09 Responsibility for Participant Transactions Made Before Implementation of the Domestic Relations Order. The PLAN, ADMINISTRATOR, DEPARTMENT, Deferred Compensation Board, EMPLOYER, and Public Employee Trust Fund are not liable to any third person, including any ALTERNATE PAYEE, for trades or transactions made by the PARTICIPANT after the date a marriage is terminated and before a DOMESTIC RELATIONS ORDER is implemented by the ADMINISTRATOR and the PARTICIPANT is notified that the division is completed. Such trades and transactions involving funds or assets in the PARTICIPANT’s account as of the date that the marriage was terminated may affect the interests of the ALTERNATE PAYEE. Such trades and transactions will be treated for PLAN purposes as part of the gains and losses experienced by the PARTICIPANT’s account since the marriage was terminated. This provision may not be construed to interfere with any right of the ALTERNATE PAYEE to seek redress directly against the PARTICIPANT for wastage or any other damages suffered.

ARTICLE XII

Administration of the PLAN

12.01. The TRUSTEES may at any time amend, modify or terminate this PLAN without the consent of the PARTICIPANT (or any BENEFICIARY thereof). All amendments shall become effective on the first day of the calendar month beginning after the date of the amendment. Notice shall be deemed given when the amendment and an explanation of such is posted in the quarterly newsletter that is distributed to all PARTICIPANTS and BENEFICIARIES along with the quarterly statement of account. No amendment shall deprive the PARTICIPANT of any of the benefits to which he is entitled under this PLAN with respect to deferred amounts credited to his account before the effective date of the amendment. If the PLAN is curtailed, terminated, or the acceptance of additional deferred amounts suspended permanently, the ADMINISTRATOR shall nonetheless be responsible for the supervision of the payment of benefits resulting from amounts deferred before the amendment, modification, or termination in accordance with Article XI hereof.

12.02. The TRUSTEES may at any time establish, amend or terminate rules, procedures or policies necessary in their judgment for the effective administration of the PLAN.

12.03. Any companies that may issue any policies, contracts, or other forms of investment media adopted by the TRUSTEES or specified by the PARTICIPANT, do not have rights under this PLAN. All assets invested with these companies are held on behalf of PARTICIPANTS and their BENEFICIARIES.

12.04. Participation in this PLAN by the EMPLOYEE shall not be construed to give a contract of employment to the PARTICIPANT, or to alter or amend an existing employment contract of the PARTICIPANT, nor shall participation in this PLAN be construed as affording to the PARTICIPANT any representation or guarantee regarding his continued employment.

12.05. The TRUSTEES, the EMPLOYER, and the ADMINISTRATOR do not represent or guarantee that any particular Federal or State income, payroll, personal property, or other tax consequences will occur because of the PARTICIPANT'S participation in this PLAN. The PARTICIPANT is obligated to consult with his own tax representative regarding all questions of Federal or State income, payroll, personal property, or other tax consequences arising from participation in this PLAN.

12.06. As authorized by the TRUSTEES, the ADMINISTRATOR shall have the power to appoint agents to act for the ADMINISTRATOR and in the administration of this PLAN.

12.07. Whenever used herein, the masculine gender shall include the feminine and the singular shall include the plural unless the provisions of the PLAN specifically require a different construction.

12.08. The laws of the State of Wisconsin and Section 457 of the Internal Revenue Code shall apply in determining the construction and validity of this PLAN.

12.09. The rights of PARTICIPANTS and their BENEFICIARIES under this PLAN shall not be subject to the rights of creditors of the PARTICIPANT or any BENEFICIARY, and shall be exempt from the execution, attachment, prior assignment, or any other judicial relief or order for the benefit of creditors or other third persons.

12.10. It is agreed that neither the PARTICIPANT nor his BENEFICIARY nor any other designee shall have the right to commute, sell, assign, transfer, or otherwise convey or receive any payments hereunder which payments and right thereto are expressly declared to be non-assignable and non-transferable.

12.11. This PLAN, and any properly adopted amendments, shall constitute the total agreement or contract between the EMPLOYER and the PARTICIPANT regarding the PLAN. No oral statement to the contrary regarding the PLAN may be relied upon by the PARTICIPANT.

12.12. This PLAN and any properly adopted amendments, shall be binding on the parties hereto and their respective heirs, administrators, trustees, successors, and assignees and on all BENEFICIARIES of the PARTICIPANT.

12.13. The ADMINISTRATOR shall establish and follow a formal complaint procedure that includes an appeal to the Wisconsin Deferred Compensation Board. A copy of the written complaint procedure shall be provided to the PARTICIPANT upon request. The PARTICIPANT has the right to exercise the formal complaint procedure up to and including the formal appeal process under Wisconsin Statute 40.80(g) and Wisconsin Administrative Code, Chapter ETF 11.

ARTICLE XIII

Notice to ALL PARTICIPANTS to Read These Provisions Providing Board Powers and Absolute Safeguards of the Employer and Trustees.

13.01. The EMPLOYER, the TRUSTEES or their authorized agent, the ADMINISTRATOR, is authorized to resolve any questions of fact necessary to decide the PARTICIPANT'S rights under this PLAN unless reversed on appeal under Section 12.12.

13.02. The EMPLOYER, the TRUSTEES or their authorized agent, the ADMINISTRATOR, shall be authorized to construe the PLAN and to resolve any ambiguity in the PLAN and to apply reasonable and fair procedures for the administration of the PLAN.

13.03. The PARTICIPANT specifically agrees not to seek recovery against the EMPLOYER, the TRUSTEES, the ADMINISTRATOR, or any other employee, contractee, or agent of the EMPLOYER, TRUSTEES, or ADMINISTRATOR, or any endorser of any loss sustained by the PARTICIPANT or his BENEFICIARY, for the non-performance of their duties, negligence, or any other misconduct of the above named persons except that this paragraph shall not excuse fraud or wrongful taking by any person.

13.04. The EMPLOYER, the TRUSTEES, or their agents including the ADMINISTRATOR, if in doubt concerning the correctness of their action in making a payment of benefit, may suspend the payment until satisfied as to the correctness of the payment or the person to receive the payment or allow the filing in any State Court of competent jurisdiction, a suit in such form as they consider appropriate for a legal determination of the benefits to be paid out and the person to receive them.

13.05. The EMPLOYER, the TRUSTEES, and their agents including the ADMINISTRATOR, are hereby held harmless from all court costs and all claims for the attorney's fees arising from any action brought by the PARTICIPANT or any BENEFICIARY thereof under this PLAN or to enforce his rights under the PLAN, including any amendments hereof.

13.06. The ADMINISTRATOR shall not be required to participate in any litigation concerning the PLAN except upon written demand from the EMPLOYER or TRUSTEES. The ADMINISTRATOR may compromise, adjust or effect settlement of litigation when specifically instructed to do so by the EMPLOYER or TRUSTEES.

IN WITNESS WHEREOF, the undersigned has executed this Amended and Restated PLAN and TRUST this 14th day of November 2007.

____
Edward D. Main, Chairman
State of Wisconsin Deferred Compensation Board

Witnessed By: ________________________________

STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

801 W Badger Road
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CORRESPONDENCE MEMORANDUM

DATE: April 3, 2008

TO: Wisconsin Deferred Compensation Board

FROM: David H. Nispel
Deputy Chief Legal Counsel

SUBJECT: Wisconsin Administrative Code Chapter ETF 70 Revisions

The Department of Employee Trust Funds proposes to modify Wisconsin Administrative Code §§ ETF 70.08 (3), ETF 70.10, and ETF 70.02, relating to phasing out an investment option, emergency financial hardship withdrawals for beneficiaries, and the definition of a beneficiary. The proposed modifications concern adjusting the start date for phasing out an investment option in order to reduce complications associated with a fund closure. The proposed changes expand financial emergency hardship withdrawals to include hardships for a named beneficiary and also includes a definition of beneficiary.

Staff recommends that the Board approve the final version of this proposed rule.

Board approval of the final version of the proposed rule is the next step in the administrative rule promulgation process. If approved, the rule revisions will be submitted to the State Legislature for its consideration. Prior to this date, the Department has taken the following action:

- Submitted the scope statement to the Board for approval (November 2007)
- Published the scope statement in the Wisconsin Administrative Register (December 2007)
- Submitted the proposed rule and a report to the Legislative Council Administrative Rules Clearinghouse (February 2008)
- Submitted the rule and Legislative Council report to the Department of Administration and Legislative Reference Bureau along with notice of the scheduled public hearing (February 2008)
- Published the notice of hearing in the Wisconsin Administrative Register (February 2008)
- Held a public hearing (March 19, 2008)

The final version of the proposed administrative rule and the report to the Legislative Council Administrative Rules Clearinghouse are attached to this memorandum. There were no appearances at the public hearing and no written comments were received.

Department staff will be available at the meeting to discuss this memo and answer any questions you may have regarding the proposed revisions.

Attachments

Reviewed and approved by Jean Gilding, Deputy Administrator,
Division of Retirement Services

Signature ____________________ Date ____________________

Board	Mtg Date	Item #
DC	05/06/2008	6

STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
DEFERRED COMPENSATION BOARD

FINAL DRAFT REPORT ON CLEARINGHOUSE RULE #08-016

FINAL RULE to amend ETF 70.08 (3); to amend ETF 70.10, and to create ETF 70.02 (4m), relating to the start date for phasing out investment options under the Wisconsin deferred compensation plan and to expand emergency financial hardship withdrawals for beneficiaries.

Agency Person to be Contacted for Questions
Please direct any questions about this rule-making to David Nispel, Deputy Chief Counsel, Department of Employee Trust Funds, P. O. Box 7931, Madison, WI 53707. Email: david.nispel@etf.state.wi.us. Telephone: (608) 264-6936.

Statement Explaining Need for Rule
This rule-making is needed to provide an adjustable start date for closing or phasing out an investment option from the primary or alternate deferred compensation plan in order to reduce complications associated with the closure and to expand financial emergency hardship withdrawals to include hardships for a named beneficiary.

Analysis Prepared by the Department of Employee Trust Funds

1. Statute interpreted:
   Section 40.80, Wis. Stats.

2. Statutory authority:
   Sections 40.03 (2) (ir) and 227.11 (2) (a), Wis. Stats.

3. Explanation of agency authority:
   By statute, the DETF Secretary is expressly authorized, with appropriate board approval, to promulgate rules required for the efficient administration of any benefit plan established in ch. 40 of the Wisconsin statutes. Also, each state agency may promulgate rules interpreting the provisions of any statute enforced or administered by the agency if the agency considers it necessary to effectuate the purpose of the statute.

4. Related statute or rule:
   Ch. ETF 70, Wis. Admin. Code, establishes a procedure for administration of the deferred compensation program as provided by s. 40.80, Wis. Stats. There are no other related administrative rules or statutes.

5. Plain language analysis:
   The purpose of this rule is to adjust the start date for phasing out an investment option from the primary or alternate plan in order to reduce complications associated with the phase out and to expand financial emergency hardship withdrawals to include hardships for a named beneficiary.

6. Summary of, and comparison with, existing or proposed federal regulations:
   FUND CLOSURE: There are no known existing or proposed federal regulations that are intended to address the fund closure start date or timeline regulated by this proposed rule.

   FINANCIAL HARDSHIPS AND BENEFICIARIES: The proposed rule would be in conformance with changes to federal regulations made by s. 826 of the federal

Pension Protection Act of 2006, which expanded financial emergency hardship withdrawals to include hardships for a named beneficiary.

7. Comparison with rules in adjacent states:
FUND CLOSURE: A query to adjacent states and the National Association of Government Defined Contribution Administrators list serve revealed that Wisconsin is unique in providing a specific start date and timeline for fund closures. Most other state programs have not formalized this process or provided a specific timeframe. Based on the query, it appears that the fund closeout process can take, on average, 30 to 90 days, and begins whenever a plan's governing body makes the decision to remove a fund.

FINANCIAL HARDSHIPS AND BENEFICIARIES: In order to be in compliance with recent federal regulations, most states and other s. 457 plan providers are in the process of modifying or already have modified their definition of financial emergency hardship withdrawals to include hardships for a named beneficiary.

8. Summary of factual data and analytical methodologies:
Currently s. ETF 70.08 (3) requires that phase one of the twelve month investment fund removal process begin on January 1 of the year following the deferred compensation board's decision to remove a fund from the Wisconsin deferred compensation program. Starting the process on January 1st and ending the process on December 31st of that calendar year presents many difficulties, including reconciliation requirements and other end of calendar year activities, and additional days that the financial markets are closed for holidays. By eliminating the January 1st start date and permitting the process to begin six months after the board has made a fund removal decision many of these complications will be eliminated.

The proposed revision would create a rolling fund closure window outside of end of the calendar year complications, but retain the 12-month time frame to notify participants of the pending closure.

Financial emergency hardship withdrawals from the deferred compensation program are permitted under s. ETF 70.10. The federal Pension Protection Act of 2006 expanded financial emergency hardship withdrawals to include hardships for a named beneficiary. While the Wisconsin Deferred Compensation Plan and Trust Document already provides for this type of hardship withdrawal, there is not a similar provision in the Wisconsin administrative code. It is necessary to revise the administrative rule in order to allow hardship withdrawals for named beneficiaries, which could be done by adding the word "beneficiary" to the applicable subsections of s. ETF 70.10. The definition of "beneficiary" in this rule is the same as in s. 40.02 (8), Stats.

9. Analysis and supporting documents used to determine effect on small business or in preparation of economic impact report.

The rule does not have an effect on small businesses because private employers and their employees do not participate in, and are not covered by, the Wisconsin deferred compensation program. The deferred compensation program is an optional, supplementary retirement plan covering only governmental employees.

10. Effect on small business:
There is no effect on small business.

Regulatory Flexibility Analysis

This rule-making has no significant effect on small businesses because only governmental employers and their employees may participate in the benefit programs under ch. 40 of the statutes administered by the Department of Employee Trust Funds.

Fiscal Estimate

The rule has no fiscal effect on any county, city, village, town, school district, technical college district or sewerage district. The rule will have no effect on state funds.

Text of Rule

Section 1. ETF 70.02 (4m) is created to read:

ETF 70.02 (4m) "Beneficiary" has the meaning given in s. 40.02 (8), Stats.

Section 2. ETF 70.08 (3) is amended to read:

ETF 70.08 (3) Based on the board's review required under s. ETF 70.03 (11) the board may determine that an investment product offered by the primary plan or an alternate plan is no longer acceptable for inclusion in the program. If the board decides to remove an investment product from the plan as a result of the product's failure to meet the criteria as established under s. ETF 70.03 (10), the product shall be phased out of the primary or alternate plan in a 2-step process over a 12 month period that shall commence ~~January 1 of the year~~ on the first business day of the sixth month following the board's decision, as follows:

Section 3. ETF 70.10 is amended to read:

ETF 70.10 (1) A participant or beneficiary may make emergency withdrawals in the event of an unforeseeable emergency under the following conditions and limitations:

ETF 70.10 (1)(a) As defined in 26 USC 457 (b) (5) and 26 CFR 1.457-2 (h) (4), an unforeseeable emergency is one which causes severe financial hardship to the participant or beneficiary as a result of a sudden and unexpected illness or accident of the participant or beneficiary or of a dependent of the participant or beneficiary, loss of the participant's or beneficiary's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant or beneficiary.

ETF 70.10 (1)(b) The need to send a participant's or beneficiary's child to college or the desire to purchase a home are examples of what are not unforeseeable emergencies.

ETF 70.10 (1)(d)2. By liquidation of the participant's or beneficiary's assets to the extent the liquidation of these assets would not itself cause severe financial hardship, or

ETF 70.10 (2)(a) Receive requests from participants or beneficiaries for unforeseeable emergency withdrawals.

Effective Date
This rule shall take effect on the first day of the month commencing after the date of publication in the Wisconsin administrative register as provided by s. 227.22 (2) (intro.), Wis. Stats.

Economic Impact Report
None.

Department of Administration s. 227.138 Report
None.

Energy Impact Report
None.

Legislative Council Staff Clearinghouse Report
Attached.

Response to Legislative Council Staff Clearinghouse Report
The Department has implemented all of the Legislative Council Staff recommendations contained in the Clearinghouse Report. This involved updating the "rule summary" to include all required material that was inadvertently left out of the version originally submitted to the Legislative Council Staff, including a proposed effective date for the rule and a fiscal estimate. The sections of the rule-making order were also renumbered and reformatted to reflect the preferred administrative code style.

List of Persons Who Appeared or Registered at the Public Hearing
No persons appeared or registered at the public hearing held March 19, 2008.

Summary of Public Comments
No person wished to testify concerning the rule. The record was held open for written comments until 4:30 p.m. on March 20, 2008, but no comments were received.

Modifications to Rule as Originally Proposed
No changes were made from the original proposal as a result of public comments.

Modifications to the Analysis Accompanying the Proposed Rule
None.

Modifications to the Fiscal Estimate
None.

Board Authorization for Promulgation
This final draft report on Clearinghouse Rule #08-016 has been duly approved for submission to the Legislature, and for promulgation, by the Department of Employee Trust Funds and by the Deferred Compensation Board at its meeting on __________.

Respectfully submitted,

DEPARTMENT OF EMPLOYEE TRUST FUNDS

______________________________ Date: ______________
David A. Stella
DETF Secretary

State of Wisconsin
Department of Employee Trust Funds
Deferred Compensation Board

The Wisconsin department of employee trust funds proposes an order to amend ETF 70.08 (3); to amend ETF 70.10, and to create ETF 70.02, relating to the start date for phasing out funds under the Wisconsin deferred compensation plan and to emergency withdrawals for beneficiaries.

Notice of Public Hearing

A public hearing on this proposed rule will be held on March 19, 2008 at 1:30 p.m. in Conference Room GB at the offices of the Department of Employee Trust Funds, 801 West Badger Road, Madison, Wisconsin. Persons wishing to attend should come to the reception desk up the stairs (or by elevator) from the main entrance to the building.

Analysis Prepared by the Department of Employee Trust Funds

1. Statute interpreted:
   Section 40.80, Wis. Stats.

2. Statutory authority:
   Sections 40.03 (2) (ir) and 227.11 (2) (a), Wis. Stats.

3. Explanation of agency authority:
   By statute, the DETF Secretary is expressly authorized, with appropriate board approval, to promulgate rules required for the efficient administration of any benefit plan established in ch. 40 of the Wisconsin statutes. Also, each state agency may promulgate rules interpreting the provisions of any statute enforced or administered by the agency if the agency considers it necessary to effectuate the purpose of the statute.

4. Related statute or rule:
   Ch. ETF 70, Wis. Admin. Code, establishes a procedure for administration of the deferred compensation program as provided by s. 40.80, Wis. Stats. There are no other related administrative rules or statutes.

5. Plain language analysis:
   The purpose of this rule is to adjust the start date for phasing out an investment option from the primary or alternate plan in order to reduce complications associated with the phase out and to expand financial emergency hardship withdrawals to include hardships for a named beneficiary.

6. Summary of, and comparison with, existing or proposed federal regulations:
FUND CLOSURE: There are no known existing or proposed federal regulations that are intended to address the fund closure start date or timeline regulated by this proposed rule.

FINANCIAL HARDSHIPS AND BENEFICIARIES: The proposed rule would be in conformance with changes to federal regulations made by s. 826 of the federal Pension Protection Act of 2006, which expanded financial emergency hardship withdrawals to include hardships for a named beneficiary.

7. Comparison with rules in adjacent states:
FUND CLOSURE: A query to adjacent states and the National Association of Government Defined Contribution Administrators list serve revealed that Wisconsin is unique in providing a specific start date and timeline for fund closures. Most other state programs have not formalized this process or provided a specific timeframe. Based on the query, it appears that the fund closeout process can take, on average, 30 to 90 days, and begins whenever a plan's governing body makes the decision to remove a fund.

FINANCIAL HARDSHIPS AND BENEFICIARIES: In order to be in compliance with recent federal regulations, most states and other s. 457 plan providers are in the process of modifying or already have modified their definition of financial emergency hardship withdrawals to include hardships for a named beneficiary.

8. Summary of factual data and analytical methodologies:
Currently s. ETF 70.08 (3) requires that phase one of the twelve month investment fund removal process begin on January 1 of the year following the deferred compensation board's decision to remove a fund from the Wisconsin deferred compensation program. Starting the process on January 1st and ending the process on December 31st of that calendar year presents many difficulties, including reconciliation requirements and other end of calendar year activities, and additional days that the financial markets are closed for holidays. By eliminating the January 1st start date and permitting the process to begin six months after the board has made a fund removal decision many of these complications will be eliminated.

The proposed revision would create a rolling fund closure window outside of end of the calendar year complications, but retain the 12-month time frame to notify participants of the pending closure.

Financial emergency hardship withdrawals from the deferred compensation program are permitted under s. ETF 70.10. The federal Pension Protection Act of 2006 expanded financial emergency hardship withdrawals to include hardships for a named beneficiary. While the Wisconsin Deferred Compensation Plan and Trust Document already provides for this type of hardship withdrawal, there is not a similar provision in the Wisconsin administrative code. It is necessary to revise the administrative rule in order to allow hardship withdrawals for named beneficiaries, which could be done by adding the word "beneficiary" to the applicable subsections of s. ETF 70.10. The definition of "beneficiary" in this rule is the same as in s. 40.02 (8), Stats.

9. <u>Analysis and supporting documents used to determine effect on small business or in preparation of economic impact report.</u>
The rule does not have an effect on small businesses because private employers and their employees do not participate in, and are not covered by, the Wisconsin deferred compensation program. The deferred compensation program is an optional, supplementary retirement plan covering only governmental employees.

10. <u>Effect on small business:</u>
There is no effect on small business.

11. <u>Agency contact person (including email and telephone):</u>
Please direct any questions about the proposed rule to David Nispel, deputy chief counsel, department of employee trust funds, P. O. Box 7931, Madison, WI 53707. The email address: david.nispel@etf.state.wi.us. The telephone number is: (608) 264-6936.

12. <u>Place where comments are to be submitted and deadline for submissions:</u>
Written comments on the proposed rule may be submitted to David Nispel, deputy chief counsel, department of employee trust funds, 801 W. Badger Road, P. O. Box 7931, Madison, WI 53707. Written comments must be received at the department of employee trust funds no later than 4:30 p.m. on Thursday, March 20, 2008.

Text of Proposed Rule

Section 1. ETF 70.02 (4m) is created to read:

ETF 70.02 (4m) "Beneficiary" has the meaning given in s. 40.02 (8), Stats.

Section 2. ETF 70.08 (3) is amended to read:

ETF 70.08 (3) Based on the board's review required under s. ETF 70.03 (11) the board may determine that an investment product offered by the primary plan or an alternate plan is no longer acceptable for inclusion in the program. If the board decides to remove an investment product from the plan as a result of the product's failure to meet the criteria as established under s. ETF 70.03 (10), the product shall be phased out of the primary or alternate plan in a 2-step process over a 12 month period that shall commence ~~January 1 of the year~~ on the first business day of the sixth month following the board's decision, as follows:

Section 3. ETF 70.10 is amended to read:

ETF 70.10 (1) A participant or beneficiary may make emergency withdrawals in the event of an unforeseeable emergency under the following conditions and limitations:

ETF 70.10 (1)(a) As defined in 26 USC 457 (b) (5) and 26 CFR 1.457-2 (h) (4), an unforeseeable emergency is one which causes severe financial hardship to the participant or beneficiary as a result of a sudden and unexpected illness or accident of the participant or beneficiary or of a dependent of the participant or beneficiary, loss of the participant's or beneficiary's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant or beneficiary.

ETF 70.10 (1)(b) The need to send a participant's or beneficiary's child to college or the desire to purchase a home are examples of what are not unforeseeable emergencies.

ETF 70.10 (1)(d)2. By liquidation of the participant's or beneficiary's assets to the extent the liquidation of these assets would not itself cause severe financial hardship, or

ETF 70.10 (2)(a) Receive requests from participants or beneficiaries for unforeseeable emergency withdrawals,

Proposed Effective Date:
This rule shall take effect on the first day of the month commencing after the date of publication in the Wisconsin administrative register as provided by s. 227.22 (2) (intro.), Stats.

Fiscal Estimates:
The rule will have no effect on county, city, village, town, school district, technical college district or sewerage district fiscal liabilities or revenues. The rule will have no effect on state funds.

Free Copies of Proposed Rule:
Copies of the proposed rule are available without cost from the Office of the Secretary, Department of Employee Trust Funds, P. O. Box 7931, Madison, WI 53707-7931. The telephone number is: (608) 266-1071.

Approved for publication:
This proposed rule is approved for publication in the Wisconsin Administrative Register.

Date this _____ day of ___________, 200__.

____
David Stella, Secretary
Department of Employee Trust Funds

DEPARTMENT OF EMPLOYEE TRUST FUNDS
DEFERRED COMPENSATION BOARD

The Wisconsin department of employee trust funds proposes an order to amend ETF 70.08 (3); to amend ETF 70.10, and to create ETF 70.02 (4m), relating to the start date for phasing out funds under the Wisconsin deferred compensation plan and to emergency withdrawals for beneficiaries.

Text of Proposed Rule

Section 1. ETF 70.02 (4m) is created to read:

ETF 70.02 (4m) “Beneficiary” has the meaning given in s. 40.02 (8), Stats.

Section 2. ETF 70.08 (3) is amended to read:

ETF 70.08 (3) Based on the board's review required under s. ETF 70.03 (11) the board may determine that an investment product offered by the primary plan or an alternate plan is no longer acceptable for inclusion in the program. If the board decides to remove an investment product from the plan as a result of the product's failure to meet the criteria as established under s. ETF 70.03 (10), the product shall be phased out of the primary or alternate plan in a 2-step process over a 12 month period that shall commence ~~January 1 of the year~~ on the first business day of the sixth month following the board's decision, as follows:

Section 3. ETF 70.10 is amended to read:

ETF 70.10 (1) A participant or beneficiary may make emergency withdrawals in the event of an unforeseeable emergency under the following conditions and limitations:

ETF 70.10 (1)(a) As defined in 26 USC 457 (b) (5) and 26 CFR 1.457-2 (h) (4), an unforeseeable emergency is one which causes severe financial hardship to the participant or beneficiary as a result of a sudden and unexpected illness or accident of the participant or beneficiary or of a dependent of the participant or beneficiary, loss of the participant's or beneficiary’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant or beneficiary.

ETF 70.10 (1)(b) The need to send a participant's or beneficiary’s child to college or the desire to purchase a home are examples of what are not unforeseeable emergencies.

ETF 70.10 (1)(d)2. By liquidation of the participant's or beneficiary’s assets to the extent the liquidation of these assets would not itself cause severe financial hardship, or

ETF 70.10 (2)(a) Receive requests from participants or beneficiaries for unforeseeable emergency withdrawals,

STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
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http://etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: April 11, 2008

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: Designation of a Default Fund

<u>Staff recommends that the Board consider changing the designated default fund from the Vanguard Money Market Treasury Fund to the Vanguard Target Retirement Date lifecycle fund series. This memo provides the framework for discussion of this policy item.</u>

BACKGROUND

One of the Board's fiduciary duties is the designation of a default fund to which participant assets are directed when an investment option is removed or replaced, or a participant otherwise fails to make a decision on where their assets should be invested. The designation of a default fund is an important duty because the Board is making an investment decision for participants who fail to make the decision themselves.

At present, when a fund is removed from the Wisconsin Deferred Compensation Program (WDC), any remaining account balances are moved to the default fund, the Vanguard Money Market Treasury Fund. The Board made this decision in May 2005.

Section ETF 70.08 (3), Wisconsin Administrative Code, states that after the Board has determined that a fund is no longer acceptable for inclusion in the WDC, the Board is required to tell the WDC administrator to which other WDC fund any remaining participant account balances from the closed fund should be automatically moved or "swept." The administrative rule does not specify to which fund the money is to be swept; that decision is left to the Board. Attachment B outlines the communication steps taken when a WDC fund is closed.

FEDERAL REGULATIONS AND GUIDANCE

The preamble to section 404(c) of the Employee Retirement Income Security Act (ERISA) states that "plan fiduciaries will not be relieved of responsibility for investment decisions under an ERISA section 404(c) plan unless those [investment] decisions have affirmatively been made by participants…" Like most other public retirement plan sponsors, the WDC is not directly subject to ERISA. However, in practice most public plan sponsors, including the WDC, seek to abide by ERISA regulations as they provide guidance on federal interpretations of situations that are also experienced by public plan sponsors.

Reviewed and approved by Jean Gilding, Deputy Administrator,
Division of Retirement Services

Signature Date

Board	Mtg Date	Item #
DC	05/06/2008	7

PENSION PROTECTION ACT OF 2006

The Pension Protection Act of 2006 (PPA) included language creating ERISA s. 404 (c)(5), which alleviates fiduciary liability for plan sponsors who meet specific conditions regarding assets invested in a plan's default fund. The PPA also directed the federal Department of Labor (DOL) to issue guidance that plan sponsors could follow when selecting a default fund. In October of 2007, the DOL issued Qualified Default Investment Alternative (QDIA) regulations. Employers following QDIA regulations have no legal liability for market fluctuations when providing a QDIA for employees who fail to select their own investment options. Attachment A, the fact sheet issued by the DOL regarding QDIAs, provides an overview of the major points of the QDIA regulations, including the investment alternatives and conditions that must be met for fiduciary relief.

QDIA requirements include:

1. A product with a mix of investments that takes into account the individual's age, retirement date, or life expectancy (for example, a lifecycle or target retirement date fund);
2. A product with a mix of investments that takes into account the characteristics of the group of employees as a whole, rather than each individual (for example, a balanced fund);
3. An investment service that allocates contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date (for example, a professionally managed account); and
4. A capital preservation product, which may be used only during the first 120 days of employee participation.

INDUSTRY PRACTICES

As part of a due diligence effort to determine what is currently considered a "best practice" regarding default fund selections, Department staff queried members of the National Association of Government Defined Contribution Administrators (NAGDCA) regarding its designated default funds. Prior to the passage of the PPA, moving closed funds to a like fund in the same asset class was the default fund of choice of most government-sponsored deferred compensation programs. This has changed. As illustrated in the table below, 56% of the plans responding (14 of 25) to the query have designated lifecycle funds as their default fund. Additionally, of the five s. 457 plan providers currently using a stable value fund as their default, four reported that they are or will be changing their default fund designation "soon." One of these is moving to lifecycle funds and another expects to designate a managed account option as its designated default fund. One of the plans using lifestyle funds is also seeking to change to lifecycle funds.

NAGDCA s. 457 Plan Default Fund Survey Responses					
Type of Fund	Fixed Fund	Stable Value Fund	Balanced or Moderate Fund	Lifecycle Fund	Lifestyle Fund
# of Plans Using	1	5	3	14	2
% of Plans Using	4%	20%	12%	56%	8%

The fiduciary protections provided by following QDIA regulations have resulted in many private company retirement plan sponsors also changing their designated default funds. Surveys completed in 2007 appear to indicate that private plan sponsors also have a strong preference for using lifecycle (target retirement date) funds as their default funds.

- A Hewitt Associates survey of 190 private plan sponsors revealed that "among those companies who offer automatic enrollment, almost three quarters (72%) plan to convert their default investment fund to a premixed [lifecycle] portfolio fund. According to another recent Hewitt study, 69% of companies currently default employees into diversified investment options such as target-date portfolios, and another 18% said they planned to do so in 2008."[1]

- "Another study of 41 sponsors of large s. 401(k) plans (those with assets of more than $100 million) conducted by Callan Associates found that the QDIA most likely to be used by the survey respondents was a target-date fund (70.6%), followed by a target-risk fund (17.6%). Managed accounts would not be used by any of the survey respondents as a QDIA, and 11.8% had not yet decided what QDIA would be used."[2]

DEFAULT OPTIONS

Attachment C provides the range of default options available to the Board, along with the pros and cons of each option. In staff's opinion, the two most practical default fund options for Board consideration are a balanced fund or an age-appropriate lifecycle fund.

Staff proposes that the Board consider changing the designated default fund from the Vanguard Money Market Treasury Fund to the Vanguard Target Retirement Date lifecycle funds. The Board would need to tell the administrator what retirement age to use in order to place participants in the correct lifecycle fund. Staff recommends using age 65 as the standard retirement age.

Reasons for recommending lifecycle funds as the default fund include:

- Lifecycle funds provide professionally-managed, well-diversified portfolios that automatically rebalance over a participant's time horizon.

- Designating the lifecycle funds may provide better growth opportunities during a participant's earlier participation years and yet also preserve more of a participant's principal in later years because the lifecycle funds become more conservative as the participant ages.

- Lifecycle funds appear to be an industry "best practice." They are the default fund option used by many s. 457 plan sponsors and because they meet the QDIA requirements, they are also the default fund option used by most private sector s. 401(k) plans.

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[1] http://benefitslink.com/pr/detail.php?id=41707 citing data from "Trends and Experience in 401(k) Plans," 2007, Hewitt Associates

[2] http://hr.cch.com/news/pension/091907.asp 2007 QDIA Survey, April 2007, Callan Associates

RECOMMENDATION

Staff recommends that the Board consider changing the designated default fund from the Vanguard Money Market Treasury Fund to the Vanguard Target Retirement Date lifecycle fund series.

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

Attachments

Attachment B

WDC FUND CLOSURE COMMUNICATION EFFORTS

Efforts to inform participants of impending fund option closures begin soon after the Board has made the decision to close a fund. Current efforts include:

- Newsletter articles. Four to five articles in the WDC's quarterly newsletter, *MoneyTalks*, to alert participants of the fund closure and what steps they will need to take to ensure their assets are not redirected to the default investment option.

- Four individual letters sent to the participant.
  1. The first letter is sent approximately 45 days prior to the June 1 date when the WDC stops deferrals into the closed investment option. Participants are provided information on other investment options that are available through the WDC as well as instructions on where they can find additional information or receive assistance to change their deferrals.

  2. A second letter is sent with the deferral allocation confirmation. The letter explains the removal process and that as a result of the participant not changing their deferral allocation, the percentage that they had been deferring to the closed fund has been redirected to the default investment option. The participant is also provided instructions on who to contact if they would like to change their deferral allocation.

  3. The third letter is sent approximately 45 days prior to the December 31 date when the WDC completely closes the investment option. Participants are again provided information on other investment options available through the WDC as well as instructions on where to find additional information or receive assistance in moving their account assets.

  4. The final letter explains the removal process and that as a result of the participants' inaction, their assets that were remaining in the closed fund have been exchanged to the default investment option. This letter is sent with the exchange confirmation. Participants are given instructions on how to move their assets from the default option to another investment option within the WDC.

- Web site information. Through the removal process, information is also posted to the WDC Web site to alert participants of the pending fund closure. WDC staff also address the pending closure of funds when meeting with participants, either through an informational workshop, one-on-one meetings or through telephone contact.

- WDC Web site "pop-up" box. This feature reminds participants that funds are closing and that they should move their account balances and change deferrals. Ideally, participants would then complete the process while online.

- Include a reminder message on the Integrated Voice Response telephone system that reminds participants with assets in the funds that are closing to move their accounts. This message would also remind individual participants of the fund closure and the need to move their balances. Ideally, participants would then complete the process while on the telephone with the WDC call center staff.

Attachment C

DESIGNATED DEFAULT FUND OPTIONS		
FUND	**PROS**	**CONS**
Money Market Fund	• Preserves participants' principal because it is a very conservative option • Requires no changes as this is the current designated default fund	• Does not meet PPA's QDIA requirements • To default a participant to the money market fund may change the participant's asset class allocation and may be contrary to the participant's intent • Could potentially make the Board responsible for any loss incurred by selling out of the participant's deleted fund and the loss of earnings between the participant's selected asset class and the money market fund • Would need to monitor to ensure fund remains a prudent choice and appropriate for participants • May be confusing for participants
Stable Value Fund	• Preserves participants' principal because it is a conservative option • Provides more potential for investment return than a money market fund while not necessarily increasing risk of loss of principal	• Does not meet PPA's QDIA requirements • To default a participant to the stable value fund may change the participant's asset class allocation and may be contrary to the participant's intent • Could potentially make the Board responsible for any loss incurred by selling out of the participant's deleted fund and the loss of earnings between the participant's selected asset class and the stable value fund • Would have trading restrictions: the stable value fund has a 90 day equity wash rule • Would need to monitor to ensure fund remains a prudent choice and appropriate for participants • May be confusing for participants
Balanced Fund	• May preserve more of participants' principal because it is a conservative option • Meets PPA's QDIA requirements	• To default a participant to a balanced fund may change the participant's asset class allocation and may be contrary to the participant's intent • Could potentially make the Board responsible for any loss incurred by selling out of the participant's deleted fund and the loss of earnings between the participant's selected asset class and the balanced fund • Would need to monitor to ensure fund remains a prudent choice and appropriate for participants • May be confusing for participants

Attachment C

DESIGNATED DEFAULT FUND OPTIONS		
FUND	**PROS**	**CONS**
Age-appropriate Lifecycle Fund	• May preserve more of participants' principal because the lifecycle fund will become more conservative as the participant ages • Offers professionally managed, well-diversified portfolio that automatically rebalances over the participant's time horizon • Meets PPA's QDIA requirements	• Option may be contrary to the participant's intent • Could potentially make the Board responsible for any loss incurred by selling out of the participant's deleted fund and the loss of earnings between the participant's selected asset class and the money market fund • Board must tell administrator what age to use as standard retirement age (65) so that participants' assets are placed in the appropriate lifecycle fund • Would need to monitor to ensure fund remains a prudent choice and appropriate for participants • May be confusing for participants
Like Asset Class Fund (e.g., large cap to large cap)	• The participant stays in the asset class they originally selected • Generally, movement between like funds in an asset class should not incur market losses • May reduce the Board's fiduciary risk: the move can be defended by demonstrating that default fund is in the asset class originally selected by the participant • Meets PPA's QDIA requirements	• May not preserve principal • May have to decide on which fund to send default accounts – an asset class may have both active and passive (index) funds • Board would need to monitor to ensure fund remains a prudent choice and appropriate for participants • May be confusing for participants • May be problematic because the Board cannot know for sure if the participant has specifically selected the fund manager and the asset class or just the asset class
Managed Account Service	• Meets PPA's QDIA requirements • Offers professionally managed, well-diversified portfolio that is regularly rebalanced over the participant's time horizon	• Participant must pay a fee for using the managed account service; could be an unanticipated additional expense • May be confusing for participants • WDC does not yet offer managed account services

STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
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CORRESPONDENCE MEMORANDUM

DATE: April 21, 2008

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: Managed Accounts -- Reality Investing

The Investment Committee recommends that the Board consider approving the addition of Reality Investing services to the Wisconsin Deferred Compensation Program (WDC). Staff concurs with this recommendation.

Throughout 2007 and in early 2008, the Board discussed a new type of service available to participants called "managed accounts." Managed account services provide interested individuals with additional financial management services. The WDC's administrative service provider, Great-West Retirement Services (GWRS), has a division known as Advised Assets Group (AAG). AAG has worked with Ibbotson Associates (a subsidiary of Morningstar as of 2006) to develop "Reality Investing," which is their version of managed accounts services.

The Board directed the Investment Committee to conduct additional analysis regarding the merits of providing a managed accounts service to WDC participants and recently, the Board directed the Investment Committee to review the draft Reality Investing agreement and the proposed implementation timeline and education materials. On March 25, 2008, the Investment Committee discussed these documents and agreed that the Board should consider adding a managed account service to the WDC.

If the Board decides to add Reality Investing, staff recommends that the Board amend its contract with GWRS to include the managed account services provided by GWRS' sister company, AAG. Department staff has been negotiating contract amendment language. Draft copies of the proposed documents are included as attachments to this memo.

Department staff will be available at the meeting to discuss the information in this memo.

attachments

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature Date

Board	Mtg Date	Item #
DC	05/06/2008	8

SECOND AMENDMENT TO THE STATE OF WISCONSIN DEFERRED COMPENSATION PROGRAM ADMINISTRATIVE SERVICE CONTRACT BETWEEN THE STATE OF WISCONSIN DEFERRED COMPENSATION BOARD AND GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

This Second Amendment to the State of Wisconsin Deferred Compensation Program Administrative Service Contract (hereinafter "SECOND AMENDMENT") made and entered into between the State of Wisconsin Deferred Compensation Board ("BOARD") and the Department of Employee Trust Funds ("DEPARTMENT") on behalf of the State of Wisconsin Deferred Compensation Program ("PLAN") and Great-West Life & Annuity Insurance Company ("GREAT-WEST") pursuant to Article 2.8 of the Administrative Service Contract ("AGREEMENT") to amend the AGREEMENT between the parties.

WHEREAS, the BOARD and GREAT-WEST desire to make available to Participants in the PLAN investment advisory and discretionary managed account services ("Reality Investing®") through GREAT-WEST'S subsidiary, Advised Assets Group, LLC ("AAG"), a federally registered investment adviser under the AGREEMENT.

NOW, THEREFORE, the parties hereby agree as follows:

1. GREAT-WEST, by and through its wholly owned subsidiary, AAG, agrees to make available Reality Investing® Advisory Services to Participants in the PLAN and the AGREEMENT is hereby amended by adding this SECOND AMENDMENT and hereby incorporated into the AGREEMENT.

2. The terms and conditions set forth in this SECOND AMENDMENT and shall only apply to the Reality Investing® Advisory Services.

3. Except for additional terms, conditions, and modifications contained in this SECOND AMENDMENT, and any other modifications contained in this SECOND AMENDMENT, all other terms of the AGREEMENT, including amendments thereto remain unchanged and shall continue to apply with respect to the AGREEMENT.

IN WITNESS WHEREOF, THE BOARD, ON BEHALF OF THE STATE OF WISCONSIN, AND GREAT-WEST HAVE EXECUTED THREE (3) ORIGINALS OF THIS SECOND AMENDMENT EFFECTIVE THE ______ DAY OF __________________, 2008.

State of Wisconsin Deferred Compensation Board

Name: Edward D. Main Title: Board Chair

Signature: Date:

Witnessed by

Name: Title:

Signature: Date:

Great-West Life & Annuity Insurance Company

Name: Gregory E. Seller Title: Senior Vice President, Government Markets

Signature: Date:

Witnessed by

Name: Title:

Signature: Date:

Advised Assets Group as to this Second Amendment Only

Name: Title:

Signature: Date:

Witnessed by

Name: Title:

Signature: Date:

SECOND AMENDMENT
Reality Investing® Advisory Services Agreement

This Reality Investing® Service Advisory Services Agreement (this "Agreement") is entered into as of the ___ day of _______________, 2008 by the Wisconsin Deferred Compensation Program (the "Plan Sponsor") and Advised Assets Group, LLC ("AAG"), located at 8515 East Orchard Road, Greenwood Village, Colorado 80111.

RECITALS

Whereas, the Plan has established defined contribution plans under the Internal Revenue Code (the "Plan"); and

Whereas, the Plan Sponsor has selected Great-West Retirement Services ("GWRS"), a division of Great-West Life & Annuity Insurance Company ("Great-West"), to provide administrative and other services to the Plan as set forth in the service agreement between the Plan Sponsor and Great-West ("Service Agreement"); and

Whereas, AAG, a wholly owned subsidiary of Great-West, provides investment guidance, advisory and discretionary managed account services ("Reality Investing®) to defined contribution plan participants; and

Whereas, AAG has conducted a rigorous review and evaluation of participant level advisory service providers and has selected an independent financial expert ("Independent Financial Expert") to provide such services to AAG for use under Reality Investing, and has negotiated certain pricing arrangements for AAG clients; and

Whereas, the Independent Financial Expert has developed a methodology and proprietary software and technology used to provide participant level investment advice and discretionary managed account services; including personalized Internet-based guidance, investment advisory services and discretionary managed account services with respect to investment choices held within defined contribution plans; and

Whereas, the Plan Sponsor desires to make Reality Investing available to participants ("Participants") in the Plan in accordance with Appendix A, attached hereto and incorporated herein; and

Whereas, AAG will assist the Plan Sponsor in the establishment of Reality Investing and with the ongoing review and monitoring of the services provided by the Independent Financial Expert and will facilitate the Participants' access to the Reality Investing;

Now therefore, the parties hereto, in consideration of the mutual covenants and representations herein contained, do hereby agree as follows:

TERMS

Article 1
Selection

Plan Sponsor hereby agrees to retain AAG as investment adviser to the Plan to provide the services selected on Appendix A, as described in Article 2.

Article 2
Services

2.1 AAG will make available Reality Investing to Participants in accordance with Appendix A. Reality Investing includes one or more of the following:

Online Investment Guidance – AAG's online investment guidance tool (the "Guidance Service" is geared toward Participants who wish to manage their own retirement accounts. Participants are provided access to on-line guidance tools.

Online Investment Advice – AAG's online investment advice service (the "Advice Service" is geared toward Participants who wish to manage their own retirement accounts while taking advantage of on-line guidance and investment advice. Participants are provided on-line guidance and investment advice for a personalized recommended investment portfolio. The recommended investment portfolio is based on information drawn from the Participant's defined contribution account profile and from the core investment options ("Core Investment Options") available in the Plan. Core Investment Options are those investment options selected for use in the Plan by Plan Sponsor which provide investment choice under the following asset categories: Fixed Income/Cash, Bond, Large Cap, Small/Mid Cap, and International. Core Investment Options do not include any employer stock alternatives or self-directed brokerage option alternatives. The Participant then implements the recommended investment portfolio and manages his or her retirement account on-line.

Managed Account Service – AAG's discretionary managed accounts (Managed Account") is geared toward Participants who wish to have a qualified financial expert select among the Plan's available Core Investment Options and manage their retirement accounts for them. The Participant receives a personalized investment portfolio that reflects the Plan Core Investment Options and the Participant's retirement timeframe, life stages, risk tolerance and overall financial picture, including assets held outside the Plan (if the Participant elects to provide this information), which may be taken into consideration when determining the allocation of assets in the Participant's Plan account (AAG does not provide advice for, recommend allocations of, or manage a Participant's outside or non-Plan assets). Under Managed Account, AAG has discretionary authority over allocating among the available Core Investment Options, without prior Participant approval of each transaction.

Managed Account assets in the Plan's Core Investment Options will be automatically monitored, rebalanced and reallocated every quarter by AAG based on data resulting from the methodologies and software employed by the Independent Financial Expert to respond to market performance and to ensure optimal account performance over time. Participants will receive an account update and forecast statement annually and can update personal information at any time by calling AAG at the Plan's toll-free customer service number, or visiting the Plan's web site.

Under Reality Investing, AAG does not provide advice for, recommend allocations of, or provide management services for individual stocks, self-directed brokerage accounts, guaranteed certificate [any funds with a liquidity restriction will not receive any advice allocation] funds, or employer-directed monies. A Participant's balance in employer-directed monies may be liquidated, subject to Plan and/or investment provider restrictions. Participants may be required to liquidate the above-referenced funds prior to or as a condition of enrolling in Managed Accounts, subject to Plan and/or investment provider restrictions.

AAG will on an ongoing basis review the methodology and services of the Independent Financial Expert and integrate the Plan's Core Investment Options into Reality Investing. AAG will provide the Plan Sponsor periodic written reports of Participant usage of Reality Investing

The Plan must select and at all times maintain Core Investment Options which cover the following broad asset categories in order to use Online Investment Advice and the Managed Account Service under Reality Investing: Fixed Income/Cash, Bond, Large Cap, Small/Mid Cap, and International. The asset classes and Core Investment Options must meet the requirements of the Independent Financial Expert which may be amended from time to time. Should the requirements of the Independent Financial Expert not be met, AAG and the Independent Financial Expert has the right to suspend Reality Investing until the requirements of the Independent Financial Expert are satisfied. The Independent Financial Expert is solely responsible for determining the adequacy of exposure to the aforementioned asset classes and for determining the core asset class exposures needed for the provision of Online Investment Advice and the Managed Accounts Service.

Reality Investing will not be available for participant use for seven (7) to ten (10) business days following changes to the investment option lineup. AAG and Ibbotson need to conduct a new analysis of the available investment option array to accommodate these changes. This analysis will take approximately 7 to 10 business days, during which time, the Online Investment Guidance, Advice, and Managed Account services will not be available for participant use. Once the analysis is complete, the Online Investment Guidance, Advice, and Managed Account services will once again be available.

2.2 Plan Sponsor hereby authorizes AAG to offer Reality Investing to Participants in accordance with Appendix A, using Participant information provided to AAG by Participants, the Plan Sponsor or its agents, and/or AAG's affiliates. Plan Sponsor acknowledges and agrees that Reality Investing will be provided by AAG based on the methodology and proprietary software provided by the Independent Financial Expert. AAG shall consult with the Department regarding plans to provide information on Reality Investing to plan participants. All Reality Investing marketing shall be subject to Department approval.

2.3 Plan Participants shall pay all AAG fees, in accordance with Appendix A, for the respective services utilized. Plan Sponsor authorizes Great-West to serve as collection agent for AAG and deduct fees from Plan Participant accounts that affirmatively enroll in Reality Investing, online or by paper enrollment, and become actual users, in accordance with Appendix A.

2.4 AAG has authorized GWFS Equities, Inc. ("GWFS") and its licensed agents and registered representatives who are GWRS employees (collectively referred to as "Solicitors") to solicit, refer and market AAG's Reality Investing advisory services to potential and current investment advisory clients. GWFS is a Broker/Dealer, registered with the SEC and is an affiliate company of AAG. The licensed agents and registered representatives of GWFS are employees of Great-West Life & Annuity Insurance Company ("GWLA"). AAG and GWFS, are wholly-owned subsidiaries of GWLA.

Article 3
Representations and Warranties

3.1 Both Parties. Each party hereto represents, warrants and consents that (a) it is authorized to enter into and perform its obligations under this Agreement; (b) any actions by, or filings with, any governmental body required for the party to enter into and perform its obligations under this Agreement have been taken or made or will be taken or made when required; (c) entering into and performing its obligations under this Agreement does not violate any applicable law, rule or regulation or its organizational documents or any other binding instrument; (d) this Agreement has been duly executed and delivered; and (e) it will perform its obligations in compliance with all applicable laws, rules and regulations.

3.2. AAG

(a) AAG represents that it is registered as an investment adviser under the Investment Advisers Act of 1940 ("Advisers Act"). AAG agrees to maintain the required federal or state investment advisory registrations that permit it to perform its obligations under this Agreement. AAG acknowledges and agrees that it may be deemed to be a fiduciary of the Plan(s) under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), if applicable, to the extent it provides investment advice or management to Participants under Reality Investing.

(b) AAG represents that the Independent Financial Expert is not affiliated with AAG or Great-West and that AAG has entered into an agreement with the Independent Financial Expert. AAG's agreement with the Independent Financial Expert includes representations that the Independent Financial Expert: (a) is registered as an investment adviser under the Advisers Act, and (b) will maintain the required federal or state investment advisory registrations that permit it to perform its obligations under its agreement with AAG.

3.3 Plan Sponsor. Plan Sponsor represents that it is the Plan fiduciary with the authority to execute this Agreement on behalf of the Plan and its Participants and commit to the terms of this Agreement. Plan Sponsor, by itself and on behalf of the Plan, represents and acknowledges that it has received and read AAG's Form ADV Part II (or equivalent), consistent with Rule 204-3 of the Advisers Act. Plan Sponsor acknowledges that the Core Investment Options offered through the Plan(s) were chosen by the Plan Sponsor and not by AAG, Great-West or the Independent Financial Expert.

Article 4

Term, Termination & Substitution of Independent Financial Expert

4.1 Term and Termination of this Agreement. This Agreement shall be effective as of the date stated above (the "Effective Date") and continue in force for three years from the Effective Date ("Initial Term"). This Agreement shall renew automatically for successive one (1) year terms ("Renewal Term(s)") unless one party provides the other party with written notice of its intent not to renew the Agreement no less than ninety (90) days prior to the end of the Initial Term or any subsequent Renewal Term. This Agreement may be terminated prior to the end of the Initial Term or any Renewal Term in the following circumstances:

(a) Plan Sponsor may terminate this Agreement upon written notice to AAG if Plan Sponsor determines in good faith that the Agreement is not consistent with its fiduciary duties under ERISA, if applicable, or applicable state law;

(b) If Plan Sponsor determines that AAG has materially failed to meet its service commitments to the Plan as set forth in this Agreement, and if AAG has failed to cure such deficiencies within sixty (60) days of its receipt of Plan Sponsor's written notice of such deficiencies, then Plan Sponsor may terminate this Agreement upon written notice to AAG;

(c) Either party may terminate this Agreement upon written notice in the event of default by the other party if the defaulting party has failed to cure such deficiencies within sixty (60) days after its receipt of the non-defaulting party's written notice of deficiencies;

(d) In the event that Plan Sponsor terminates its Service Agreement with Great-West, or the Service Agreement expires pursuant to its own terms, this Agreement shall automatically terminate, effective on the same date the Service Agreement between Plan Sponsor and Great-West terminates or expires; or

(e) AAG may terminate this Agreement under the conditions set forth in Section 4.2;

(f) Either may terminate this Agreement without cause upon ninety (90) days written notice to other party; or

(g) The parties may mutually agree to terminate this Agreement at any time.

Upon termination of this Agreement for any reason, all Actual Users, as defined in Appendix A, will be immediately restricted from using Reality Investing.

4.2 Substitution of the Independent Financial Expert. During the term of this Agreement, AAG reserves the right to replace the Independent Financial Expert in its sole discretion. AAG will promptly notify the Plan Sponsor of any such proposed change in writing; including making all reasonable efforts to provide the Plan Sponsor with at least 90 days notice, and further, making all reasonable efforts to present such a decision to the Plan Sponsor in person, should the Plan Sponsor so request. In the event AAG is unable to contract with a suitable replacement Independent Financial Expert, this Agreement shall automatically terminate upon written notice to the Plan Sponsor.

Article 5
Confidentiality

5.1 AAG and the Independent Financial Expert's Confidential Information. Plan Sponsor acknowledges that information regarding AAG, the Independent Financial Expert, and Reality Investing including, without limitation, the databases, hardware, software, programs, engine, protocols, models, displays and manuals, including, without limitation, the selection, coordination, and arrangement of the contents thereof are intellectual property and trade secrets, proprietary to AAG and/or the Independent Financial Expert, as applicable, and constitute "Confidential Information." Plan Sponsor acknowledges that all nonpublic information regarding the business and affairs of AAG and the Independent Financial Expert including, but not limited to, business plans, agreements with third parties, fees, services, customers, and finances, constitute Confidential Information.

5.2 Plan Sponsor's Confidential Information. All nonpublic information regarding the Plan, the business and affairs of the Plan Sponsor, all Plan Sponsor intellectual property and all personal information of Participants including, but not limited to, the names, addresses, social security numbers, financial information and compensation data of the Participants, learned by AAG or the Independent Financial Expert in the performance of this Agreement constitutes Confidential Information of the Plan Sponsor. Notwithstanding the foregoing, AAG may provide nonpublic information it learns about Participants to the Plan Sponsor and the plan provider for reporting purposes.

5.3 Non-Confidential Information. Anything in this Agreement to the contrary notwithstanding, the term "Confidential Information" does not include information regarding a party which (i) was, is or becomes generally available to the public other than as a result of a disclosure by the receiving party or any of its affiliates, agents or advisors, (ii) was or becomes available to a party or its affiliates from a source other than the disclosing party or its affiliates or advisors, provided that such source is not bound by a confidentiality agreement for the benefit of the disclosing party, (iii) was within a party's possession prior to being furnished by or on behalf of the other party provided that the sources of such information were not covered by a confidentiality agreement in favor of the party owning the confidential information, provided such confidentiality agreement was known to the receiving party at the time the information is obtained.

5.4 Treatment of Confidential Information. Confidential Information will be used by a party solely in connection with the performance of its obligations under this Agreement. Each party will receive the Confidential Information in confidence and not disclose it to any third party except as may be necessary to perform its obligations under this Agreement or as agreed to in writing by the other party. Each party further agrees to take or cause to be taken all reasonable precautions to maintain the secrecy and confidentiality of the Confidential Information. Neither party may disclose, and shall make reasonable efforts to prevent the disclosure of, any part of the Confidential Information to another person. Confidential Information may be disclosed to a party's directors, officers, employees, consultants, representatives, and the Plan's recordkeeper (each a **"**Representative**"**) who need to know in order to further the purposes and intent of this Agreement. Disclosure of Confidential Information may be made to such Representative only after the Representative has been informed of the confidential nature of such information and has agreed to be bound by the terms of this Agreement's confidentiality provisions.

Article 6
Miscellaneous

6.1 Notwithstanding anything else contained herein, this Agreement may be amended, supplemented or restated only with the written consent of both parties. The parties agree that they will amend, supplement or restate this Agreement as necessary to comply with changes to applicable law, as amended from time to time.

6.2 This Agreement and its Appendices constitute the entire agreement between the parties relating to the subject matter hereof.

6.3 This Agreement will be governed by, and interpreted according to, Wisconsin law without regard to its conflict of law principles, except to the extent it may be preempted by federal law.

6.4 Plan Sponsor acknowledges that neither AAG nor Great-West makes any representation concerning the tax treatment regarding an election by a Plan Sponsor to pay (or have the Plan or Participant pay) for Reality Investing.

6.5 Neither AAG or Plan Sponsor are liable for any losses a Participant may incur if the value of his or her account should decrease related to the Participant's use of any component of Reality Investing and/or the Participant's investment decisions in following, or not following, any investment advice produced through Reality Investing except as provided in Section 6.7.

6.6 Neither party shall be liable for any delay or failure to perform its obligations (other than a failure to comply with payment obligations) hereunder if such delay or failure is caused by an unforeseeable event beyond the reasonable control of a party, including without limitation: act of God; fire; flood; earthquake; labor strike; sabotage; fiber cut; embargoes; power failure, e.g., rolling blackouts, electrical surges or current fluctuations; lightning; supplier's failures; act or omissions of telecommunications common carriers; material shortages or unavailability or other delay in delivery; lack of or delay in transportation; government codes, ordinances, laws, rules, regulations or restrictions; war or civil disorder, or act of terrorism.

6.7 Indemnity and Limitation of Liability.

(a) AAG agrees to indemnify the Plan, Plan Sponsor, and their employees, hold them harmless and defend them from any Liability (as defined below) including reasonable attorney's fees incurred by the Plan or Plan Sponsor, resulting from the following: (i) any breach of fiduciary duty by AAG; (ii) negligence or willful misconduct by AAG or the Independent Financial Expert, to the extent that such Liability is not caused by the Plan Sponsor's breach of this Agreement, or caused by or attributable to an act or omission, negligence, or willful misconduct of the Plan Sponsor. This clause will not be construed to bar any legal remedies AAG may have for the Plan, Plan Sponsor's or their employees' negligence, willful misconduct or failure to fulfill their obligations under this contract.

For purposes of this Section 6.7, "Liability" means any claim, liability, damages, losses, or expenses, including reasonable attorneys' fees as incurred by the Plan Sponsor. The Plan Sponsor shall not be liable for any AAG attorney fees.

Neither party will be responsible to the other party for any Liability attributable to an act or omission of a Participant user, the other party, or a third party. NO PARTY WILL BE LIABLE FOR ANY CONSEQUENTIAL, SPECIAL, INCIDENTAL, INDIRECT OR PUNITIVE DAMAGES, EVEN IN THE EVENT OF A FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY OR IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

AAG's indemnity extends to the Plan's fiduciaries, agents, directors, officers, trustees, custodians and employees. AAG's indemnity obligations will be reduced to the extent that its ability to manage the claim is materially harmed by any failure of the other to give prompt notice of the claim, complete information and reasonable assistance to defend or settle the claim. The indemnity does not cover any Liability for which the indemnified party actually receives reimbursement or indemnification from another person, including under a liability insurance policy. Any finding that any aspect of this indemnification provision is unenforceable by operation of law will not affect any other portion of this provision.

(b) If the Plan or Plan Sponsor seeks indemnification pursuant to this Section 6.7, the Plan or Plan Sponsor shall give prompt written notice to AAG of any Liability (a "Claim") in respect of which indemnity may be sought hereunder, such notice (the "Claim Notice") shall (i) describe such Claim in reasonable detail (including a reasonable summary of the facts underlying each particular claim; (ii) attach copies of any material written evidence in the Plan or Plan Sponsor's possession upon which such Claim is based to the extent reasonably needed at such time for AAG to assess such Claim (provided that to the extent such written evidence is not reasonably available at such time, the Plan or Plan Sponsor shall so indicate, and shall promptly provide such evidence when it becomes available); and (iii) to the extent feasible, set forth the estimated amount of liability for which AAG may be liable; provided that no delay on the part of the Plan or Plan Sponsor in giving any such Claim Notice that complies with the requirements set forth herein shall relieve AAG of any indemnification obligation hereunder except to the extent that AAG is actually prejudiced by such delay.

(c) AAG shall have thirty days from its receipt of a Claim Notice that complies with the requirements set forth in Section 6.7(b) (the "Notice Period") to notify the Plan or Plan Sponsor whether AAG desires, at its sole cost and expense and by counsel of its own choosing, to compromise or assume and control the defense of the Liability. AAG's decision not to compromise or assume and control the defense of the Liability in accordance with this Section 6.7(c) shall not otherwise relieve AAG of its indemnification obligations, except as may otherwise be provided in Section 6.7.

6.8 If any provision of this Agreement is invalid or unenforceable, the remainder of the Agreement will remain in effect.

6.9 Except as specifically provided herein, neither party may assign any of its rights or obligations under this Agreement without the written consent of the other party, which will not be unreasonably withheld or delayed. This Agreement will bind and inure to the benefit of the parties as well as their permitted successors and assigns.

6.10 The failure of a party to enforce any provision or obligation of this Agreement will not constitute a waiver of the provision or obligation or of any future obligation. A party's delay or failure in performance resulting from causes or conditions beyond its reasonable control will not constitute a breach or default.

6.11 Notices will be in writing and sent to the address specified in this Agreement or to any new address the party has supplied.

6.12 AAG currently maintains an Errors and Omission Liability Insurance policy in the amount of $5,000,000 in the aggregate.

APPENDIX A – REALITY INVESTING TERM SHEET

Plan Sponsor:	**Wisconsin Deferred Compensation Program**
Plan(s):	**98971-01**
Target Rollout Date:	**07/01/2008**
Initial Term:	**Three years from the Effective Date.**

A. Participant Fees.

Participant means an employee who is enrolled in and has established an account in the Plan. Participants that enroll in any of the below services become actual users ("Actual Users").

The Participant will review and agree to the Terms of Service prior to enrollment in any of the three services described below.

Online Investment Guidance -- An online tool that provides personalized asset allocation assistance without recommending any one specific fund. There is no fee for using Online Investment Guidance.

Online Investment Advice – An online tool that provides personalized investment option specific recommendations based upon a participant's financial situation. The fee for Online Investment Advice is $25.00 per year, or $6.25 per quarter. This fee can be paid for by the Plan Sponsor or the Plan Participant. If it is paid for by the Participant, the fee will be debited from the accounts of those Actual User accounts within the last five (5) to seven (7) business days of each quarter; however, if the Actual User cancels his or her enrollment in Online Investment Advice, the fee will still be debited from the Actual User's account within the last five (5) to seven (7) days prior to the end of the quarter that the cancellation was processed. As well, if the Plan terminates its Service Agreement with GWRS, the fee will be debited upon such termination. Enrollment in the Online Investment Advice at any time during a quarter will result in the Actual User account being debited, or the Plan Sponsor incurring the charge for the quarterly fee.

Plan Sponsor agrees the Online Investment Advice fee will be paid for by a Plan Participant, as described above, unless the following box is checked.

☐ Plan Sponsor Pay

Managed Account Service – The tiered pricing described in the table below applies to Managed Account Service. Actual Users will be charged a quarterly fee based on their account balance that AAG manages on the day the fee is debited. The fee will generally be debited from the Actual User's account within the last five (5) to seven (7) business days of each quarter. If the Actual User cancels participation in the Managed Account Service, the fee will be based on the Actual User's account balance on the date of cancellation and will be debited from the Actual User's account within five (5) to seven (7) business days prior to the end of that quarter. As well, if the Plan terminates its Service Agreement with GWRS, the fee will be debited upon such termination. The fee for an Actual User is depicted below.

Participant Account Balance	***Managed Account Annual Fee***
First $100,000 of account balance	0.60 %
Next $150,000, up to $250,000 account balance	0.50 %
Next $150,000, up to $400,000 account balance	0.40 %
Amounts greater than $400,000	0.30 %

For example, if an Actual User's account balance subject to Managed Account Service is $50,000, the fee is 0.60% of the account balance. If the account balance subject to Managed Account Service is $500,000, the first $100,000 will be subject to a fee of 0.60%, the next $150,000 will be subject to a fee of 0.50%, the next $150,000 will be subject to a fee of 0.40%, and amounts over $400,000 will be subject to a fee of 0.30%.

Plan Sponsor agrees the Managed Account Service fee will be paid for by a Plan Participant, as described above, unless the following box is checked.

☐ Plan Sponsor Pay

AAG reserves the right to offer certain plan discounted fees or other promotional pricing.

Actual Users must allocate all of their account balance to the Managed Account Service. Partial management of the account whereby Actual Users can invest in other Core Investment Options while also participating in the Managed Account Service is not an option. Once enrolled in the Managed Account Service, Actual Users will no longer be able to make allocation changes to their accounts online, via paper, or through the Plan's existing toll-free customer service number. In addition, Actual Users will not be able to make fund-to-fund transfers, change fund allocations, or utilization of dollar cost averaging and/or rebalancer. Actual Users may still request and be approved for loans, take a distribution, and retain full inquiry access to their account. All of the aforementioned functionality will be restored to the Actual User's account no later than the next business day markets are open after they cancel their participation in the Managed Account Service.

Actual Users may cancel their participation in Managed Account Service at any time by completing the cancellation form available online through the Plan web site or by calling AAG at the Plan's existing toll-free customer service number.

B. **<u>Set-Up Fee</u>**: Included. Set-up services include analyzing features of system parameters of the Plan and the underlying investments, assigning unique portfolio accounts for Actual Users and testing systems environments. If additional set-up services are required, any fees will be separately negotiated.

C. **<u>Communication and Ongoing Maintenance Fee</u>:** Included. The communication and ongoing maintenance fee includes monitoring the use of Reality Investing, and integrating Reality Investing communications into the Plan's overall communications campaign, including enrollment materials, forms, web site, and group meetings.

At least one mailing to a broad range of Participants regarding Managed Account Service may be included in the standard services package for which there is no additional fee. Standard materials may include a discussion of Reality Investing in enrollment/education materials, on the web site, and/or in personalized Participant materials if the Plan is providing a full payroll data interchange file. Additional or custom Participant communications materials will be used by AAG and may be paid for by AAG, Great-West or the Plan Sponsor, as negotiated on a case-by-case basis. Such additional or custom communications may include targeted marketing techniques based upon participant demographical and/or account data (including but not limited to age, income, deferral rates, current investment elections) to identify participants who may benefit from participation in the Managed Account Service. The participants identified will be targeted for additional solicitations or other marketing efforts designed to educate them regarding the features of the Managed Account Service.

The dedicated representative(s) of the Plan, Plan Sponsor, Great-West and AAG, as applicable, will facilitate communications regarding Reality Investing.

Reporting: On a quarterly basis, AAG shall provide Plan Sponsor with a report on the number of Actual Users enrolled in Reality Investing.

Addition of New Plans: Tax-deferred plans not listed at the top of this Appendix A that are added to Plan Sponsor's program after the Effective Date will not be included in this Agreement, and will be subject to additional fees.

ADVISED ASSETS GROUP, LLC
Advisory Services AGREEMENT

Please read the following terms and conditions carefully before using or enrolling in any of the services described below. Your use of any service will signify your consent to be bound by the terms and conditions set forth in this Agreement.

Fees for the Service

Fees for each service are shown below. The fees are assessed on a quarterly basis and the chart below reflects the quarterly and annually fee amount.

Guidance	***Quarterly Fee***	***Annual Fee***
	No Fee	No Fee

Advice	***Quarterly Fee***	***Annual Fee***
	$6.25	$25.00

Managed Accounts	***Quarterly Fee***	***Annual Fee***
Participant Account Balance		
< $100,000.00	0.1625 %	0.65 %
Next $150,000.00	0.1375 %	0.55 %
Next $150,000.00	0.1125 %	0.45 %
> $400,000.00	0.0875 %	0.35 %

For example, if your account balance subject to Managed Accounts is $50,000.00, the maximum annual fee is 0.65% of the account balance. The amount collected quarterly would be 0.1625% based upon your account balance on the day of fee assessment as described above. If your account balance subject to Managed Accounts is $500,000.00, the first $100,000.00 will be subject to a maximum annual fee of 0.65% (quarterly 0.1625%), the next $150,000.00 will be subject to a maximum annual fee of 0.55% (quarterly 0.1375%), the next $150,000.00 will be subject to a maximum annual fee of 0.45% (quarterly 0.1125%), and any amounts over $400,000.00 will be subject to a maximum annual fee of 0.35% (quarterly 0.0875%). All fees are assessed on a quarterly basis. For example, the maximum quarterly fee for an account balance less than $100,000.00 (subject to maximum annual fee of 0.65%) would be 0.1625% quarterly, as demonstrated above.

The fees for Advice and Managed Accounts will generally be debited from your account within the last five (5) to seven (7) business days of each quarter; however, if you cancel participation in Managed Account Investor, the fee will be based on your account balance on the date of cancellation and will be debited from your account within five (5) to seven (7) business days of the cancellation date. Use of online investment advice at any time during a quarter will result in your account being debited the quarterly fee. If your Plan terminates its agreement with AAG, the fee, based on your account balance on the date of termination, will be debited within the last five (5) to seven (7) business days of that quarter. If your Plan terminates its service agreement with Great-West Life & Annuity Insurance Company (“Great-West”), the fee, based on your account balance on the date of termination, will be debited upon termination. The fee you are charged depends on the Plan you participate in, and in certain instances, the fee for the Managed Account Investor may actually be lower than the fee depicted below.

DISCLAIMERS

Advised Assets Group, LLC ("AAG") uses reasonable care, consistent with industry practice, in providing services to you. AAG and your Plan Sponsor do not guarantee the future performance of your account or that the investments we recommend will be profitable. Investment return and principal value will fluctuate with market conditions, and you may lose money. The investments we may recommend, or purchase for your account, if applicable, are subject to various risks, including without limitation business, market, currency, economic, and political risks. AAG does not provide advice for, recommend allocations of, or manage individual stocks (including employer stock), self-directed brokerage accounts, guaranteed certificate funds, or employer-directed monies, even if they are available for investment in your Plan. We do not select the investment options available for investment in your Plan. By recommending allocations among the available investment options, we are not endorsing the selection of particular investments options available in your Plan.

AAG and the Plan Sponsor will not be liable to you for any loss caused by (1) our prudent, good faith decisions or actions, (2) following your instructions, or (3) any person other than AAG or its affiliates who provides services for your account. Neither AAG nor your Plan Sponsor will not be liable to you for any losses resulting from your disclosure of your personal information or your PIN number to third parties even if the purpose of your disclosure is to enable such person to enroll you in, or cancel your enrollment in, Advisory Services. AAG is not responsible for voting proxies for the securities in your account. We do not guarantee that the services or any content will be delivered to you uninterrupted, timely, secure, or error-free.

TO THE MAXIMUM EXTENT PERMITTED BY LAW, AAG DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE SERVICES AND THE SERVICE CONTENT, AND ALL INFORMATION DERIVED FROM THEM, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, QUALITY, ACCURACY, TITLE, NON-INFRINGEMENT, AND IMPLIED WARRANTIES ARISING FROM COURSE OF PERFORMANCE OR COURSE OF DEALING. IN ADDITION, ALTHOUGH AAG INTENDS TO TAKE REASONABLE STEPS TO PREVENT THE INTRODUCTION OF VIRUSES OR OTHER DESTRUCTIVE MATERIALS TO THE SERVICE, AAG DOES NOT WARRANT THAT THE SERVICE OR CONTENT CONTAINED IN THEM WILL BE UNINTERRUPTED OR ERROR FREE, OR THAT ANY INFORMATION OR OTHER MATERIAL ACCESSIBLE THROUGH THE SERVICE IS FREE OF ERRORS, VIRUSES, WORMS, OR OTHER HARMFUL CONTENT.

LIMITATION OF LIABILITY

YOU UNDERSTAND THAT IN NO EVENT WILL THE PLAN SPONSOR, AAG OR ITS OFFICERS, DIRECTORS, SHAREHOLDERS, PARENTS, SUBSIDIARIES, AFFILIATES, EMPLOYEES, CONSULTANTS, AGENTS, LICENSORS OR ANY DATA PROVIDER BE LIABLE FOR ANY CONSEQUENTIAL, PUNITIVE, INCIDENTAL, SPECIAL OR INDIRECT DAMAGES, LOSS OF BUSINESS REVENUE OR LOST PROFITS, WHETHER IN AN ACTION UNDER CONTRACT, NEGLIGENCE OR ANY OTHER THEORY EVEN IF WE ARE ADVISED OF THE POSSIBILITY OF SUCH.

INDEMNIFICATION

You agree to indemnify, defend and hold harmless AAG and its officers, directors, shareholders, parents, subsidiaries, affiliates, employees, consultants, agents and licensors, your employer, the Plan Administrator, Plan Sponsor, Plan trustees, Plan fiduciaries, their agents, employees, and contractors from and against any and all third party claims, liability, damages and/or costs (including but not limited to reasonable attorneys' fees) arising from your failure to comply with this Agreement, the information you provide us, your infringement of any intellectual property or other right of a third party, or from your violation of applicable law.

DESCRIPTION OF SERVICES

Your plan sponsor has agreed to make one or more of the below services offered by AAG available to you. **To determine which services your plan sponsor has agreed to make available to you, please refer to the communication materials provided by AAG or ask your plan sponsor**. AAG offers the following investment advisory services; guidance, advice, and managed accounts through Advisory Services:

On-Line Investment Guidance: The On-Line Guidance Investor is geared toward participants who wish to manage their own retirement accounts. Participants are provided access to on-line guidance tools.

On-Line Advice Investor: On-Line Advice Investor is geared toward participants who wish to manage their own retirement plans while taking advantage of on-line guidance and investment advice. You are provided on-line guidance and investment advice for a personalized recommended investment portfolio. The recommended investment portfolio is based on information drawn from your Plan account profile and from the investment options available in your Plan. You may then implement the recommended investment portfolio and manage your retirement account on-line. AAG does not provide advice for, or recommend allocations of, individual stocks (including employer stock), self-directed brokerage accounts, guaranteed certificate funds, or employer-directed monies.

Managed Account Investor: Managed Account Investor is geared toward participants who wish to have a qualified financial expert select among the available investment options and manage their retirement accounts for them. You will receive a personalized investment portfolio that reflects your Plan investment options and your retirement timeframe, life stages and overall financial picture, including assets held outside the Plan (if you elect to provide this information), which may be taken into consideration when determining the allocation of assets in your Plan account (AAG will not provide advice for, recommend allocations of, or manage your outside or non-Plan assets). Under the Managed Account Investor service, AAG has discretionary authority over allocating your assets among the core investment options, without your prior approval of each transaction. AAG is not responsible for either the selection or maintenance of the investment options available within your Plan. AAG does not provide advice for, or recommend allocations of, individual stocks (including employer stock), self-directed brokerage accounts, guaranteed certificate funds, or employer-directed monies. Your balances in any of these investment options or vehicles may be liquidated, subject to your Plan's and/or investment provider's restrictions.

Managed Account Investor account assets in the Plan's core investment options will be automatically monitored, rebalanced and reallocated every quarter by AAG, based on data resulting from the methodologies and software employed by the Independent Financial Expert, to respond to market performance and to ensure optimal account performance over time. You will receive an account update and forecast statement annually and can update your personal information at any time by calling AAG at your Plan's existing toll-free customer service number or by visiting your Plan's web site.

IMPORTANT: The projections or other information generated by the advisory service tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Results may vary with each use and over time.

The Advisory Services methodology is powered by Ibbotson Associates. Ibbotson first builds stable, consistent asset allocation models at various risk levels. Based on Monte Carlo simulations of the participant's resources, liabilities, and human capital, an appropriate asset level portfolio is selected and a savings rate and a retirement age are determined that best suits each participant's situation. The asset class level model portfolios are revisited annually. Investment options from the plan's menu are then selected to implement each asset-level model portfolio. These investment options are monitored and rebalanced quarterly.

Your acceptance of the terms and conditions of this Agreement constitutes your authorization for AAG to deduct the quarterly fee. The fees are subject to change. AAG reserves the right to offer certain plans discounted fees or other promotional pricing.

Certain investment options in your Plan may charge a redemption fee. Redemption fees vary in amount and application from investment option to investment option. It is possible that transactions initiated by AAG under On Line Advice or Managed Account Investor may result in the imposition of a redemption fee on one or more investment options available in your Plan. Any redemption fees will be deducted from your account balance.

If you participate in Managed Account Investor, you must allocate all of your account balance to the Managed Account Investor service. You may not invest in other core investment options while also participating in Managed Account service. Once enrolled in Managed Account service, you will no longer be able to make investment allocation changes to your account online, via paper, or through your Plan's existing toll-free customer service number. This includes functionality for fund-to-fund transfers, change fund allocations, or utilization of dollar cost averaging and/or rebalancer. Once enrolled, you retain full inquiry access to your account and take a distribution. The aforementioned functionality will be restored to your account the next same business day markets you cancel participation in Managed Account service.

You may cancel participation in Managed Account Investor at any time by completing the cancellation form available online or by calling AAG at your Plan's existing toll-free customer service number.

GENERAL PROVISIONS

AAG acknowledges that it is a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") with respect to investment advice (On Line Advice Investor) and investment management (Managed Account Investor). AAG is not a fiduciary with respect to guidance. You may not assign this Agreement. We may not assign this Agreement (within the meaning of the Investment Advisors Act of 1940 (“Advisors Act”) without your consent. This Agreement is entered into in Denver, Colorado and governed by and construed in accordance with the laws of the State of Colorado, without regard to its conflict of law provisions. You agree that proper forum for any claims under this Agreement shall be in the courts of the State of Colorado for Arapahoe County or the United States District Court, District of Colorado. The prevailing party shall be entitled to recovery of expenses, including reasonable attorneys’ fees. This agreement constitutes the entire Agreement between you and AAG with respect to the subject matter herein. If for any reason a provision or portion of this Agreement is found to be unenforceable, that provision of the Agreement will be enforced to the maximum extent permissible so as to affect the intent of the parties, and the remainder of this Agreement will continue in full force and effect. No failure or delay on the part of AAG in exercising any right or remedy with respect to a breach of this Agreement by you shall operate as a waiver thereof or of any prior or subsequent breach of this Agreement by you, nor shall the exercise of any such right or remedy preclude any other or future exercise thereof or exercise of any other right or remedy in connection with this Agreement. Any waiver must be in writing and signed by AAG. All terms and provisions of this Agreement, including without limitation “Disclaimers”, “Limitation of Liability”, “Indemnification”, “Intellectual Property”, and “Privacy Policy”, which should by their nature survive the termination of this Agreement, shall so survive. This Agreement will automatically terminate upon termination of your Plan’s agreement with AAG, or upon termination of your Plan’s service agreement with Great-West. Nothing in this Agreement shall be construed to waive compliance with the Advisors Act, ERISA, or any applicable rule or order of the Department of Labor under ERISA. AAG shall not be liable for any delay or failure to perform its obligations hereunder if such delay or failure is caused by an unforeseeable event beyond its reasonable control, including without limitation: act of God; fire; flood; earthquake; labor strike; sabotage; fiber cut; embargoes; power failure; lightning; supplier’s failures; act or omissions of telecommunications common carriers; material shortages or unavailability or other delay in delivery; government codes, ordinances, laws, rules, regulations or restrictions; war or civil disorder, or acts of terrorism. AAG reserves the right to modify this Agreement at any time. You agree to review this Agreement periodically so that you are aware of any such modifications. Your continued participation in Advisory Services shall be deemed to be your acceptance of the modified terms of this Agreement. This Agreement shall inure to the benefit of AAG’s successor and assigns.

INTELLECTUAL PROPERTY

All content provided as part of Advisory Services, including without limitation names, logos, methodologies, and news or information provided by third parties, is protected by copyrights, trademarks, service marks, patents, or other intellectual property and proprietary rights and laws (“Intellectual Property”) and may constitute trade secrets, as defined by applicable law. All such Intellectual Property is the property of their respective owners and no rights or licenses are granted to you as a result of your participation in Advisory Services.

PRIVACY POLICY

AAG protects your privacy. We have strict policies in place to keep your personal information private. A summary of AAG policies and procedures to protect the privacy and security of your personal information is set forth below.

Types of Information We Collect. AAG collects personal information about you from your plan sponsor or employer, from applications or other forms that you complete, from your plan or service provider, and from our affiliates you have conducted business with. Such information includes without limitation, your name, address, age, salary, number of dependents, plan account balances and contributions. You may provide us with additional personal information about your investments and preferences at any time. We also keep records of all transactions in your account and any communications about your account. AAG does not specifically collect your social security number for use with the service.

Security of Your Information. We have strict procedures to protect your privacy. They include physical, administrative, and technical safeguards.

Access to Information. The only employees who have access to your personal information are those who need it to service your account, or to provide you with products or services.

Our Information-Sharing Practices. AAG will not disclose, sell, share, or reveal your personal information except in the following circumstances:

- We have your authorization to share your personal information with third parties;
- We need to share your personal information with our affiliates who provide a product or service you have requested or to maintain, service or administer your account (for example, our affiliated broker-dealer that executes transactions in your account; such affiliates do not have the right to use your personal information other than in the performance of services necessary to assist us);
- We need to share your personal information with your employer, plan sponsor and/or plan provider in order to provide the services described in our contract with your employer, plan sponsor and/or plan provider; or
- We are required by law to disclose your personal information (for example, in response to a subpoena, governmental or regulatory request, or to protect against fraud or other illegal activity).

Analysis. We may perform analyses based on data about our customers. Such data will not contain personally identifiable information.

Our Treatment of Information about Former Customers. Protecting your privacy goes beyond our relationship with you as a participant in Advisory Services. If this relationship ends, we will not share your personal information with third parties, except as law permits.

Customer Right To Change Information. To correct, amend or supplement your personal information, you may contact us at your Plan’s existing toll-free customer service number.

ABOUT ADVISED ASSETS GROUP, LLC

AAG, a wholly owned subsidiary of Great-West, is a registered investment advisor with the Securities and Exchange Commission. AAG provides guidance, advisory and management solutions to defined contribution and deferred compensation plans and participants.

Since its inception, AAG has focused on establishing, refining and continually improving the process of investment planning for plan sponsors and participants. By blending best practices investment approaches with personalized plan data and leading industry knowledge and expertise, AAG aspires to create effectively-built, diversified retirement solutions that maximize outcomes for plan participants while minimizing fiduciary risk to plan sponsors.

Additional information about the services provided by AAG may be found in AAG's Form ADV Part II, which is available free of charge online at www.advisedassetsgroup.com, upon request by calling AAG at your Plan's existing toll-free customer service number or writing AAG at: 8515 East Orchard Road, Greenwood Village, Colorado 80111.

Interest in Participant Transactions. AAG, its officers and employees may purchase securities for their own accounts and these securities may be the same as those recommended to, or invested for, you (e.g. shares of the same mutual fund).

ABOUT IBBOTSON ASSOCIATES

AAG has teamed with Ibbotson Associates, a recognized industry leader in asset allocation and investment analytics tools, to provide the underlying investment advice and portfolio management methodology that will power Advisory Services.

Ibbotson Associates, founded by Professor Roger Ibbotson in 1977, is a leading authority on asset allocation, providing products and services to help investment professionals obtain, manage and retain assets. The company's business lines include investment consulting and research, planning and analysis software, wealth forecasting, educational services and a widely used line of NASD-reviewed presentation materials.

With offices in Chicago, New York and Tokyo, Ibbotson Associates markets its integrated product line to institutional money managers, insurance companies, plan sponsors and consultants, financial planners, brokers, mutual fund firms, hedge funds, banks and small money managers.

AAG reserves the right to replace the Independent Financial Expert in its sole discretion and without your approval. AAG will notify you of any fee changes resulting from the Independent Financial Expert being replaced. In the event AAG terminates its relationship with the current Independent Financial Expert and is unable to contract with a suitable replacement Independent Financial Expert, this Agreement shall automatically terminate upon written notice from AAG.

ACCEPTANCE OF TERMS AND CONDITIONS OF ADVISORY SERVICES AGREEMENT

To determine which services your plan sponsor has agreed to make available to you, please refer to the communication materials provided by AAG or ask your plan sponsor.

If you agree to the terms and conditions set forth herein, you will be enrolled the service you requested that is offered under Advisory Services. Your acceptance of the terms and conditions shall signify your consent to be bound by the applicable provisions of this Agreement, as they relate to the Online Investment Guidance, Online Investment Advice, or Managed Account services. Please note that upon enrollment in the Managed Account service, any currently initiated transfers or transactions will be cancelled, unless the market has already closed for the day.

If you do not agree to the terms and conditions set forth herein, you will not be enrolled the service you requested that is offered under Advisory Services.

FORM ADV

Part II - Page 1

Uniform Application for Investment Adviser Registration

OMB APPROVAL
OMB Number: 3235-0049 Expires: July 31, 2008 Estimated average burden hours per response. 9.402

Name of Investment Adviser: Advised Assets Group, LLC				
Address: (Number and Street) 8515 E. Orchard Rd. 10T2	(City) Greenwood Village	(State) CO	(Zip Code) 80111	Area Code: Telephone number: (303) 737-5724

This part of Form ADV gives information about the investment adviser and its business for the use of clients. The information has not been approved or verified by any governmental authority.

Table of Contents

(Schedules A, B, C, D, and E are included with Part I of this Form, for the use of regulatory bodies, and are not distributed to clients.)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

1. A. Advisory Services and Fees. (check the applicable boxes) For each type of service provided, state the approximate

% of total advisory billings from that service. (See instruction below.)

Applicant:

- ☒ (1) Provides investment supervisory services **70%**
- ☐ (2) Manages investment advisory accounts not involving investment supervisory services .... ______**%**
- ☒ (3) Furnishes investment advice through consultations not included in either service described above…… **2%**
- ☐ (4) Issues periodicals about securities by subscription .... ______**%**
- ☐ (5) Issues special reports about securities not included in any service described above .... ______**%**
- ☒ (6) Issues, not as part of any service described above, any charts, graphs, formulas, or other devices which clients may use to evaluate securities **25%**
- ☐ (7) On more than an occasional basis, furnishes advice to clients on matters not involving securities.... ______**%**
- ☐ (8) Provides a timing service .... ______**%**
- ☒ (9) Furnishes advice about securities in any manner not described above **3%**

(Percentages should be based on applicant's last fiscal year. If applicant has not completed its first fiscal year, provide estimates of advisory billings for that year and state that the percentages are estimates.)

B. Does applicant call any of the services it checked above financial planning or some similar term? ...... Yes ☒ No ☐

C. Applicant offers investment advisory services for: (check all that apply)

- ☒ (1) A percentage of assets under management
- ☐ (2) Hourly charges
- ☒ (3) Fixed fees (not including subscription fees)
- ☐ (4) Subscription fees
- ☐ (5) Commissions
- ☐ (6) Other

D. For each checked box in A above, describe on Schedule F:

- the services provided, including the name of any publication or report issued by the adviser on a subscription basis or for a fee
- applicant's basic fee schedule, how fees are charged and whether its fees are negotiable
- when compensation is payable, and if compensation is payable before service is provided, how a client may get a refund or may terminate an investment advisory contract before its expiration date

2. Types of clients - Applicant generally provides investment advice to: (check those that apply)

- ☒ A. Individuals
- ☐ B. Banks or thrift institutions
- ☐ C. Investment companies
- ☒ D. Pension and profit sharing plans
- ☐ E. Trusts, estates, or charitable organizations
- ☒ F. Corporations or business entities other than those listed above
- ☐ G. Other (describe on Schedule F)

3. Types of Investments. Applicant offers advice on the following: (check those that apply)

A. Equity securities
- ☒ (1) exchange-listed securities
- ☐ (2) securities traded over-the-counter
- ☐ (3) foreign issuers

☐ B. Warrants

☒ C. Corporate debt securities (other than commercial paper)

☒ D. Commercial paper

☒. E. Certificates of deposit

☐ F. Municipal securities

G. Investment company securities:
- ☐ (1) variable life insurance
- ☒ (2) variable annuities
- ☒ (3) mutual fund shares

☒ H. United States government securities

I. Options contracts on:
- ☐ (1) securities
- ☐ (2) commodities

J. Futures contracts on:
- ☐ (1) tangibles
- ☐ (2) intangibles

K. Interests in partnerships investing in:
- ☐ (1) real estate
- ☐ (2) oil and gas interests
- ☐ (3) other (explain on Schedule F)

☐ L. Other (explain on Schedule F)

4. Methods of Analysis Sources of Information and Investment Strategies.

A. Applicant's security analysis methods include: (check those that apply)

(1) ☐ Charting

(2) ☒ Fundamental

(3) ☐ Technical

(4) ☐ Cyclical

(5) ☒ Other (explain on Schedule F)

B. The main sources of information applicant uses include: (check those that apply)

(1) ☒ Financial newspapers and magazines

(2) ☐ Inspections of corporate activities

(3) ☒ Research materials prepared by others

(4) ☐ Corporate rating services

(5) ☐ Timing services

(6) ☐ Annual reports, prospectuses, filings with the Securities and Exchange Commission

(7) ☐ Company press releases

(8) ☒ Other (explain on Schedule F)

C. The investment strategies used to implement any investment advice given to clients include: (check those that apply)

(1) ☒ Long term purchases (securities held at least a year)

(2) ☐ Short term purchases (securities sold within a year)

(3) ☐ Trading (securities sold within 30 days)

(4) ☐ Short sales

(5) ☐ Margin transactions

(6) ☐ Option writing including covered options uncovered options or spreading strategies

(7) ☒ Other (explain on Schedule F)

Answer all items. Complete amended pages in full circle amended items and file with execution page (page 1).

5. Education and Business Standards.

Are there any general standards of education or business experience that applicant requires of those involved in determining or giving investment advice to clients? .... Yes ☒ No ☐

(If yes, describe these standards on Schedule F.)

6. Education and Business Background.

For:

- each member of the investment committee or group that determines general investment advice to be given to clients, or
- if the applicant has no investment committee or group, each individual who determines general investment advice given to clients (if more than five, respond only for their supervisors)
- each principal executive officer of applicant or each person with similar status or performing similar functions.

On Schedule F, give the:

- name
- year of birth
- formal education after high school
- business background for the preceding five years

7. Other Business Activities. (check those that apply)

☐ A. Applicant is actively engaged in a business other than giving investment advice.

☐ B. Applicant sells products or services other than investment advice to clients.

☒ C. The principal business of applicant or its principal executive officers involves something other than providing investment advice.

(For each checked box describe the other activities, including the time spent on them, on Schedule F.)

8. Other Financial Industry Activities or Affiliations. (check those that apply)

☐ A. Applicant is registered (or has an application pending) as a securities broker-dealer.

☐ B. Applicant is registered (or has an application pending) as a futures commission merchant, commodity pool operator or commodity trading adviser.

C. Applicant has arrangements that are material to its advisory business or its clients with a related person who is a:

☒ (1) broker-dealer

☒ (2) investment company

☐ (3) other investment adviser

☐ (4) financial planning firm

☐ (5) commodity pool operator, commodity trading adviser or futures commission merchant

☒ (6) banking or thrift institution

☐ (7) accounting firm

☐ (8) law firm

☒ (9) insurance company or agency-

☐ (10) pension consultant

☐ (11) real estate broker or dealer

☐ (12) entity that creates or packages limited partnerships

(For each checked box in C, on Schedule F identify the related person and describe the relationship and the arrangements.)

D. Is applicant or a related person a general partner in any partnership in which clients are solicited to invest? Yes ☐ No ☒

(If yes, describe on Schedule F the partnerships and what they invest in.)

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

9. **Participation or Interest in Client Transactions**.

Applicant or a related person: (check those that apply)

☐ A. As principal, buys securities for itself from or sells securities it owns to any client.

☒ B. As broker or agent effects securities transactions for compensation for any client.

☐ C. As broker or agent for any person other than a client effects transactions in which client securities are sold to or bought from a brokerage customer.

☒ D. Recommends to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest.

☒ E. Buys or sells for itself securities that it also recommends to clients.

(For each box checked, describe on Schedule F when the applicant or a related person engages in these transactions and wh

Describe, on Schedule F, your code of ethics, and state that you will provide a copy of your code of ethics to any client or prospective client upon request.

10. **Conditions for Managing Accounts**. Does the applicant provide investment supervisory services, manage investment advisory accounts or hold itself out as providing financial planning or some similarly termed services *and* impose a minimum dollar value of assets or other conditions for starting or maintaining an account?

Yes ☒ No ☐

(If yes, describe on Schedule F)

11. **Review of Accounts**. If applicant provides investment supervisory services, manages investment advisory accounts, or holds itself out as providing financial planning or some similarly termed services:

A. Describe below the reviews and reviewers of the accounts. **For reviews**, include their frequency, different levels, and triggering factors. **For reviewers**, include the number of reviewers, their titles and functions, instructions they receive from applicant on performing reviews, and number of accounts assigned each.

See Schedule F of Form ADV, Part II.

B. Describe below the nature and frequency of regular reports to clients on their accounts

See Schedule F of Form ADV, Part II

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

12 Investment or Brokerage Discretion.

A. Does applicant or any related person have authority to determine, without obtaining specific client consent, the:

	Yes	No
(1) securities to be bought or sold?	☒	☐
(2) amount of the securities to be bought or sold?	☒	☐
(3) broker or dealer to be used?	☒	☐
(4) commission rates paid?	☐	☒

	Yes	No
B. Does applicant or a related person suggest brokers to clients?	☐	☒

For each yes answer to A describe on Schedule F any limitations on the authority. For each yes to A(3), A(4) or B, describe on Schedule F the factors considered in selecting brokers and determining the reasonableness of their commissions. If the value of products, research and services given to the applicant or a related person is a factor, describe:

- the products, research and services
- whether clients may pay commissions higher than those obtainable from other brokers in return for those products and services
- whether research is used to service all of applicant's accounts or just those accounts paying for it; and
- any procedures the applicant used during the last fiscal year to direct client transactions to a particular broker in return for product and research services received.

13. Additional Compensation.

Does the applicant or a related person have any arrangements, oral or in writing, where it:

	Yes	No
A. is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients?	☐	☒
B. directly or indirectly compensates any person for client referrals?	☒	☐

(For each yes, describe the arrangements on Schedule F.)

14. Balance Sheet. Applicant must provide a balance sheet for the most recent fiscal year on Schedule G if applicant:

- has custody of client funds or securities (unless applicant is registered or registering only with the Securities and Exchange Commission); or
- requires prepayment of more than $500 in fees per client and 6 or more months in advance

	Yes	No
Has applicant provided a Schedule G balance	☐	☒

Schedule F of Form ADV Continuation Sheet for Form ADV Part II	Applicant: Advised Assets Group, LLC	SEC File Number: 801-58105	Date: 6/01/2007

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item IA of Part I of Form ADV: Advised Assets Group, LLC	IRS Empl. Ident. No.: 84-1532243

Item of Form (identify)	Answer
Item 1D	

INVESTMENT ADVISORY SERVICES AND FEES

I. <u>Participant Level Advisory - Related Services</u>

Advised Assets Group, LLC ("AAG"), a registered investment adviser, provides a full suite of investment advisory services; comprised of sophisticated retirement planning suite of services, offered directly through its Reality Investing℠ product and indirectly through a private label arrangement with the institutional partners: online investment guidance, online investment advice and discretionary managed accounts. Reality Investing is offered to participants of 401(k) and other retirement plans through proprietary software and methodologies developed and employed by Ibbotson Associates ("Ibbotson"), a registered investment adviser. [1]

1. Guidance

A. Description of Services.

AAG's online investment guidance tool (the "Guidance Service"), developed by Ibbotson, provides participants with access to sophisticated but easy-to-use online account planning and advisory tools that assist the participant with asset class selection and account management. Educational materials and analytical tools include individual retirement goal forecasting as defined below. The Guidance service, education and other investment-related services do not constitute investment advice under the Investment Advisers Act of 1940, as amended.

B. Fees.

Participants may be assessed a fee for the Guidance Service depending on their plan sponsor. Plan sponsors may pay this fee on behalf of participants who actually use this service.

2. Advice

A. Description of Services.

AAG's online investment advice service (the "Advice Service") offers retirement planning advice through an internet-based software program, created by, and proprietary to, Ibbotson.[1] The Advice Service is comprised of retirement goal forecasting and advice on allocating investments.

(a) Retirement Goal Forecasting. Using information provided by participants, the plan, AAG and its affiliates, the Advice Service gauges a participant's retirement goals and develops an estimate of the chances that the participant will reach his or her retirement goals. The Advice Service provides these forecasts through the use of assumptions and hypothetical financial and economic scenarios based upon analysis of historic returns, volatility, cross-correlations, calculated

	risk premiums, and other factors. It analyzes a broad range of possible future scenarios to estimate the final result of a participant's investments under a variety of circumstances, including interest rate fluctuations, inflation and market conditions. These estimates attempt to produce a forecast reflecting the percentage of scenarios in which the participant's annual retirement income would meet or exceed the participant's goal. The participant can then interact with the Advice Service to see how changes in the participant's decisions about their savings, expected age, level of investment risk, and retirement income goal may affect the system's forecast. **The forecasts offered though the Advice Service are not guarantees of future results but are only reasonable estimates based upon the interaction of numerous factors, including the information supplied, various assumptions, and estimates and other considerations. The Advice Service relies on historical performance and other data –- all of which have limitations. As a result, the forecast developed and advice and recommendations provided are not guarantees that participants will achieve their retirement goals. Participants are advised that they should use the Advice Service only as a tool in their retirement planning and not as a substitute for their own informed judgment.** (b) Advice on Allocating Investments. Once the Advice Service has estimated a participant's chances of achieving their desired retirement income, it analyzes the participant's retirement plan savings rate, investment option selections, savings rate outside the plan and the participant's chosen retirement age and recommends changes to any or all of these factors to increase the participant's chances of achieving their retirement income goal. Investment options upon which the Advice Service makes its recommendations are limited by the type of investment opportunities available in a specific participant's retirement plan core investment option menu. Neither AAG nor Ibbotson select the investment options that are available to participants in their plans. *Participant Obligations*. Participants are responsible for implementing their investment decisions either manually or online through the Advice Service. Participants are also responsible for reviewing their retirement accounts periodically to monitor changes in the market and the value of their investments. Neither AAG nor Ibbotson have an obligation to update any information for a specific participant or to proactively contact the participant. Participants are advised that their failure to review and update their account through the Advice Service, as needed, will materially affect the value of the service provided. *Limitations on the Advice Service*. The advice and recommendations provided through the Advice Service are estimates only and are based on the responses provided by the participant and other information provided by, or about, the participant. Some of the information provided in conjunction with the Advice Service is provided by independent third parties. Neither AAG nor Ibbotson make any guarantees or warranties, express or implied, as to the accuracy, timeliness, or completeness of such information. The Advice Service is subject to the general market and financial conditions existing at the time of such usage. The participant is solely responsible for the completeness, accuracy and timeliness of their inputs and for reviewing and updating their inputs with the Advice Service. The Advice Service does not recommend investing in any individual stocks, including any stock of a participant's employer that may be an investment option under their retirement plan. Neither AAG nor Ibbotson selects the investment options that are available to participants in their plan, and participants are informed when accessing the Advice Service that the advice should not be considered an approval or endorsement of the available options.

Participant Communications. The use and storage of any information including, without limitation, a participant's account number, password, identification, portfolio information, account balances and any other information available on a participant's personal computer is provided at the participant's sole risk and responsibility. The participant is responsible for providing and maintaining the communications and equipment (including personal computers and modems) and telephone or options services required for accessing and utilizing electronic or automated services, and for all communications service fees and charges incurred by the participant in accessing these services.

Agreements. Plans and plan sponsors make the Advice Service available to participants. Participants must agree to the terms of an online user agreement in order to use the Service. The agreements impose a number of restrictions on the scope of services provided and also limit AAG's liabilities in providing the services. Any plan or participant that does not comply with the terms of the agreements holds AAG harmless for any loss resulting from their non-compliance. AAG and Ibbotson, as applicable, reserve all rights under copyright, patent, trademark, and other intellectual property laws. AAG disclaims all warranties with respect to the Advice Service and plans and plan sponsors agree that AGG shall not bear any responsibility for either errors or failures caused by the malfunction of any computer systems or any computer viruses or related problems that may be associated with the use of the Advice Service.

B. Fees.

Participants that actually use the Advice Service are charged a flat fee per quarter. The fee is debited from participants' accounts within the last five (5) to seven (7) business days of each quarter. Plan sponsors may pay this fee on behalf of the participants who actually use this service. If the participant's employer or plan terminates its service agreement with the plan's recordkeeping service provider, the fee will be debited upon such termination. Use of the Advice Service at any time during a quarter will result in the participant's account being debited the quarterly fee or the plan sponsor incurring a fee on behalf of the participant.

Termination. Participants may cancel participation in the Advice Service at any time online or by calling AAG at their plan's toll-free customer service number.

3. Managed Accounts

A. Description of Services.

AAG offers discretionary managed accounts ("Managed Account(s)", a professional and flexible asset management program created by, and proprietary to, Ibbotson. AAG, based on data resulting from the methodologies and software developed and employed by Ibbotson, selects among the available core investment options (for example, mutual funds in the fixed income/cash, bond, large cap, small/mid cap, and international asset classes) selected by the plan and manages participant retirement accounts for them. Core investment options do not include employer stock or self-directed brokerage options. Participants receive a specific investment portfolio that reflects the plan's core investment options and the participant's retirement timeframe, life stages, risk tolerance and overall financial picture, including assets held outside the plan (if the participant provides such information), which may be taken into consideration when determining the allocation of assets in the participant's account. Management is not provided for such non-plan assets. Under Managed Accounts, AAG has discretionary authority over allocating among

	the available core investment options, without prior participant approval of each transaction. Neither AAG nor Ibbotson is responsible for either the selection or maintenance of the core investment options available within plans. Participant account assets in the core investment options are automatically monitored, rebalanced and reallocated every quarter by AAG based on data resulting from the methodologies and software employed by Ibbotson to respond to market performance and the personal financial circumstances of the participant over time. Participants receive an account update and forecast statement annually and can update their personal information at any time by calling AAG at their plan's toll-free customer service number or by visiting the Plan's website. *Limitations*. Individual stocks, self-directed brokerage accounts, guaranteed certificate funds, or employer-directed monies are not eligible for management under Managed Accounts. Participant balances in any of these investment options or vehicles must be liquidated, subject to plan and/or investment provider restrictions, or they cannot be enrolled in the Managed Account service. Participants must allocate all of their account balance to Managed Accounts. Partial management of the account whereby participants invest in other core investment options while also participating in Managed Accounts is not an option. Once enrolled, participants are no longer able to make allocation changes to their accounts online, via paper, or through their plan's toll-free customer service number. This includes functionality for fund-to-fund transfers, change fund allocations, the dollar cost averaging tool, and/or the rebalancer tool. Participants may still request and be approved for loans, take a distribution, and retain full inquiry access to their account. As with any investment methodology, the past performance and historical returns used to select particular investments may not be indicative of future performance. There is no guarantee that any investment portfolio will achieve its investment objective. *Termination.* Participants may cancel their participation in the Managed Account service at any time by completing the cancellation form available online or by calling AAG at their plan's toll-free customer service number. However, the allocation of their investment options will not change unless the participant makes an allocation change after cancellation to their account online or by contacting AAG at their plan's toll-free customer service number. All of the aforementioned functionality is restored to the participant's account within the next business day markets are open after they cancel their participation in Managed Accounts. *Ibbotson Methodology*. Ibbotson first builds stable, consistent asset allocation models at various risk levels. Based on Monte Carlo simulations of the participant's resources, liabilities, and human capital, an appropriate asset level portfolio is selected and a savings rate and a retirement age are determined that best suits each participant's situation. The asset class level model portfolios are revisited annually. Investment options from the plan's menu are then selected to implement each asset-level model portfolio. These investment options are monitored and rebalanced quarterly. *Agreements*. Plans and Plan Sponsors make Managed Accounts available to participants. Participants may agree to the terms of an online "click wrap" user agreement to enroll in the service. The agreements impose a number of restrictions on the scope of services provided and also limit AAG's liabilities in providing the services. Any plan or participant that does not comply with the terms of the agreements holds AAG harmless for any loss resulting from their non-compliance. In certain instances, Plan Sponsors may authorize AAG to enroll participants automatically in Managed Account. In such instances, participants will be given a defined period of time in which to "opt-out" of the Managed Account service without incurring a fee.

B. Fees.

Participants are charged a quarterly fee for Managed Accounts based on the plan and the participant's account balance that AAG manages on the day the fee is debited. The quarterly fee for Managed Accounts is fully disclosed to participants prior to, or at the time of enrollment in the enrollment disclosure materials provided to participants. In addition, the fee is disclosed to participants in the online user agreement at the time the participant enrolls in Managed Accounts. The fee for Managed Accounts varies and is negotiated between AAG and the plan sponsor. The maximum fee that may be charged to participants is .90%. AAG reserves the right to offer discounted fees or other promotional pricing.

The fee is generally debited from the participant's account within the last five (5) to seven (7) business days of each quarter; however, if a participant cancels participation in Managed Account, the fee will be based on the participant's account balance on the date of cancellation, but will not be debited from the participant's account until the last five (5) to seven (7) business days of the quarter. If the participant's employer or plan terminates its service agreement with the plan's recordkeeping service provider, the fee will be debited upon such termination.

Certain investment options may charge a redemption fee. Redemption fees vary in amount and application from investment option to investment option. It is possible that transactions initiated by AAG under Managed Accounts may result in the imposition of a redemption fee on one or more investment options available in a plan. Any redemption fees will be deducted from participant account balances.

Limitations to Investment Management Services.
AAG's Reality Investing is not available to clients on the Balance Forward technology platform.

II. Plan-Level Advisory – Related Services

A. Description of Services – Nondiscretionary Services

AAG provides a range of non-discretionary Plan level consulting services to both defined contribution and defined benefit plans, as outlined below.

Services provided are dependent upon the stated requirements of the plan sponsor ("the client"). Both the size of the client and the services contracted for between the client and AAG's parent and/or affiliate company(ies) are a consideration in developing servicing guidelines.

1. Services include:

   a. General consultation to Boards, Committees and/or other oversight groups concerned with the Plan in regard to investment analysis and monitoring. AAG, will from time to time, provide commentary in relation to the broad economy, the financial markets and the specific investment options contained in the Plan.
   b. Guidance in the development of appropriate investment guidelines, including objectives, timelines and investment options and specifically, the plan's Investment Policy Statement ("IPS").
   c. Development and monitoring of model portfolios that will effectively address the requirements of the Plan.
   d. In-depth evaluation of funds and/or other investment options contained in the Plan; standard analysis will include historical performance and a statistical

analysis of current portfolio composition. The statistical guidelines have been formalized into a document known as the Fund Performance Review (“FPR”). AAG will employ both industry best practices and sophisticated software modeling in its process. Standard software tools include MorningStar and Zephyr StyleADVISOR.

e. Portfolio/Fund Manager screening and evaluation designed to assist in searches to expand or replace Plan investment offerings.

2. Fees.

Flat fees are negotiated in accordance with the services to be provided. With certain non-ERISA plans, fees may be negotiated and collected directly by AAG. More generally, fees will be negotiated and collected by AAG’s parent company. Also, one or more AAG’ affiliates may receive revenue from the fund families for providing certain recordkeeping, distribution and/or administrative services.

Limitations. The provision of the services outlined above is, at all times, conducted solely in the capacity of consultant; the Plan Fiduciary is ultimately responsible for any and all decisions surrounding the selection and oversight of all investment offerings. Risks associated with the investment options can vary significantly with each particular investment category and the relative risks of categories may change under certain economic conditions. Past performance and historical returns used to select particular investment is no guarantee of future performance. Current performance may be lower or higher due to market volatility.

B. Description of Services-Discretionary Services

Plan Asset Allocation Services.

AAG offers certain investment management services to pension and defined contribution plans, tax-exempt endowments and foundations that utilize investment vehicles supported by AAG’s proprietary methodology. With respect to the investment management services AAG may be given complete discretionary authority to supervise and direct the investment and reinvestment of assets in clients’ accounts. AAG may provide these services pursuant to an agreement directly with the plan or may provide such services on behalf of the plan, pursuant to an agreement between AAG and Orchard Trust Company, an affiliate of AAG.

AAG will assign a portfolio manager to each client account. This portfolio manager will be responsible for executing the plan’s investment objectives pursuant to the plan’s IPS. Plan Sponsors will be provided with a proprietary FPR package each quarter. Portfolio managers will conduct an annual review with each Client of the plan's IPS, model portfolios, investment manager and/or investment selections and the activity within the account over the past year. Portfolio managers will also be available for client consultations on an as-needed basis

Specific investment model portfolios will be created for the plan based on software developed by an Independent Financial Expert and investment options specific to that plan’s profile will be selected to fill the asset class selection/weightings provided by the model.

AAG follows a strict process methodology that:

1) Establishes investment objectives and guidelines with the Plan Sponsor through a formalized IPS process;
2) Develops and assigns an appropriate model portfolio for each IPS;
3) Selects specific investment options to complete the model portfolios;
4) Provides proprietary performance analysis and detailed reporting; and

	5) Monitors and adjusts the model portfolios, on a defined periodic basis. *Limitations to Investment Management Services.* AAG provides investment management services only for plans that utilize investment vehicles supported by its proprietary methodology. In addition, Plan assets outside of AAG's defined investment vehicles, while not advised upon, may be held in trust on behalf of the plan by AAG's affiliate, Orchard Trust Company. Fees/Fee Schedule. Plan sponsors are charged a quarterly fee for plan asset allocation services and participant investment services. The fees for these services vary and are negotiated between AAG and the plan sponsor. The maximum fee that may be charged to a plan sponsor is 0.25% of plan assets. AAG reserves the right to offer discounted fees or other promotional pricing. **III. <u>Risk-Based Asset Allocation Portfolios</u>** For participants that self-direct their assets, a continuum of risk-based asset allocation portfolios may be offered. The selection of a specific portfolio provides a participant with a portfolio tailored to a risk profile. Each risk profile is constructed by selecting from investment options within the Plan in concentrations established by utilizing software developed by an Independent Financial Expert. **Other Fees** Fees for separate investment education services are negotiable depending on the extent of the educational program. Plans, plan sponsors, or employers may incur one-time or regular licensing, integration or ongoing maintenance fees relating to the development and maintenance of the software necessary to implement and operate the services for participants. Fees for additional technical or maintenance services, including without limitation telephone, fax, or e-mail support, are separately charged and are based upon the nature of the services.
Item 4A(5)	**<u>Methods of Analysis</u>** For the Guidance Service, AAG provides online account planning and advisory tools that are developed by Ibbotson. The Guidance tools assist the participant in making determinations with respect to asset class selection and account management. Education materials and analytical tools include individual investment analyses and information on retirement planning and investing. For the Advice Service, AAG uses the proprietary software of Ibbotson that analyzes historic returns, volatility, cross-correlations, calculated risk premiums, and other factors to develop individualized recommendations as to the allocation of assets within individual retirement plans. The software allows Ibbotson to analyze a broad range of numerous possible future scenarios to estimate how a participant's investments might turn out under a variety of circumstances, including fluctuations in interest rates, inflation and market conditions. These estimates attempt to produce a forecast reflecting the percentage of these scenarios in which the participant's annual retirement income would meet or exceed their goal. Once the software has estimated a participant's chances of achieving their desired retirement income, it analyzes the participant's retirement plan savings rate,

	investment selections, savings rate outside the retirement plan and the participant's chosen retirement age and recommends changes to any or all of these factors to increase the participant's chances of achieving their desired retirement income. Although the Advice Service may recommend buying and selling assets based on changes in market conditions, individual preferences, and other criteria, it is generally anticipated that the dominant mode of advice will recommend holding long-term positions. For Managed Accounts, AAG uses the proprietary software and methodologies of Ibbotson, as described above. Ibbotson first builds stable, consistent asset allocation models at various risk levels. Based on Monte Carlo simulations of the participant's resources, liabilities, and human capital, an appropriate asset level portfolio is selected and a savings rate and a retirement age are determined that best suits each participant's situation. The asset class level model portfolios are revisited annually. Investment options from the plan's menu are then selected, pursuant to the above-described analysis with respect to the Managed Account Service, to implement each asset-level model portfolio. These investment options are monitored and rebalanced quarterly.
Item 4B(8)	**<u>Sources of Information</u>** In preparing FPRs for plans, AAG utilizes Morningstar DataLab pursuant to a licensing agreement with Morningstar. The main sources of information used by Ibbotson with its proprietary software include historic prices for mutual funds and broad asset categories (e.g., large-capitalization U.S. equity returns, money market returns, foreign equity returns, etc.), as well as current market data and information that can be derived there from (e.g., the yield curve). Participant information provided by the participant, the plan or plan sponsor, and AAG and its affiliates are also used by Ibbotson with the software in connection with the Advice Service and Managed Accounts.
Item 4C(7)	**<u>Investment Strategies</u>** See description of Ibbotson's methodology under Item 1D above.
Item 5	**<u>Education and Business Standards</u>** AAG generally requires that those involved in determining or giving investment advice have at least a college education, a minimum of (4) years of investment experience, and a Series 65 license, or an equivalent or other applicable professional designation.
Item 6	**<u>Education and Business Background</u>** Name: David G. McLeod Managing Director, Advised Assets Group, LLC DOB: 9/1/62 Education: Bachelor of Commerce, University of Manitoba, Winnipeg, Manitoba, Canada Certified Management Accountant, NASD Series 27 license Background: Great-West Life & Annuity Insurance Company (Since 1990) Name: Al Cunningham Director, Advised Assets Group, LLC DOB: 3/10/53 Education: Bachelor of Commerce, Concordia University, Montreal, Quebec, Canada

	Background: Great- West Life & Annuity Insurance Company (since 1976) with extensive investment product and mutual fund monitoring experience for clients. NASD Series 65 license Name: Charles P. Nelson President, Advised Assets Group, LLC DOB: 1/28/61 Education: B.A. Economics, Whitman College, Walla Walla, Washington NASD Series 6, Series 26 & State securities licenses Background: Sr. Vice President, Great-West Retirement Services Name: Beverly A. Byrne Secretary and Chief Compliance Officer DOB: 10/12/55 Education B.S., Kansas State University, Manhattan, KS J.D. Washburn University School of Law, Topeka, KS NASD Series 7, 26 and 63 licenses Background: Great-West Life & Annuity Insurance Company (Since 1988)
Item 7(C)	**<u>Other Business Activities</u>** Mr. Nelson, President of AAG and Ms. Byrne Secretary and CCO of AAG, also provide services on behalf of AAG's insurance company and broker/dealer affiliates. Ms. Byrne also provides services for AAG's investment adviser and investment company affiliates.
Item 8(C)	**<u>Other Financial Affiliations</u>** GWFS Equities, Inc. ("GWFS"), an affiliate of AAG, is a limited broker/dealer through whom trades are executed. GWFS may provide wholesaling, direct sales, enrollment and/or communication services to retirement plans and their participants for which AAG may also provide its services. Maxim Series Fund, Inc. ("MSF") is an investment company affiliate of AAG. MSF may provide investment products to retirement plans for which AAG may also provide its services. Orchard Trust Company ("OTC") is a trust company affiliate of AAG. OTC is chartered under the laws of the State of Colorado. Great-West Life & Annuity Insurance Company ("Great-West"), the parent of AAG, and First Great-West Life & Annuity Insurance Company (FGWLA), an affiliate of AAG, may provide investment products and/or record keeping services to retirement plans for which AAG may also provide its services. BenefitsCorp, Inc. is an insurance agency affiliate of AAG and may sell FGWLA or Great-West insurance products to retirement plans for which AAG may also provide its services.

Item 9B	**<u>Participation or Interest in Client Transactions</u>** GWFS may provide wholesaling, direct sales, enrollment and/or communication services to retirement plans and their participants for which AAG may also provide its services. For this service, GWFS may receive fees either from the plan or from the investment provider. Participants may allocate assets pursuant to the Advice Service that result in GWFS receiving compensation from plan investment options. AAG may allocate participant assets pursuant to Managed Accounts that result in GWFS receiving compensation from plan investment options. Any such allocations are based on Ibbotson's proprietary software, not determinations made by AAG. Because Ibbotson is unaffiliated with AAG and GWFS, AAG does not believe there is a conflict of interest. However, in all instances, AAG's affiliation with GWFS is disclosed.
Item 9D	Investment options into which participant assets may be allocated, pursuant to the Advice Service or Managed Accounts, may be through a fixed and variable deferred annuity issued by Great-West or FGWLA. Because Ibbotson is unaffiliated with AAG, Great-West, FGWLA and their affiliates, AAG does not believe there is a conflict of interest. However, in all instances, AAG's affiliation with Great-West and/or Great-West's affiliates, as applicable, will be disclosed.
Item 9E	The parent company of AAG, Great-West and an affiliate company, Orchard Capital Management, LLC may buy or sell securities for itself that it also recommends to clients. In the case of publicly traded security, no conflict exists. For private issues, allotments are negotiated by Great-West, Orchard Capital Management and the client. *Code of Ethics.* In addition, AAG has adopted a written Code of Ethics in compliance with Rule 204A-1 of the Investment Advisers Act of 1940 ("Advisers Act"). The Code sets forth standards of business conduct expected of advisory personnel and requires AAG's access personnel, among other things, to report their personal securities holdings and transactions in accordance with federal securities laws, rules and regulations. A copy of the Code will be provided upon a client's or prospective client's request.
Item 10	**<u>Conditions For Managing Accounts</u>** AAG does not impose a minimum dollar value of assets for starting or maintaining a managed account. AAG does not provide investment advice for, or manage, individual stocks, self-directed brokerage accounts, guaranteed certificate funds, or employer-directed monies within the Managed Account program. Participants with allocations to Managed Accounts must allocate all of their account balance to Managed Accounts (participants may not participate in Managed Accounts and manage of portion of their account on their own). Once enrolled in Managed Accounts, participants are not able to make allocation changes to their accounts online, via paper, or AAG Adviser Representatives through their plan's toll-free customer service number. In addition, participants are not able to make allocation changes to their account while enrolled in Managed Accounts. This includes fund-to-fund transfers, change fund allocations, the dollar cost averaging tool, and/or the rebalancer tool, among others. Investment Management Services AAG does not impose a minimum dollar amount of assets for initiating or maintaining investment management services to plan clients, but investment management services will only be provided for plan clients who utilize proprietary investment vehicles supported by proprietary methodology.

Item 11	**Review of Accounts** *A. Describe below the reviews and reviewers of the accounts. For reviews, include their frequency, different levels, and triggering factors.* ***For reviewers,*** *include the number of reviewers, their titles and functions, instructions they receive from applicant on performing reviews, and number of accounts assigned each.* Under the Managed Account service, participant assets in the plan's core investment options are automatically monitored, rebalanced and reallocated every quarter by AAG, based on data resulting from the methodologies and software developed and employed by Ibbotson, to respond to market performance and the personal financial circumstances of the participant over time.[1] Plan investment options are updated quarterly. Participants may update personal information at any time online, by completing a form, or by calling AAG at their plan's toll-free customer service number. The Guidance and the Advice Services provided by AAG to participants are developed by Ibbotson. The methodologies used by Ibbotson to power the Guidance, the Advice, and Managed Account services will be reviewed by AAG annually to ensure that they are consistent with investment advisory best practices, current technology, applicable law, and the terms of the agreement between AAG and Ibbotson. For discretionary Investment Management Servicesat a plan level, model portfolios will be reviewed and updated at least annually. Participant balances in risk based asset allocation portfolios will be rebalanced quarterly. *B. Describe below the nature and frequency of regular reports to clients on their accounts.* Under the Managed Account service, participants receive an account update and forecast statement annually. Under the Advice Service, participants may review their accounts and generate their own reports at any time. Participants may update their personal information or make changes to investment options online or via their plan's toll-free customer service number at any time should a significant change occur in their personal circumstances. AAG communicates regularly with plans and/or plan sponsors to report participant utilization of the services and to provide Fund Performance Reviews, if applicable. The nature and frequency of AAG's communications with plan sponsors depends on the terms of the agreement between AAG and the plan or plan sponsor. AAG also communicates with plan sponsors upon their request.
Item 12	**Investment or Brokerage Discretion** GWFS, an affiliate of AAG is a limited broker/dealer. GWFS may provide enrollment and communication services to retirement plans for which AAG may also provide its services. Most clients for whom AAG provides services leaves the selection of broker-dealers to effect trading or processing of transactions to the discretion of AAG. All mutual fund trading that occurs as a result of AAG's services is through GWFS. Under Managed Accounts, the investment options to be bought or sold are determined by Ibbotson's proprietary software and methodology. However, each plan sponsor or

	plan will select the universe of investment options available within each plan. Neither AAG nor Ibbotson is responsible for either the selection or maintenance of the investment options available within plans. Under Managed Accounts, the amount of investment options to be bought or sold is determined by Ibbotson's proprietary software and methodology. The asset allocation components of Ibbotson's software and methodology limit the amount of investment options that can be bought or sold. For accounts in which AAG has full discretionary authority, AAG will have complete discretion and authority to make all investment decisions with respect to the types and amounts of securities to be bought or sold, what broker will be used to effect the transaction and the commission rates to be paid. Any limitations on the discretionary authority shall be defined in the written authority provided to AAG.
Item 13B	**Additional Compensation** Compensation For Client Referrals/Reality Investing AAG may pay cash compensation or referral fees to broker-dealer firms that are not affiliated with AAG for soliciting and referring plan sponsors and their participants to enroll in AAG's advisory services and to enroll in Managed Accounts. Such compensation for referrals may result in a higher fee charged to participants based on the total assets in Managed Accounts. AAG has also authorized its affiliate partners, GWFS and its licensed agents and registered representatives and Orchard Trust Company ("OTC") and its employees to solicit, refer and market AAG's advisory services to plan sponsors and their participants. Pursuant to a solicitor's agreement between AAG and its affiliated partners, AAG may pay a fee for solicitation activities of GWFS, OTC and their employees which will be calculated annually based on generated revenue received by AAG. Such bonus compensation will not increase the fees paid by the plan and/or their participants. Any compensation paid by AAG for solicitation activities is pursuant to a written agreement and is paid in compliance with Rule 206(4)-3 of the Investment Advisers Act of 1940.

Complete amended pages in full, circle amended items and file with execution page (page 1).

[1] [i] Certain clients of AAG may use online investment advice through proprietary software and methodology developed and employed by Financial Engines, Inc., a registered investment adviser.

NAGDCA NOTES

A Brief Look: Investment Advice Within Your Defined Contribution Plan

Plan sponsors now have the ability to provide participants in their defined contribution plans an advisory service which will assist participants in the selection of investments within the plan. In addition, these services can provide Managed Accounts which will create diversified investment portfolios and rebalance them over the course of the participant's life. Furthermore, the uncertainty of liability on the part of plans sponsors for the advice of this service appears to have been settled in a manner that should put plan sponsors' fears to rest. Plan sponsors will not be liable for the advice to participants from properly selected service providers. Plan sponsors will need to prudently select or monitor the advice service providers in the same manner as is required when they select investment options for their plans.

This new lease on offering investment advice came in a key provision of the Pension Protection Act of 2006 (PPA). Even though the PPA relates to ERISA provisions, for many years public pension plans have used ERISA rulings and regulations as a model to oversee their governmental plans. With the passing of the PPA, investment providers now have alternatives to provide advice to participants; (1) they can use an independent financial expert ("fiduciary adviser") who will provide the methodology i.e. the DOL Advisory Opinion or (2) they can develop their own service or in house computer model but will need to comply with the disclosure and audit provisions of PPA. Plan sponsors can select the investment advisory service which is best for their plan participants with less confusion whether it complies with the PPA or the DOL advisory Opinion.

"Who exactly qualifies as a **fiduciary adviser** you might ask? The advisor must be named as a plan fiduciary providing investment advice to a participant or beneficiary, and must also be one of the following:

- registered as an investment adviser under the Investment Advisers Act of 1940 or under laws of the state in which the fiduciary maintains its principal office and place of business
- a bank, a similar financial institution supervised by the United States or a state, or a savings association, but only if the advice is provided through a trust department subject to periodic examination and review by federal or state banking authorities
- an insurance company qualified to do business under state law
- registered as a broker or dealer under the Securities Exchange Act of 1934
- an affiliate under the Investment Company Act of 1943, of any of the preceding
- an employee, agent or registered representative of any of the preceding who satisfies the requirements of applicable insurance, banking and securities laws relating to the provision of advice

To qualify as an eligible investment adviser arrangement, it must use a **qualified computer model** under an investment advice program that:

- applies generally accepted investment theories which take into account the historic returns of different asset classes over defined periods of time
- uses relevant information about the participant, which may include age, life

expectancy, retirement age, risk tolerance, other assets or sources of income, and preferences as to certain types of investments
- uses prescribed objective criteria to provide asset allocation portfolios comprised of investment options available under the plan
- operates in a manner not biased in favor of investments offered by the fiduciary adviser or a person with a material affiliation or contractual relationship with the fiduciary adviser or a person with a material affiliation or contractual relationship with the fiduciary adviser
- takes into account all investment options under the plan in specifying how a participant's account balance should be invested, and not be inappropriately weighted with respect to any investment option"
- is certified under the rules created by the Department of Labor

However, even with the passing of these new provisions which provide specific safeguards, it is extremely important that plan administrators practice due diligence in evaluating fiduciary advisers who are offering investment advice to their participants.

Ashton, Bruce; The New Participant Investment Advice Law:
www.reish.com/publications/article_detail.cfm?ARTICLEID=603

Gordon, Catherine; New Pension Law Expands Investment Advice Options:
www.completetax.com/taxguide/news/06-100planadvice.asp

Investment Advice to Defined Contribution Plan Participants – Update on Impact of Department of Labor Advisory Opinion 2001-09A and the Pension Protection Act of 2006:
http://www.nagdca.org/users/epubs/brochures/investmentAdvice.cfm

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CORRESPONDENCE MEMORANDUM

DATE: April 22, 2008

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: Contract Compliance and Financial Statements Audit Reports

For information purposes only. No action required.

In 2006, the Board authorized Department staff to issue two Requests for Proposals (RFP): one for an administrative services contract compliance audit and a second for annual financial statements audits. This memo summarizes the findings of the most recent audit reports, which are attached.

2007 Contract Compliance Audit

Contract compliance audits are used to evaluate and report on a third party administrator's management of the Wisconsin Deferred Compensation Program (WDC), and examine compliance with contract terms and conditions as well as applicable State and federal statutes, rules and regulations. Contract compliance audits are performed to assure the Board, the Department, employers and participants that the WDC is administered effectively, efficiently and economically.

Wipfli has completed the contract compliance audit for the year 2007 and submitted the attached report. It summarizes Wipfli's audit findings regarding Great-West Retirement Services' (GWRS) compliance with the administrative services agreement. The executive summary indicates that GWRS is in compliance with the administrative services agreement. Wipfli found no errors or exceptions during its examination of selected transactions, and the records maintained by GWRS are complete and orderly.

Wipfli provided two comments in the report. First, Wipfli recommended that the Department and GWRS develop a mutually agreeable deadline for completion and submission of the annual plan status and demographic report. Wipfli also noted that the most recent *GWRS SAS 70* report suggested that controls should be in place on any client's systems to ensure that information provided to GWRS is accurate and authorized. Wipfli recommended that the Department review its own controls to ensure that this is the case.

The Department believes it is prudent to follow both recommendations and will determine a deadline for the annual plan status and demographic reports with GWRS, and review internal Department controls to make sure data transfers are accurate and secure.

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature ______________________ Date ______________________

Board	Mtg Date	Item #
DC	05/06/2008	9

2007 Financial Statements Audit
The Board's administrative services contract with GWRS requires annual financial statements audits. The purpose of these audits is to have an independent public accounting firm opine whether the financial statements accurately reflect the financial position of the WDC. The audit should demonstrate that all participant accounts and contributions have been properly balanced, records accurately kept, and that all WDC assets are balanced. Financial statements audits may also reveal any misstatements due to errors, fraud or other reasons that would cause the financial statements to inaccurately reflect the financial position of the WDC.

Pursuant to its contract with the Board, Clifton Gunderson has completed the WDC's comprehensive financial statements audit for the year ending December 31, 2007. As the attached report indicates, the financial statements fairly present the net assets available for plan benefits as of December 31, 2007, and for the thirteen-month period ending December 31, 2006. For the year ending December 31, 2007, financial highlights from this audit include:

- Net assets were $2.29 billion.
- Mutual fund investment income provided a $167.3 million gain.
- Employee contributions totaled $140.7 million.
- Distributions to participants were $88.8 million.

In its cover letter, Clifton Gunderson noted that, for the second consecutive year, one WDC disbursement was incorrectly processed as a hardship when it should have been a separation from service. As in 2006, the error occurred because the participant inadvertently indicated on the distribution form the funds were needed due to financial hardship. GWRS staff determined that the participant had, in fact, separated from service. The distribution form should have been returned to the participant for correction. In the end, the participant was able to access the funds in her account and the distribution was eventually processed correctly. The Department and GWRS have discussed how and why these disbursements were improperly categorized as hardship distributions. GWRS will be closely reviewing distribution requests in an attempt to prevent this from occurring in the future.

Conclusion
The results from both audits demonstrate that the WDC is in good shape. GWRS is meeting the substantive requirements of the administrative services contract and the financial statements audit report shows that the WDC continues to grow. Participant deferrals, investment income and expenses are all accounted for in the financial statements report.

Staff from the Department will be available at the meeting to discuss the results of both audits with the Board.

attachments

STATE OF WISCONSIN PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN AND TRUST
Madison, Wisconsin

FINANCIAL STATEMENTS
December 31, 2007 and 2006

TABLE OF CONTENTS

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

State of Wisconsin Deferred
Compensation Board

We have audited the accompanying statements of net assets available for plan benefits of the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan), as of December 31, 2007 and 2006 and the related statements of changes in net assets available for plan benefits for the year ended December 31, 2007 and thirteen-month period ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits as of December 31, 2007 and 2006 and the changes in net assets available for plan benefits for the year ended December 31, 2007 and thirteen-month period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Baltimore, Maryland
April 15, 2008

STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) financial performance provides an overview of the Plan's financial activities for the year ended December 31, 2007 and the thirteen-month period ended December 31, 2006. It is presented as required supplemental information to the financial statements.

FINANCIAL HIGHLIGHTS

- Net assets available for plan benefits increased by approximately $259 million during the year ended December 31, 2007 from $2.04 billion at December 31, 2006 to $2.30 billion at December 31, 2007. Net assets available for plan benefits increased approximately $290 million during the prior period from $1.75 billion at November 30, 2005 to $2.04 billion at December 31, 2006.

- Mutual fund investment income decreased from a $186.5 million gain for the thirteen month period ended December 31, 2006 to a $167.3 million gain for the year ended December 31, 2007 due to slightly less favorable market conditions. Mutual fund investment income increased from a $106.5 million gain for the eleven month period ended November 30, 2005 to a $186.5 million gain for the thirteen month period ended December 31, 2006. The increase was attributable to more favorable market conditions as compared to 2005 for the equity assets held by the Plan.

- Employee contributions decreased from $142.2 million for the thirteen month period ended December 31, 2006 to $140.7 million for the year ended December 31, 2007. The decrease was primarily due to the one month difference between the periods. Employee contributions increased from $115.4 million for the eleven month period ended November 30, 2005 to $142.2 million for the thirteen month period ended December 31, 2006. This increase was primarily due to the difference between the thirteen and eleven month periods.

- Distributions to participants increased from $73.0 million for the thirteen month period ended December 31, 2006 to $88.8 million for the year ended December 31, 2007. Distributions to participants increased from $67.6 million for the eleven month period ended November 30, 2005 to $73.0 million for the thirteen month period ended December 31, 2006. These increases are primarily due to an increase in the number of retirees.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan as a whole. These amounts are included in the Statement of Fiduciary Net Assets on the State of Wisconsin's financial statements.

The Plan's net assets available for plan benefits increased during the year ended December 31, 2007 by $259,171,037 from $2,040,092,773 to $2,299,263,810. The Plan's net assets available for plan benefits increased during the thirteen month period ended December 31, 2006 by $290,705,475 from $1,749,387,298 to $2,040,092,773. These increases relate to generally favorable market conditions and contributions from participants partially offset by distributions to participants. The analysis below focuses on Net Assets Available for Plan Benefits (Table 1) and Changes in Net Assets Available for Plan Benefits (Table 2).

Table 1
Net Assets Available for Plan Benefits

	December 31, 2007	December, 31, 2006	November 30, 2005
Investments	$ 2,301,343,666	$ 2,041,165,878	$ 1,750,612,700
Receivables - contributions	655,814	785,611	458,657
Total assets	2,301,999,480	2,041,951,489	1,751,071,357
Administrative expenses payable	2,735,670	1,858,716	1,684,059
Net assets available for plan benefits	$ 2,299,263,810	$ 2,040,092,773	$ 1,749,387,298

Table 2
Changes in Net Assets Available for Plan Benefits

	2007 (Twelve Months)	2006 (Thirteen Months)	2005 (Eleven Months)
Additions			
Employee contributions	$ 140,659,769	$ 142,166,202	$ 115,390,941
Transfers-in from other plans	13,635,881	6,392,134	14,786,382
Interest income	20,285,990	22,057,281	14,276,991
Investment income:			
Mutual fund investment income	167,263,672	186,469,101	106,472,373
Change in value of self-directed option	8,421,645	8,891,067	4,831,776
Total additions	350,266,957	365,975,785	255,758,463
Deductions			
Distributions to participants	88,761,672	73,039,324	67,578,586
Administrative expenses	1,810,920	1,771,177	1,362,729
Change in value of group annuity policy	523,328	459,809	413,270
Total deductions	91,095,920	75,270,310	69,354,585
Net increase	$ 259,171,037	$ 290,705,475	$ 186,403,878

FINANCIAL CONTACT

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustees' accountability. If you have questions about the report or need additional financial information, contact the Deferred Compensation Director for the Department of Employee Trust Funds at P.O. Box 7931, Madison, Wisconsin 53707-7931.

FINANCIAL STATEMENTS

STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2007 and 2006

	2007	2006
ASSETS		
Investments	$ 2,301,343,666	$ 2,041,165,878
Receivable - contributions	655,814	785,611
Total assets	2,301,999,480	2,041,951,489
LIABILITIES		
Administrative expenses payable	2,735,670	1,858,716
NET ASSETS AVAILABLE FOR PLAN BENEFITS	$ 2,299,263,810	$ 2,040,092,773

The accompanying notes are an integral part of the financial statements.

STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
Year Ended December 31, 2007 and Thirteen-Month Period Ended December 31, 2006

	2007	2006
ADDITIONS		
Employee contributions	$ 140,659,769	$ 142,166,202
Transfers-in from other plans	13,635,881	6,392,134
Interest income	20,285,990	22,057,281
Investment income:		
Mutual fund investment income	167,263,672	186,469,101
Change in value of self-directed option	8,421,645	8,891,067
Total additions	350,266,957	365,975,785
DEDUCTIONS		
Distributions to participants	88,761,672	73,039,324
Administrative expenses	1,810,920	1,771,177
Change in value of group annuity policy	523,328	459,809
Total deductions	91,095,920	75,270,310
NET INCREASE	259,171,037	290,705,475
NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF PERIOD	2,040,092,773	1,749,387,298
NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF PERIOD	$ 2,299,263,810	$ 2,040,092,773

The accompanying notes are an integral part of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) was established in 1981 pursuant to Wisconsin State Statute Section 40.80. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an employee's annual contributions to an amount not to exceed the lesser of $15,500 in 2007 ($15,000 in 2006) or 100% of the employee's includable compensation. The Plan also provides certain catch-up contribution provisions for participants age 50 or older and for participants within three years of their normal retirement age. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. The Plan allows the employer to make contributions to the Plan on behalf of employees. No such contributions were made in 2007 or 2006.

Under the Plan provisions, employees of the State of Wisconsin and municipalities in Wisconsin (employer) that elect to participate are eligible to contribute to the Plan through payroll deductions. As of December 31, 2007 and 2006, approximately 72% and 79% of the Plan assets were applicable to State employees and the remaining 28% and 21% represent the assets of other Wisconsin municipalities participating in the Plan.

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. In March 2006, Wisconsin Act 150 was signed into law, creating Code Section s.40.80 (2)(g) of the Wisconsin Statutes. Section s.40.80 (2)(g) incorporates requirements of the federal tax code by establishing the Wisconsin Deferred Compensation (WDC) Program as a trust. Furthermore, it established Deferred Compensation Board members as trustees with fiduciary responsibilities.

The Plan is governed by the Wisconsin Deferred Compensation Board (the Board) and is administered by a third party. The Board is also the trustee of the Plan.

Employees electing to participate in the Plan may contribute or exchange to any of the following investment options:

- Fixed earnings investment of the Stable Value option managed by Galliard Capital Management, Inc.

- Fixed earnings investments with M & I Bank of Southern Wisconsin.

- Variable earnings investments consisting of various mutual funds.

- Self-directed option – Personal Choice Retirement Accounts (PCRA) offered by Charles Schwab & Co., Inc. Participants may exchange funds accumulated in the core options of the Plan to a PCRA account, which provides approximately 3,000 additional mutual fund offerings other than the Plan's core options.

Employees may withdraw the value of the funds contributed to the Plan upon termination of employment with the employer, retirement, death, or financial hardship. Employees, or their beneficiaries, may select various payout options which include lump sum or periodic payments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net assets available for plan benefits and the net changes in those assets.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Contributions and Contributions Receivable

Employee contributions are recognized when such amounts are withheld. Contributions receivable represent amounts withheld from employees but not yet received or remitted to the investment carriers at fiscal year-end and these receivables approximate fair value.

Investment Valuation

Fixed earnings investment values represent contributions received plus interest income earned to date less applicable charges and amounts withdrawn.

Variable earnings investments (mutual funds), including personal choice retirement accounts, are presented at fair values based on published quotations. All purchases and sales are recorded on a trade-date basis.

Assets held for annuity payout reserves and allocated insurance contracts are actuarially valued as reported by Great-West Life Annuity Insurance Company (Great-West Life).

Distributions

Distributions are recorded at the time withdrawals are made from participant accounts.

Mutual Fund Investment Income

Mutual fund investment income consists of dividend income and realized and unrealized gains and losses attributed to the mutual funds.

Interest Income

During 2007, the Stable Value option paid interest ranging from 5.08% to 5.17% (ranging from 5.10% to 5.27% during 2006). At December 31, 2007 and 2006, the actual crediting rate was 5.17% and 5.23%, respectively.

Interest income is recorded as earned on the accrual basis.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Participants' Accounts

Earnings are credited to individual participants' accounts based upon the investment performance of each specific option selected.

Transfers-In From Other Plans

Transfers-in represents the balances of assets transferred by employees from other eligible plans.

Related Party Transactions

Certain members of the Deferred Compensation Board, Wisconsin Retirement Board, Teachers Retirement Board and Employee Trust Funds Board are participating or retired members of the Plan.

NOTE 2 – INVESTMENTS

Investments held in the name of the Plan at December 31, 2007 and 2006 were as follows. Investments marked with an asterisk (*) represent individual investment options, which exceed 5% of net assets available for plan benefits as of December 31, 2007 and 2006.

	Fair and Carrying Value 2007		Fair and Carrying Value 2006	
Fixed earnings investment:				
Stable Value	$ 373,000,246	*	$ 355,706,616	*
M&I Bank of Southern Wisconsin	53,464,779		41,371,121	
Variable earnings investments:				
Fidelity Contrafund	434,894,511	*	367,770,811	*
Vanguard Wellington Fund Admiral Shares	253,834,692	*	232,722,516	*
Vanguard Institutional Index Fund Plus Shares - Institutional Plus Shares	232,944,077	*	230,711,432	*
T. Rowe Price Mid-Cap Growth Fund	219,174,958	*	186,598,294	*
DFA US Micro Cap Fund	136,446,560	*	155,216,553	*
Euro - Pacific Growth Fund - Class W	125,901,479	*	89,737,154	
Vanguard Long-Term Investment Grade Fund Admiral Shares	67,826,704		64,363,521	
Vanguard Admiral Treasury Money Market Fund - Admiral Shares	65,804,038		62,171,285	
BGI Mid Cap Equity Index Fund - Class W	63,491,755		57,156,421	
BGI EAFE Equity Index Fund - Class W	60,110,976		45,513,422	
Vanguard Target Retirement 2015 Fund	28,774,318		15,069,018	
Vanguard Target Retirement 2025 Fund	22,577,524		10,036,527	
Federated U.S. Government Securities Fund - 2-5 Institutional Shares	22,189,794		18,310,389	
BGI Russell 2000 Index Collective T	20,911,258		18,623,915	
Calvert Social Investment Fund - Equity Portfolio - Class I	17,430,642		15,516,574	
BGI U.S. Debt Index Fund - Class W	16,193,167		12,175,932	
Vanguard Target Retirement 2035 Fund	14,085,087		6,644,840	
Vanguard Target Retirement 2045 Fund	8,465,182		4,244,755	
Vanguard Target Retirement Income Fund	8,259,049		3,840,229	
Self-directed option:				
Personal Choice Retirement Accounts - Charles Schwab	51,880,569		43,458,924	
Group Annuity Policy:				
Great West Life	3,682,301		4,205,629	
Total investments	$ 2,301,343,666		$ 2,041,165,878	

NOTE 2 – INVESTMENTS (CONTINUED)

At December 31, 2007, $5,231 of the fixed earnings investments on deposit at Vanguard Admiral Treasury Money Market and $2,730,439 of the Stable Value option fixed earnings investment totaling $2,735,670 was payable to the Board for Plan administration costs. At December 31, 2006, $71 of the fixed earnings investment on deposit at Vanguard Admiral Treasury Money Market and $1,858,645 of the Stable Value option fixed earnings investment totaling $1,858,716 were payable to the Board for Plan administration costs.

The fixed earnings investments with M&I Bank of Southern Wisconsin are insured by the Federal Deposit Insurance Corporation up to $250,000 per participant. Ninety-six accounts of individual participants held more than $250,000 at December 31, 2007.

The Stable Value option and the mutual funds do not have securities that are used as evidence of the investments and therefore are not exposed to custodial credit risk.

An agreement was reached between the Board and Great-West Life on April 27, 1994, whereby the Plan purchased a single premium group annuity policy on May 1, 1994 for $12,946,917 (the balance in the annuity payout reserve at the time of purchase). Under the terms of the policy, Great-West Life assumed the contractual liability for the remaining annuity terms and amounts and assumed all risk related to market fluctuation. The actuarial value of the group annuity contracts, as determined by Great-West Life, was $3,682,301 and $4,205,629 at December 31, 2007 and December 31, 2006, respectively.

As of December 31, 2007 the Plan had the following investments and maturities in its fixed earnings investments and 9 of its mutual funds, which include investments in bonds.

	Fair Value	Weighted Average Maturity
Fixed earnings investment:		
Stable Value	$ 373,000,246	3.90
Variable earnings investments:		
Vanguard Wellington Fund Admiral Shares	253,834,692	8.80
Vanguard Long-Term Investment Grade Fund Admiral Shares	67,826,704	22.30
Vanguard Target Retirement 2015 Fund	28,774,318	7.30
Vanguard Target Retirement 2025 Fund	22,577,524	7.30
Federated U.S. Government Securities Fund: 2-5 Institutional Shares	22,189,794	4.10
BGI U.S. Debt Index Fund – Class W	16,193,167	6.77
Vanguard Target Retirement 2035 Fund	14,085,087	7.30
Vanguard Target Retirement 2045 Fund	8,465,182	7.30
Vanguard Target Retirement Income Fund	8,259,048	7.98

NOTE 3 – PLAN ADMINISTRATION

The Plan receives periodic recordkeeping fee payments from certain investment companies. Such fees are paid to the Board to support Board costs, which include the contractual fee paid to the third party administrator, Great-West Life Annuity Insurance Company (Great-West Life).

Each participant in the Plan is charged a fee based upon their account balance and a tiered dollar charge ranging from $6.00 to $120.00 annually, assessed monthly. During 2007 these fees were reduced to no charge for accounts under $5,000 and a tiered dollar charge for all other accounts ranging from $12.00 to $66.00 annually. Fees assessed in excess of the Plan administrative expenses as of December 31, 2007 and 2006 were $2,735,670 and $1,858,716, respectively. At the Board's discretion, these excess fees are invested and available to defray future administrative expenses and participant fee increases.

NOTE 4 – TAX STATUS

The Plan is reviewed by legal counsel to ensure conformity with Section 457 of the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or other beneficiary.

NOTE 5 – CONTINGENCIES

The Plan is subject to various threatened and pending claims. It is the opinion of management that the ultimate liability arising from such threatened and pending claims will not have a material effect on the financial position of the Plan. The Plan is exposed to various other liabilities and risks related to the fiduciary responsibility of directors and officers.

NOTE 6 – RISK AND UNCERTAINTIES

The Plan, as directed by participants, may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets Available for Plan Benefits.

Great-West
RETIREMENT SERVICES

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April 15, 2008

Clifton Gunderson LLP
9515 Deereco Road
Suite 500
Timonium, MD 21093

We are providing this letter in connection with your audits of the financial statements of the State of Wisconsin Public Employees Deferred Compensation Plan & Trust (Plan) for the year ended December 31, 2007 and the thirteen month period ended December 31, 2006 for the purpose of expressing an opinion as to whether the financial statements present fairly the net assets available for benefits and changes in net assets available for benefits of the State of Wisconsin Public Employees Deferred Compensation Plan & Trust in conformity with accounting principles generally accepted in the United States of America. As the Administrator of the Plan, we confirm that we are responsible for the fair presentation of the financial data underlying the financial statements of net assets and changes in net assets in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of April 15, 2008, the following representations made to you during your audit.

1. We have made available to you all:

   a. Financial records and related data.

   b. Known amendments to the plan instrument, the trust agreement, or insurance contracts.

2. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

3. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

4. We have no knowledge of any fraud or suspected fraud affecting Great-West

Retirement Services (GWRS) involving:

a. Management.

b. Employees who have significant roles in internal control.

c. Others where the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud or suspected fraud affecting GWRS received in communications from employees, former employees, participants, regulators, beneficiaries, service providers, or others.

6. We are unaware of any:

   a. Plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

   b. Present intentions to terminate the Plan.

7. We believe the Plan and Trust established under the Plan are qualified under the appropriate section of the Internal Revenue Code, and we believe the State of Wisconsin intends to continue them as a qualified plan and trust

8. There are no:

   a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

   b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.

   c. Other matters (e.g., breach of fiduciary responsibilities, nonexempt transactions, loans or loans in default, or events that may jeopardize the tax status) that legal counsel have advised us that must be disclosed.

9. There are no:

   a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

   b. Investments, loans, or leases in default or considered to be uncollectible that have not been disclosed in the supplemental schedules.

10. GWRS has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

11. We have apprised you of all communications, whether written or oral, with regulatory agencies concerning our administration of the Plan.

12. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

13. We have elected not to receive investment account statements from the Vanguard Group. We receive all pricing information related to Vanguard securities directly from Vanguard through our FUNDLinx system. We acknowledge that we are responsible for the controls related to these functions. All information provided to you regarding the units owned and market value of these funds is correct.

Michelle D Williams

Michelle Williams

Relationship Manager

Title

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STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

CORRESPONDENCE MEMORANDUM

DATE: April 23, 2008

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: 2007 Wisconsin Deferred Compensation Program Statistics and Survey Results

This memo is for information only. No Board action required.

2007 WDC Program Statistics

A paper copy of a PowerPoint slide presentation covering the 2007 WDC Program Statistics report is attached to this memo. This presentation illustrates primary WDC features and how participants used the WDC in 2007 as compared to previous years. Data provided includes overall participation and contribution amounts, asset allocation and diversification, distributions and withdrawals, participant contacts and local WDC office activities. Major points include the following:

- WDC participants grew to 47,000 as of December 31, 2007.
- WDC assets as of December 31, 2007, totaled $2,293.95 million.
- During 2007, WDC participants deferred $153,081,245 to their accounts. Just over 35% went to large cap funds, 14% to fixed funds. Approximately 9% went to each of the following: international, small cap and lifecycle funds.
- In 2007, the average WDC participant deferred $4,343. The average account balance was $48,505. In comparison, in 2006, the average WDC deferral was $4,310 and the account balance average was $44,920.
- More than 5,000 participants received WDC benefit distributions during 2007.

Winter 2008 Online WDC Survey

The WDC last surveyed participants in 2004. The purpose of that survey was to gauge participant knowledge and use of WDC features, interest in additional investment options and potential use of online educational tools. One result of the information gained through this survey was the addition of the Vanguard Target Retirement Date lifecycle funds in August 2005. Over 7,000 WDC participants now use these funds.

In January 2008 the WDC activated an online survey link accessible to participants logged in to their WDC account pages. Non-participants viewing the WDC Web site could not see or use the survey so that we would have input from WDC participants only. The survey questions were

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

______________________________ ____________
Signature Date

Board	Mtg Date	Item #
DC	05/06/2008	10

basic and intended to provide a baseline gauge regarding how participants currently view the WDC, given the format changes in quarterly statements, the newsletters, the WDC Web site layout, phone services, etc., resulting from the 2005 transition to Great-West Retirement Services as the program administrator. Staff intends to publish the survey highlights and use the feedback to help guide WDC improvements.
In addition to posting the survey link on the WDC Web site, the Department included a link to the survey on its Web site, promoted the survey in the January 2008 edition of the WDC newsletter, and sent an e-mail message to the State's Payroll Council for distribution to state employees. The survey was open for approximately 8 weeks, from January 9 through March 8, 2008.

The WDC received 261 survey responses. Based on self-reporting, 42% (110 of 261) of participants responding were between the ages of 50 and 59, and 20% (51 of 261) were between the ages of 40 and 49. Of those responding, 36% (92 of 261) are planning to retire between the ages of 56 and 60, and another 20% (51 of 261) plan to retire between ages 50 and 55. Nearly 100 participants responding have had a WDC account for over fifteen years, and 72% of the responding participants were male (188 of 261).

Highlights from this survey include:

- Overall, participants like the WDC: 85% (222 of 261) rated the overall WDC as a "good" or "excellent" supplemental retirement program and 95% would recommend the WDC to a friend or colleague. Seventy-three percent (191 of 261) also rated the program administrator as "good" or "excellent."
- Approximately 88% (231 of 261) ranked the quarterly WDC participant statement as "good" or "excellent." However, there is room for improvement in the WDC's communication materials: 25% (66 of 261) felt the newsletter was only "fair" or "poor," 23% (59 of 261) rated the quarterly investment performance report as "fair" or "poor," and 19% (52 of 261) felt the Web site was "fair" or "poor." Survey suggestions indicate that participants may be seeking additional investment guidance or advice and direct links to fund provider Web sites.
- Despite warnings that past investment results may not be a good indicator of future performance, 29% of WDC participants responding to this question indicated that past investment performance is their primary influence when making investment decisions, followed by information on the internet (18%). Group WDC presentations were the least influential and only cited by 5% as being their top investment decision making influence.
- Most responding participants felt the WDC local office, field staff and call center representatives provide "good" or "excellent" service. Interestingly, while 51% of those responding (135 of 261) also agreed that on-site WDC educational meetings are helpful and informative, 41% (109) said that they had never attended a group presentation. This suggests that it may be worth exploring what sort of WDC-related information participants are seeking, in order to increase attendance.
- The results included 103 participant comments in the "write in any comments and/or suggestions" option. These remarks suggest that while many participants appreciate some features of the WDC (low participant fees, self-directed brokerage option, and some of the WDC Web site features) other participants have additional suggestions to improve the WDC. For example, they would like additional investment options in the core spectrum such as precious metals, energy, real estate, exchange traded funds, and

additional international funds. They would also like a managed accounts or advice feature and a Web site that is easier to navigate that includes additional features such as a yearly “Rate of Return” link for quick access to this information.

2008 NAGDCA Defined Contribution Plan Survey
Included with this memo is a copy of the national summary report from the 2008 National Association of Government Defined Contribution Administrators (NAGDCA) Defined Contribution Plan survey. A total of 199 responses were received from s. 457 plans, 16 s. 401(k) plans, 16 s. 401(a) plans, and one s. 403(b). Points of interest from this survey include:

- The national average annual state s. 457 plan participant deferral in 2007 was $3,250. The WDC average annual deferral in 2007 was about 34% higher, at $4,343 per participant.
- Nationwide, nearly 33% of state s. 457 plan assets are held in stable value funds. Although the stable value fund is the second most popular fund in the WDC in terms of assets, overall, less than 18% of total WDC assets are in the stable value fund.
- Of the 119 responding plans, nearly 41% have 11 to 20 investment options and 26% offer 21 to 30 options. In comparison, the WDC offers 23 options, including the Schwab self-directed brokerage option and five Vanguard Target Retirement Date funds.
- Fifty-three percent of state s. 457 plans offer investment advice to participants and approximately 50% offer loans.
- Twenty-two percent have implemented the optional Public Safety Officer Tax Exempt Insurance Premium Payment service available as a result of the 2006 Pension Protection Act.
- Half the plans responding to the survey indicated they would like to add a managed accounts feature that would provide their participants with investment advice.

Conclusions
Overall, the WDC is in good shape. It compares favorably to other states’ s. 457 plans in terms of usage and services offered. WDC participation continues to rise, participants are more diversified in terms of investment options and use many of the services and features provided.

However, as the winter 2008 online survey illustrated, there will always be room for improvement. Department staff intend to use the information and insights gained from the online survey to guide program improvements. In addition, some of the questions and comments that participants provided may result in informational articles and “Web tips” in the quarterly newsletter.

Staff will be available at the Board meeting to discuss the information in this memo and the attachments.

Attachments: 2007 WDC Program Statistics PowerPoint presentation
Zoomerang Survey Results: WDC Online Survey, Winter 2008
NAGDCA Defined Contribution Plan Survey Report, March 2008

WDC

Wisconsin Deferred Compensation Program

2007 Annual Statistical Report

For the calendar year ending December 31, 2007

WISCONSIN DEPARTMENT OF EMPLOYEE TRUST FUNDS

The WDC in 2007
($ in millions)

Total Assets

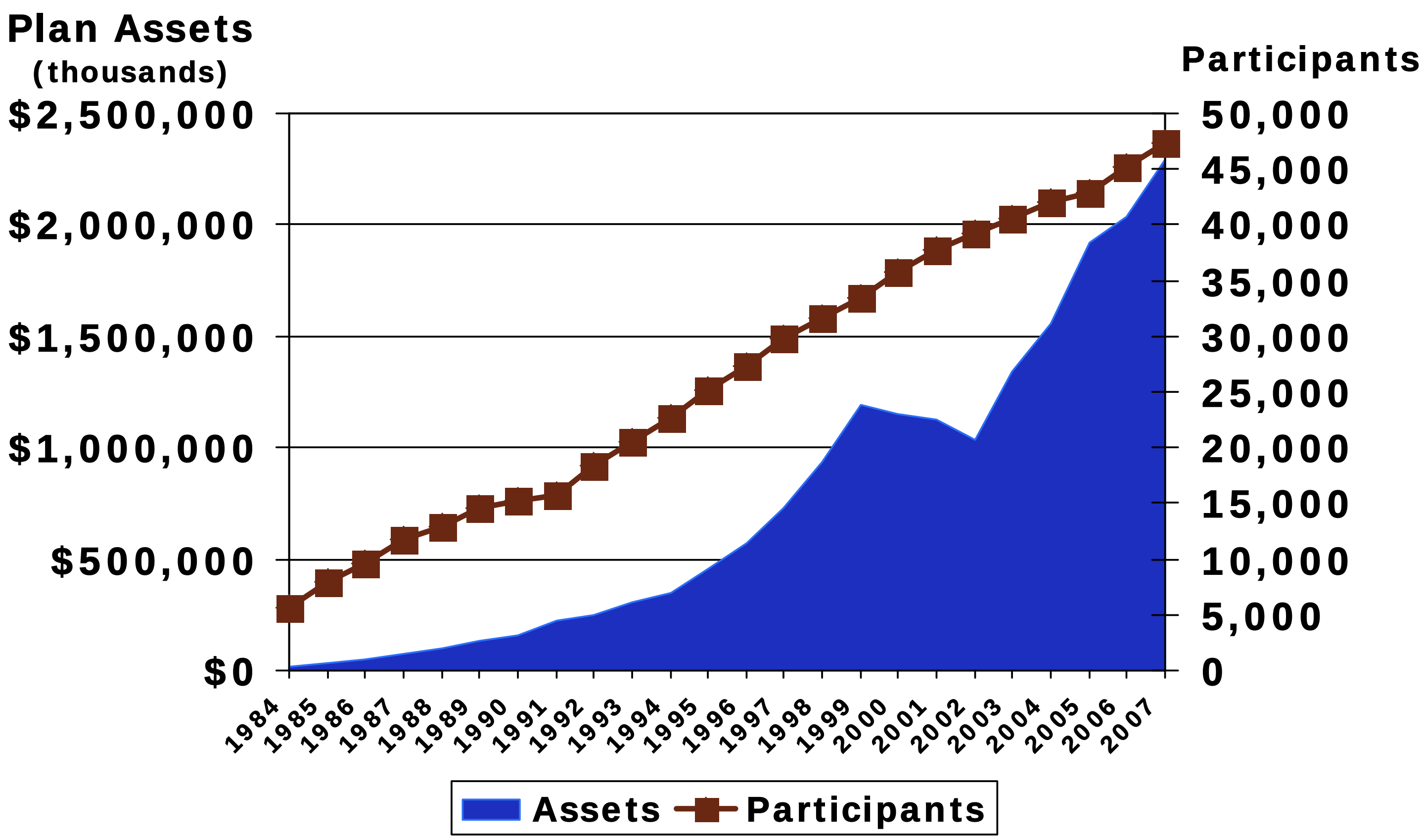
• Assets at December 31, 2007	$2,293.95
• Less assets at December 31, 2006	$2,029.75
• Asset change for the year	$264.20

Asset Components

• Contributions for the year	$153.08
• Net investment gain for the year	$199.88
• Less distributions for the year	- $88.76
• Asset change for the year	$264.20

WDC Assets and Participation

As of December 31, 2007



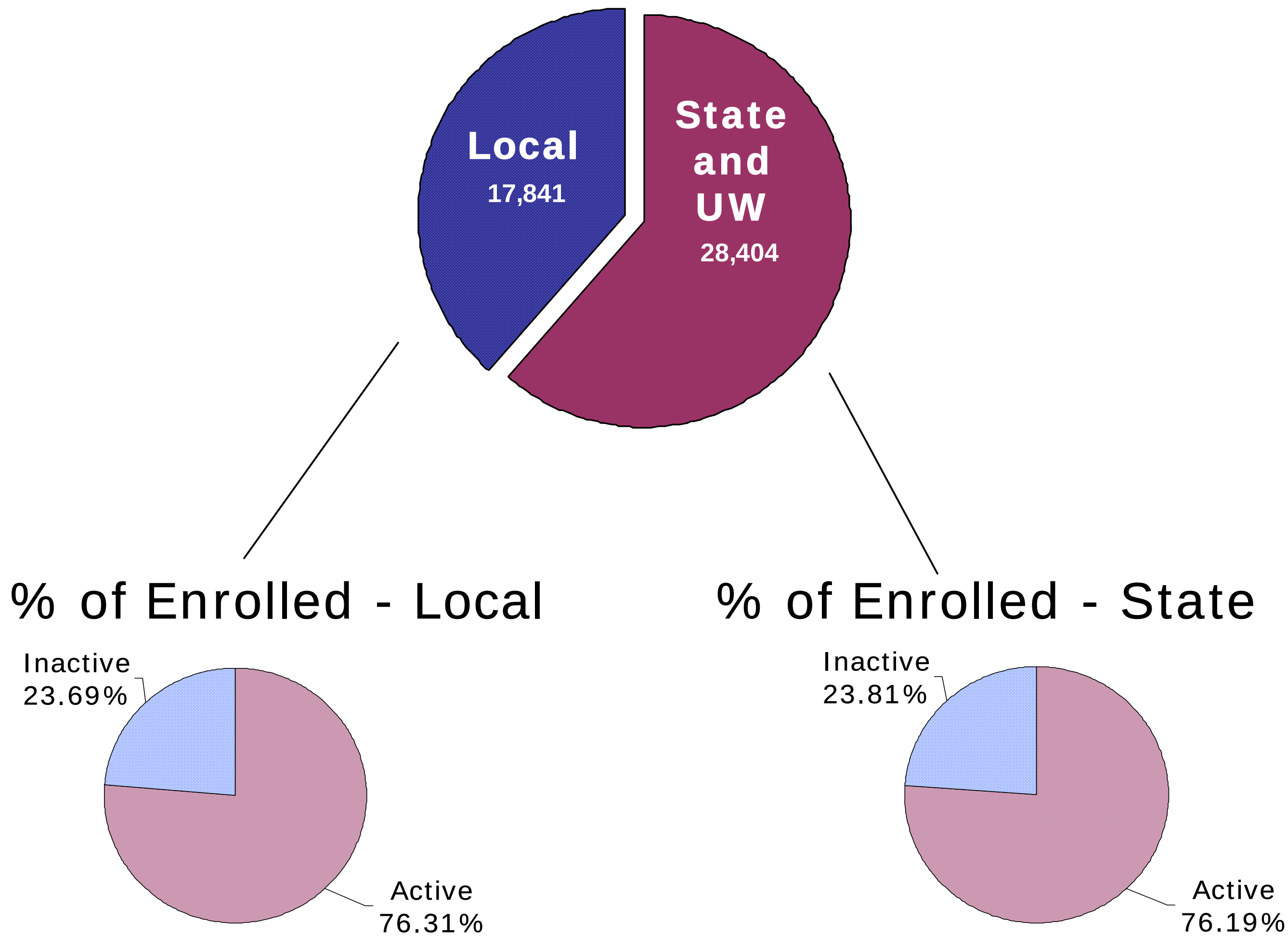
*2005 data is as of transition on 11/30/05.

**2006 data begins new recordkeeping of in-force accounts vs. total.

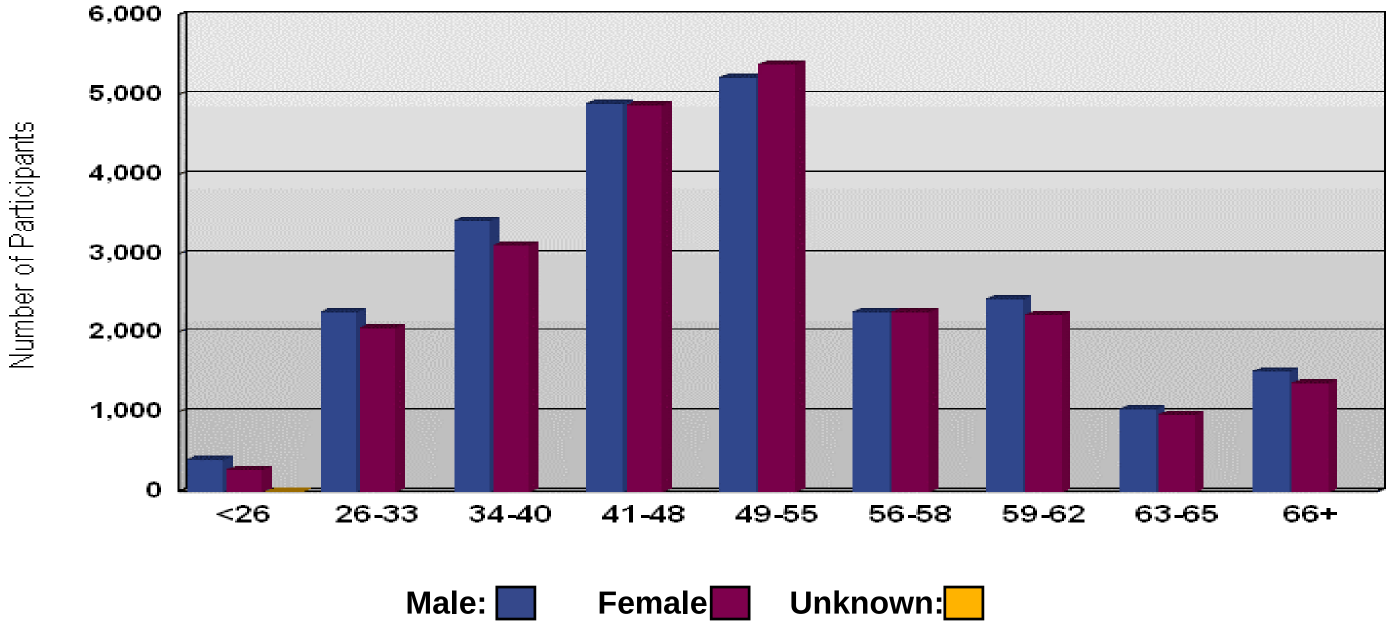
2007 State and Local Employers

	State	Local	Total
Beginning Balance	1	738	739
# New Employers Added	0	30	30
# Employers Discontinued	0	0	0
Ending Balance	1	768	769

2007 WDC Active Participant Population



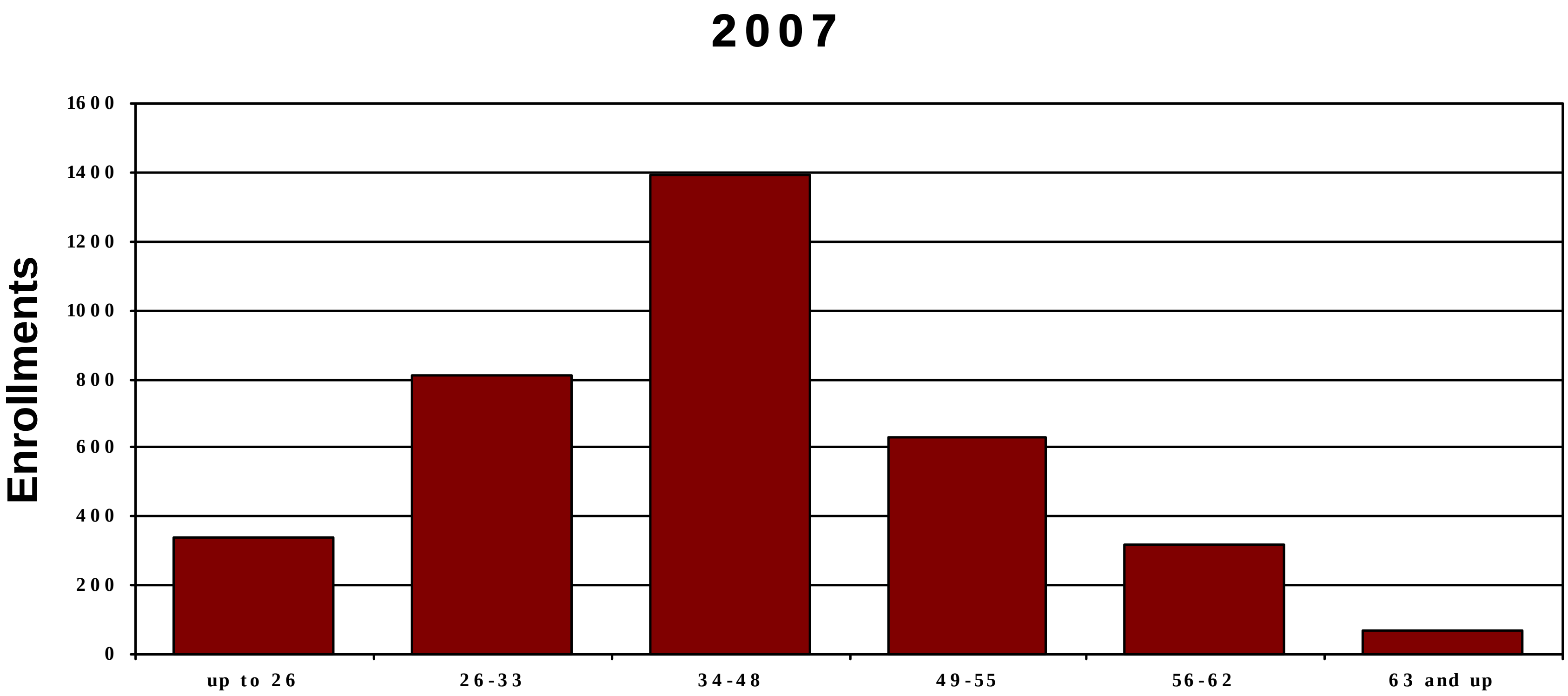
2007 Participation – Age and Gender



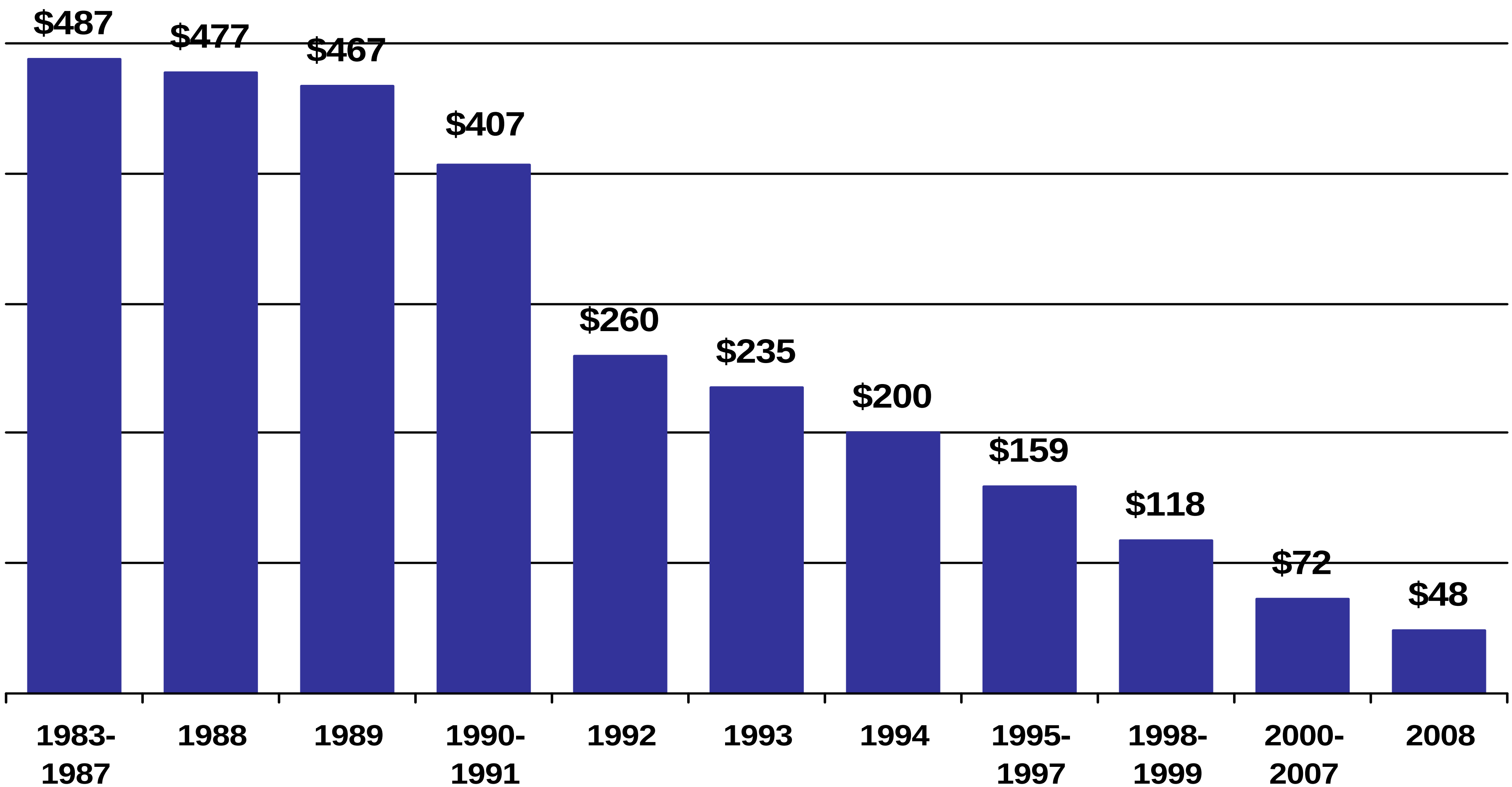
Participant Data*	
Total number of participants with an account balance:	45,906
Total number of male participants:	23,408
Total number of female participants:	22,493
Total number of unknown participants:	5
Overall average participant age:	48.9
Overall average age of male participants:	48.78
Overall average age of female participants:	49.03

***For the purpose of this slide, a participant is defined as an individual with an account balance as of December 31, 2007.**

New WDC Enrollments by Participant Age

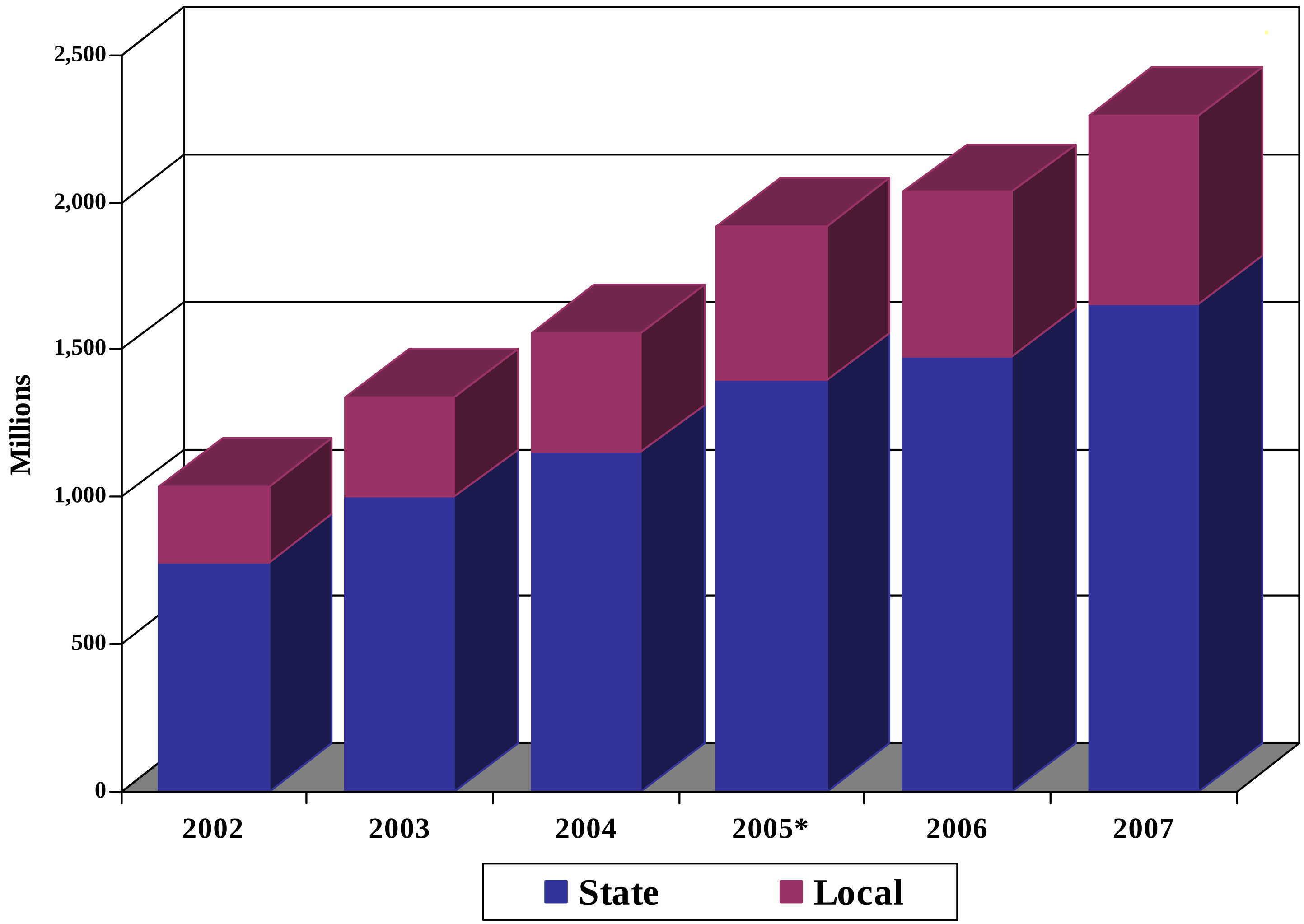


WDC Participant Fee Reduction History



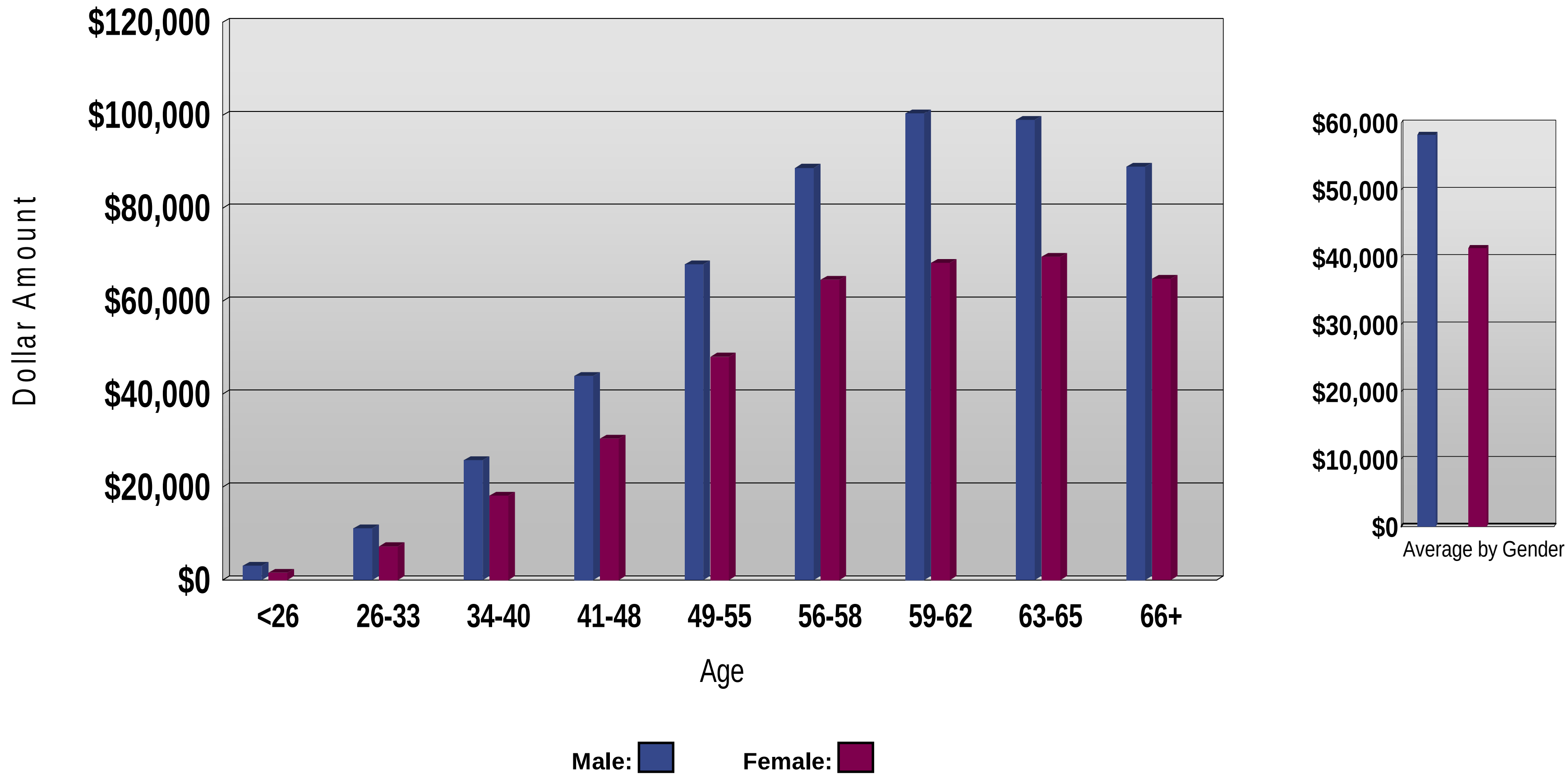
* Example participant fees based on $50,000 account balance.

WDC Participant Asset Growth 2002 - 2007

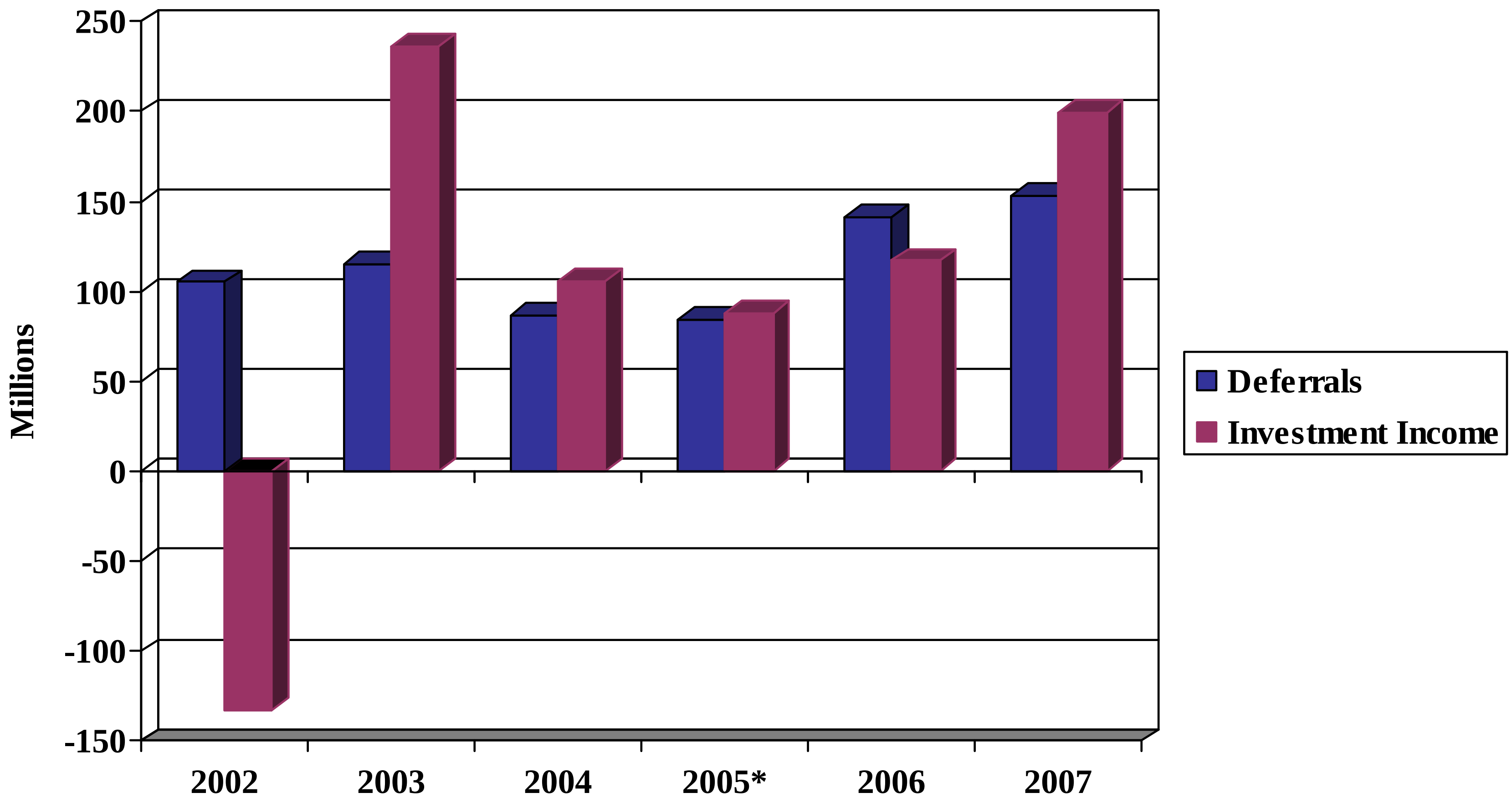


*2005 data is as of transition on 11/30/05.

2007 Average WDC Account Balance
All Participants

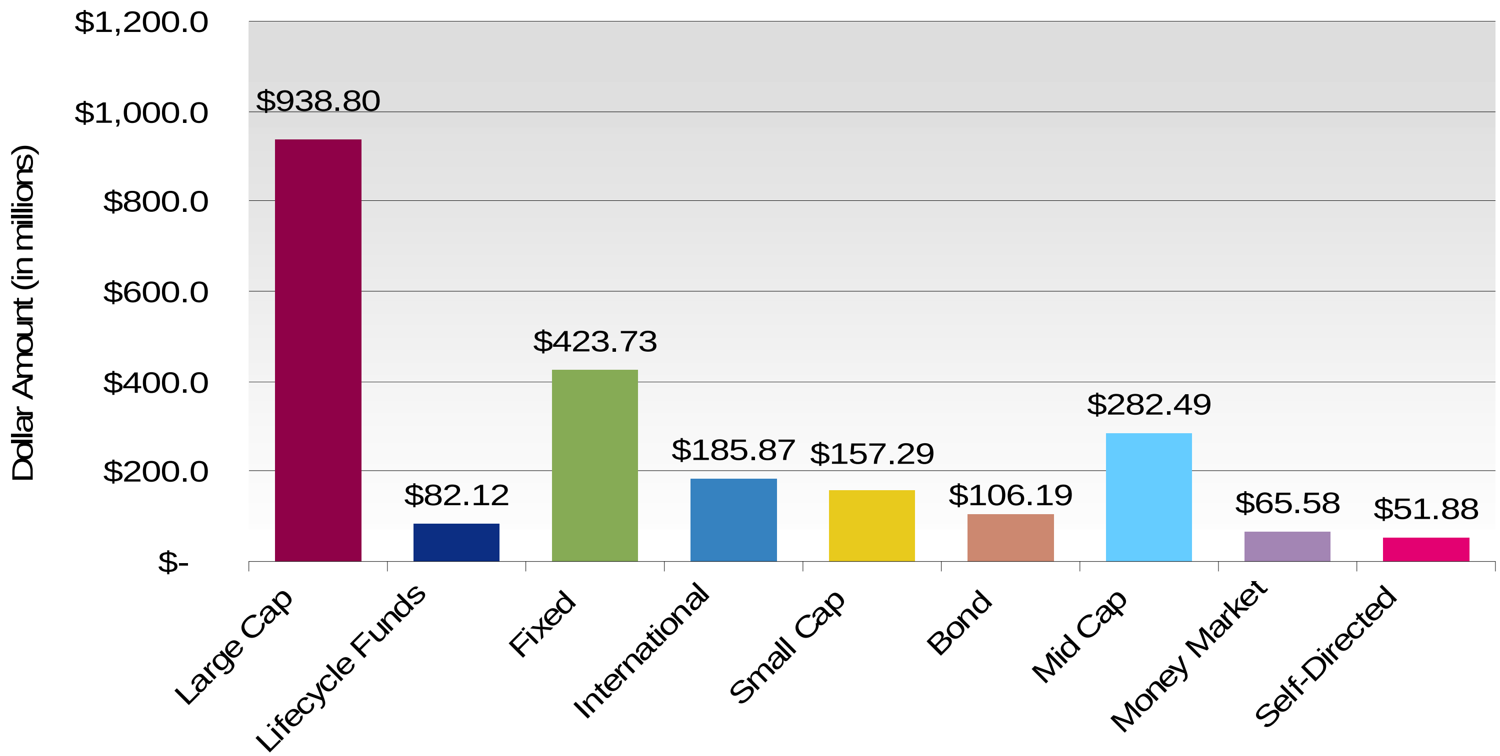


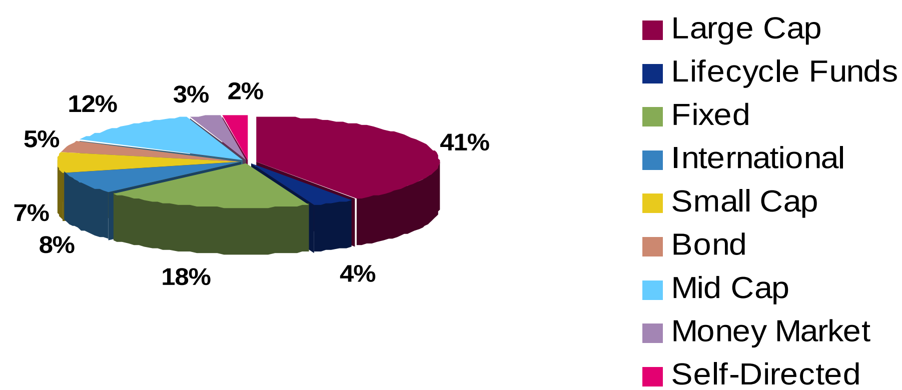
Deferrals and Investment Income 2002 – 2007



*2005 data is as of 11/30/05 per previous recordkeeper.

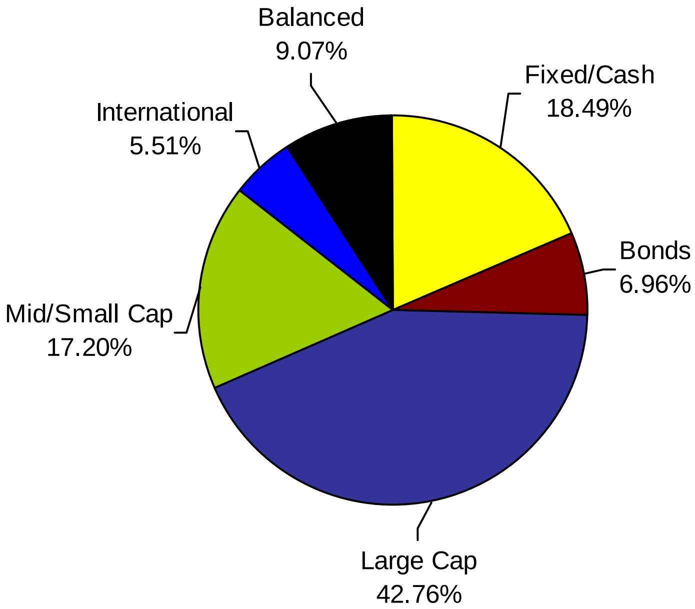
2007 Assets by Asset Class



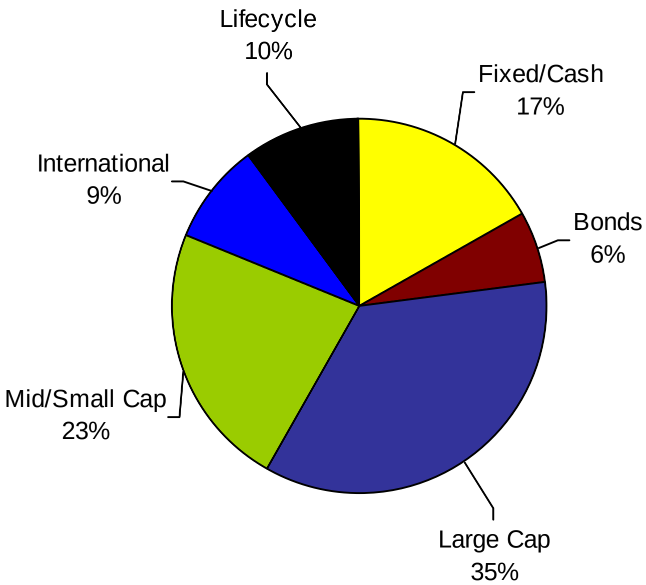


Participant Deferrals by Asset Class 2002 vs. 2007

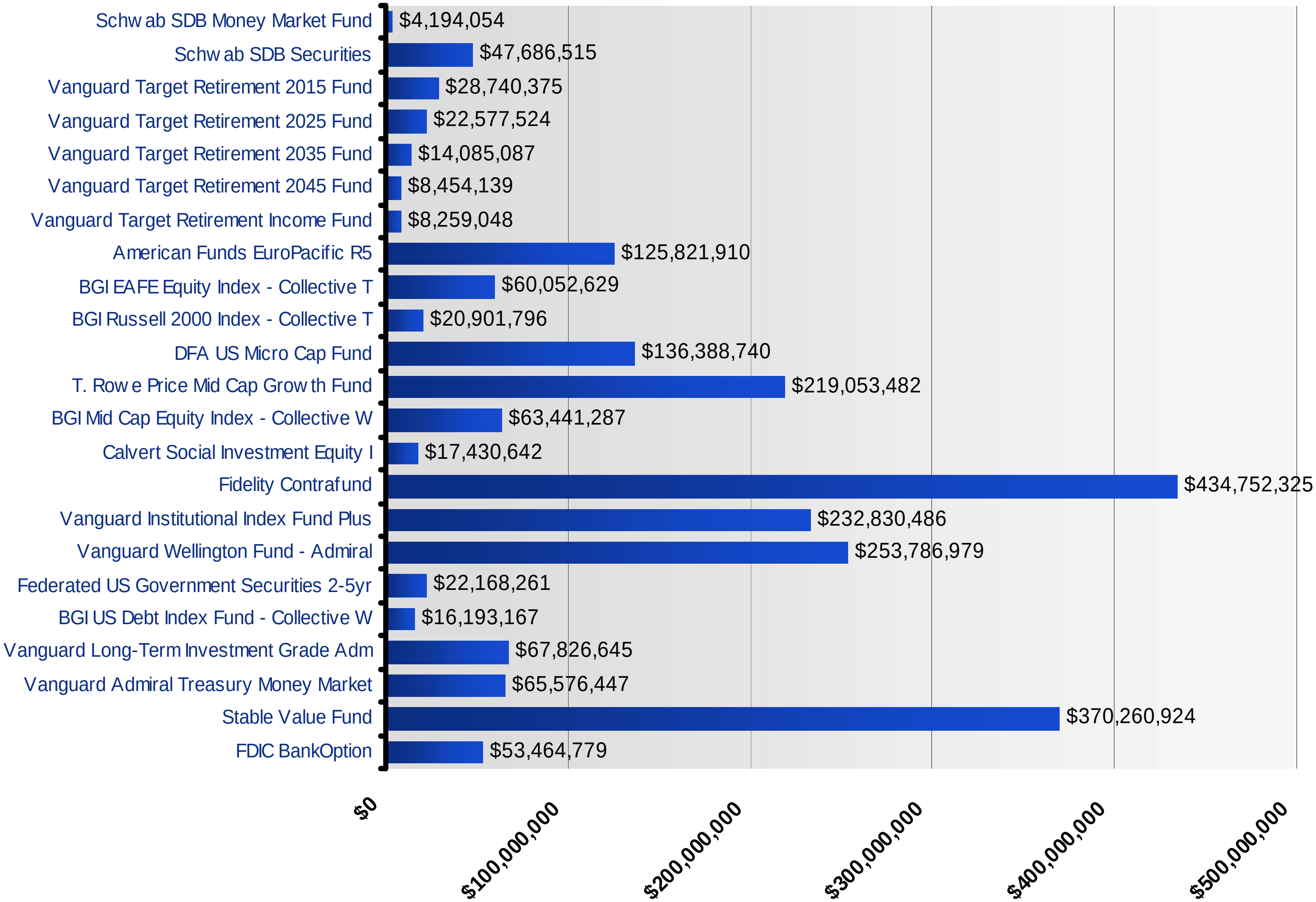
2002



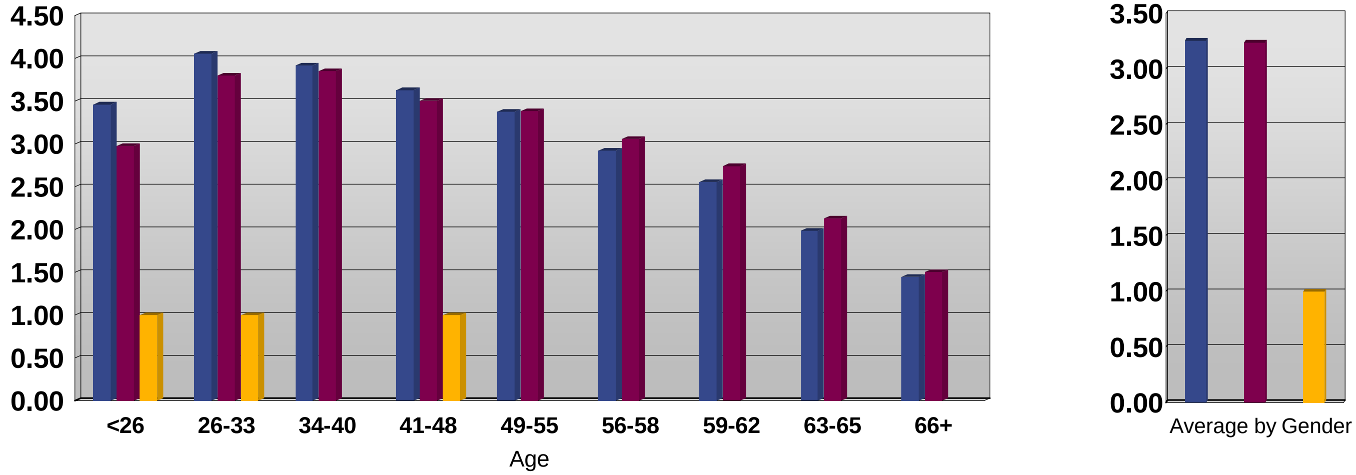
2007



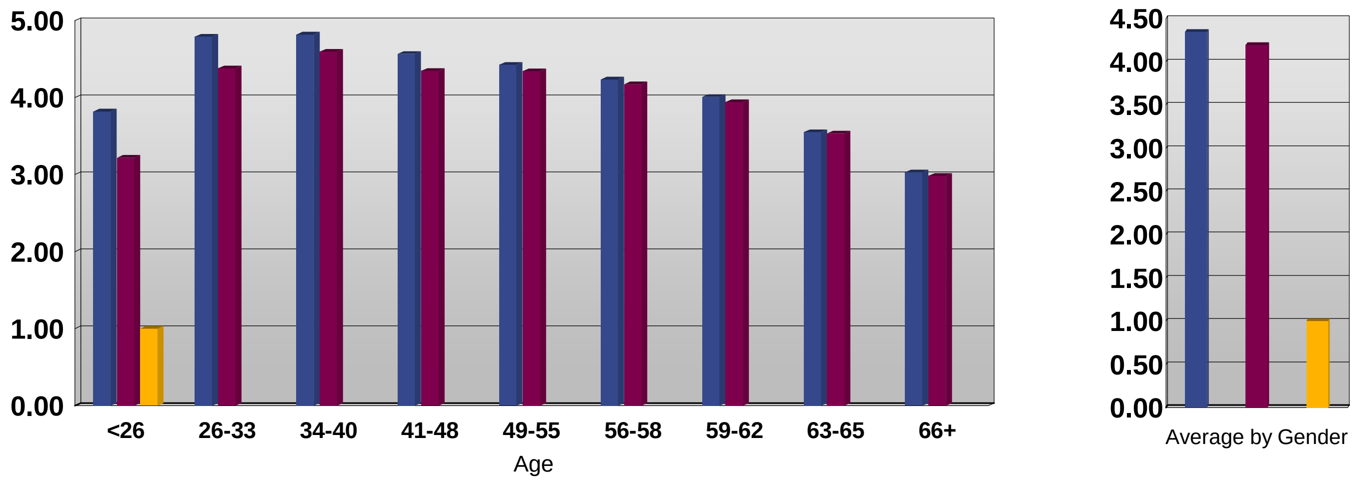
2007 Assets by Investment Option



Number of Investment Option Allocations for New Contributions

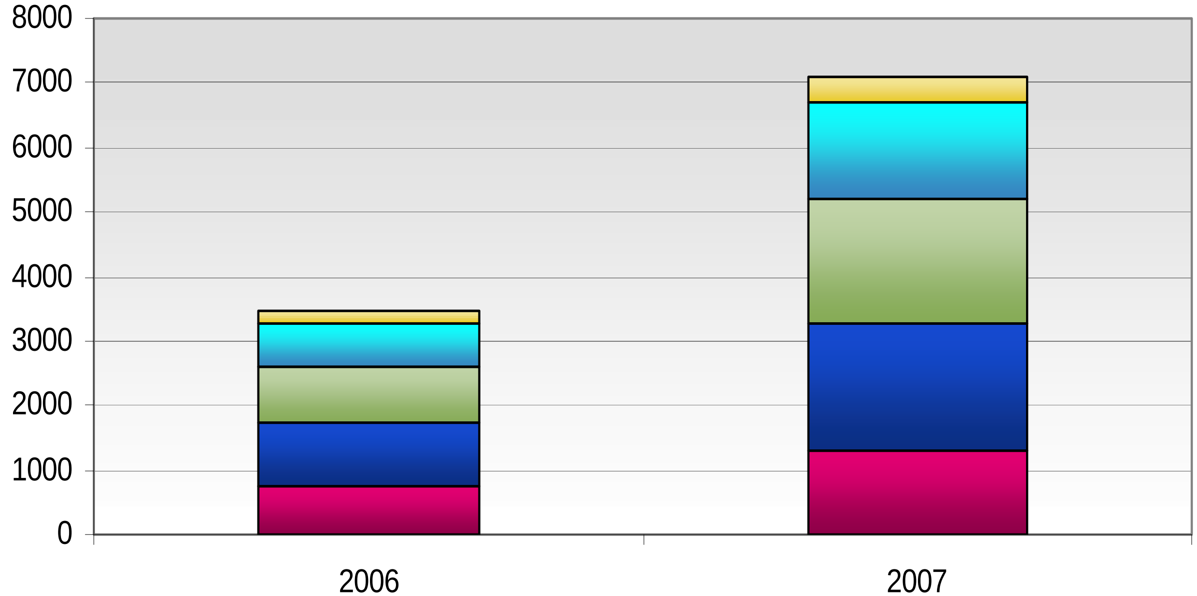


Number of Investment Option Allocations for Existing Account Balance



Male: **Female:** **Unknown:**

Lifecycle Fund Use
by Number of Participants



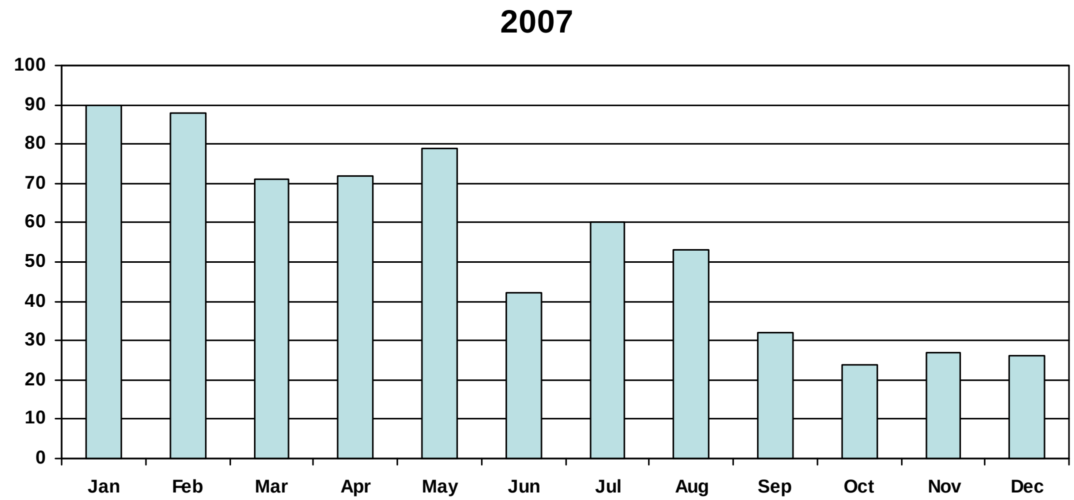
	12/31/06	12/31/07
Vanguard Target Retirement Income Fund	204	382
Vanguard Target Retirement 2045 Fund	675	1512
Vanguard Target Retirement 2035 Fund	868	1910
Vanguard Target Retirement 2025 Fund	978	1977
Vanguard Target Retirement 2015 Fund	747	1307

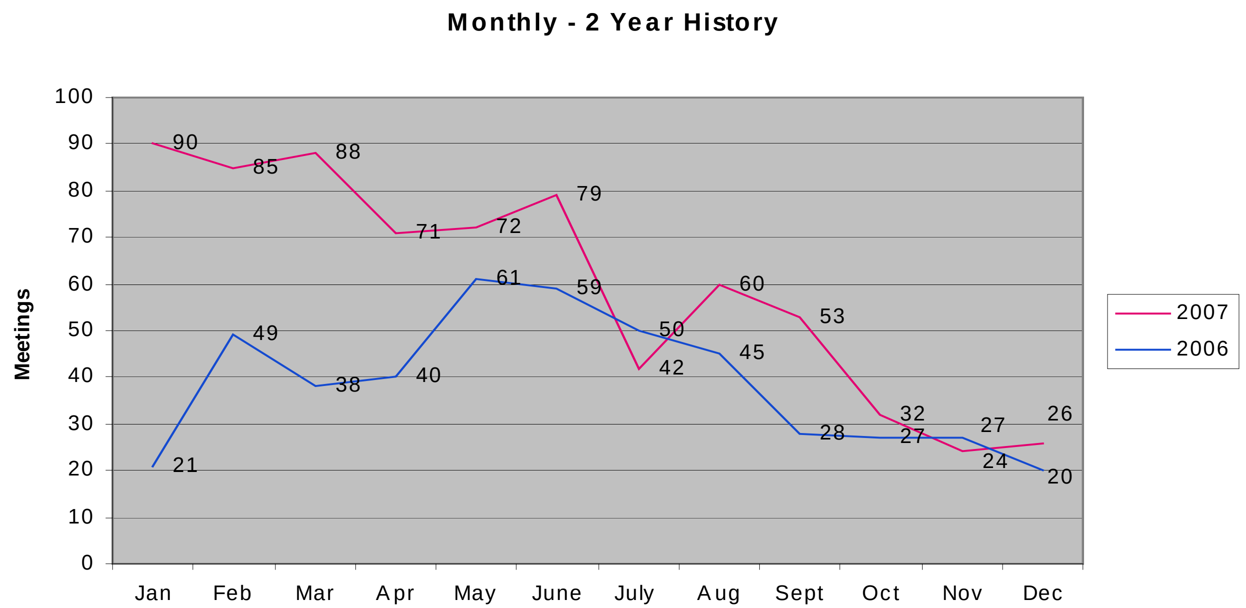
WDC Self-Directed Brokerage Account Usage

As of December 31, 2007:

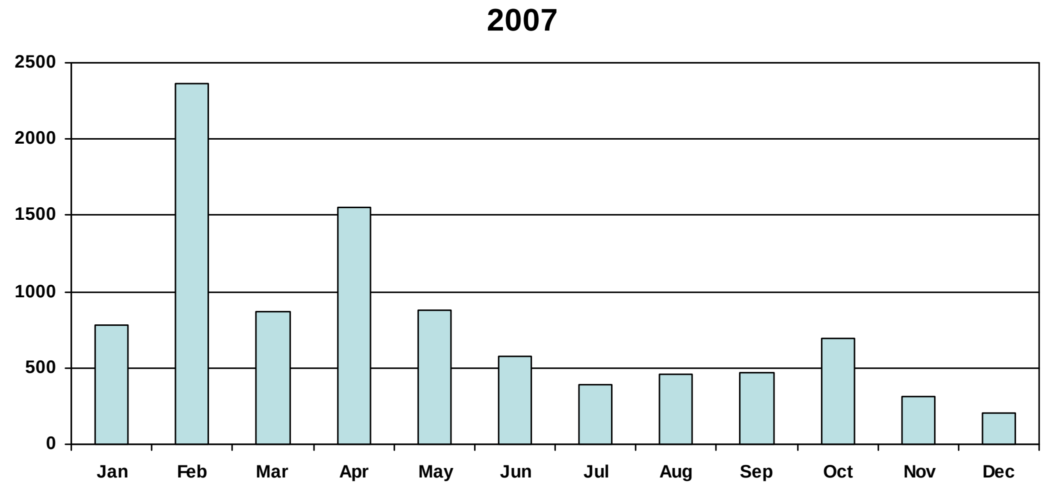
- 2.4% of participants in self-directed option
- 786 total accounts at Schwab
  - 706, or 89.8% were in the Schwab Money Market
  - 744, or 94.6% were using Schwab mutual fund options
- $51.9 million total balance at Schwab
  - $4.2 in Schwab Money Market
  - $47.7 in Schwab mutual funds
- Average account at Schwab was $66,010

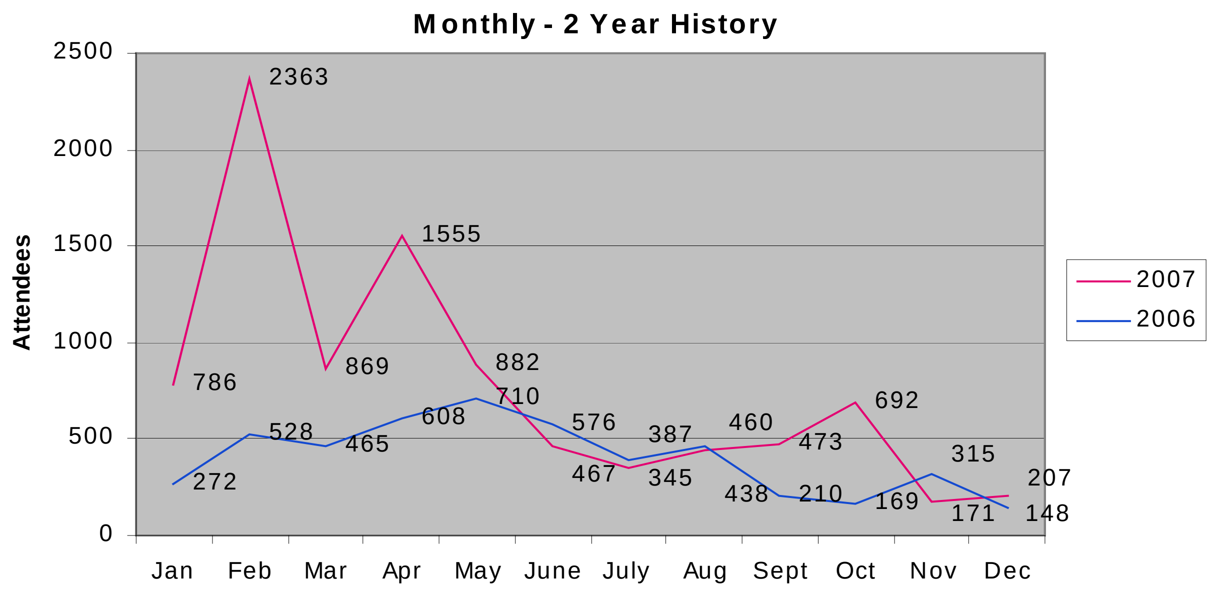
Number of Group Meetings



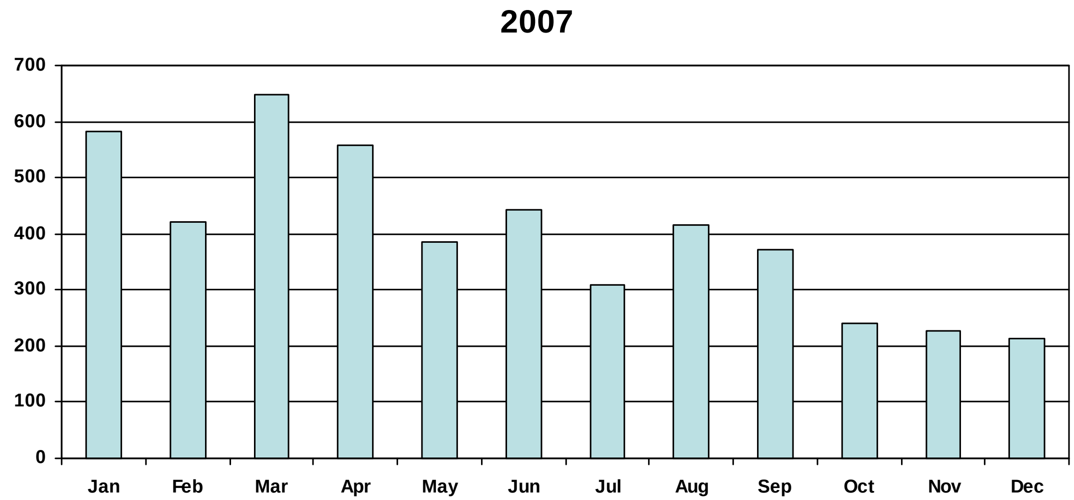


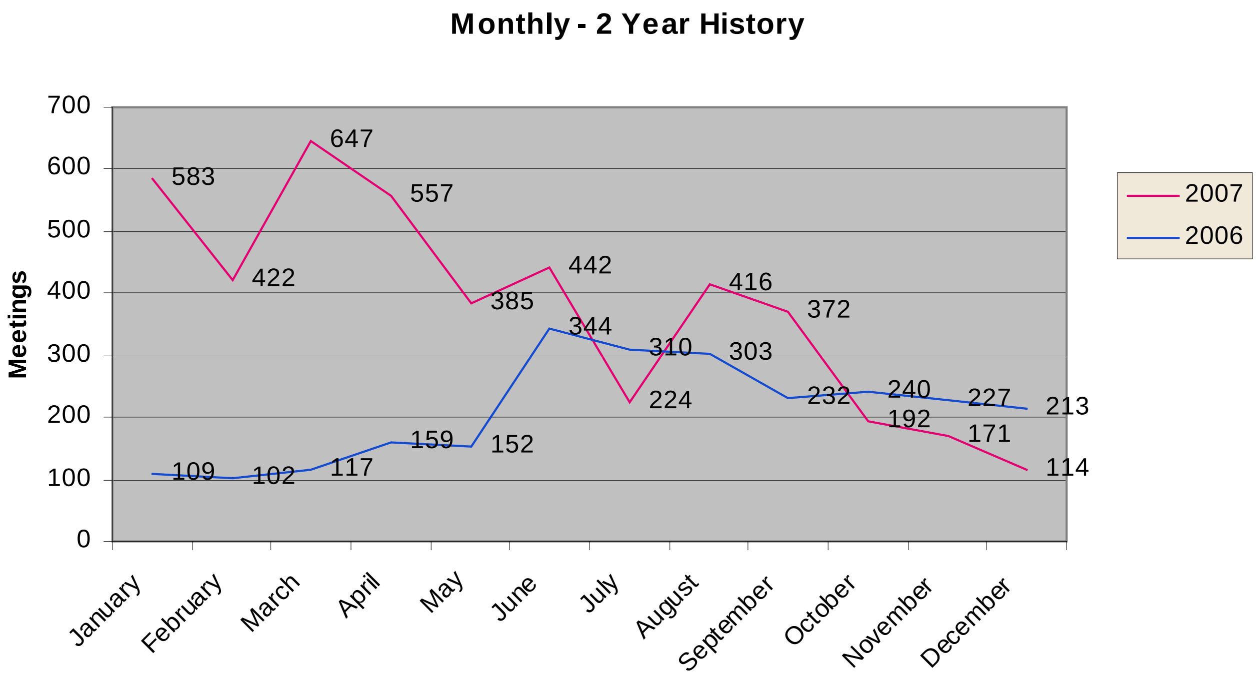
Number of Attendees at Group Meetings



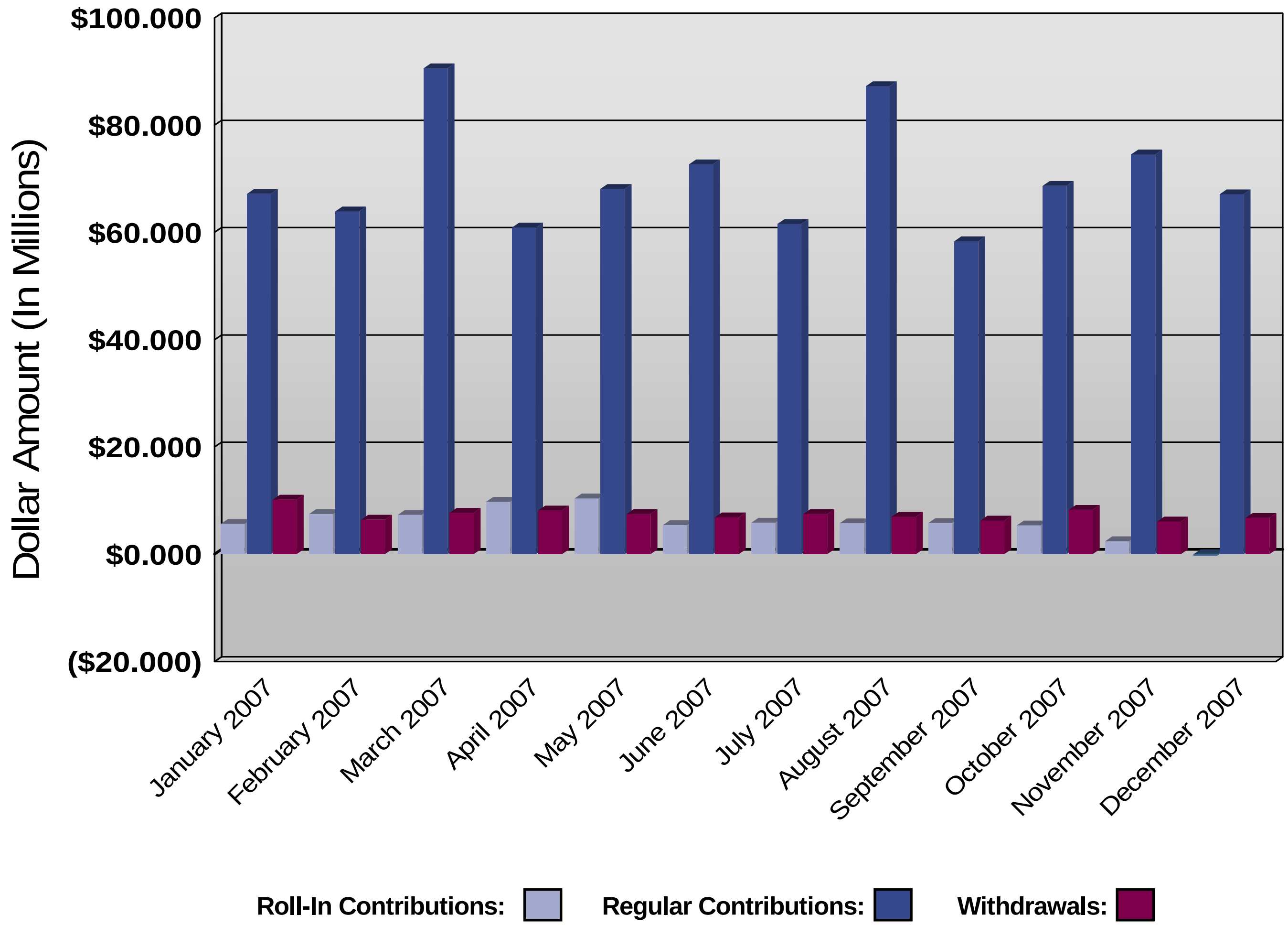


Individual Counseling Sessions

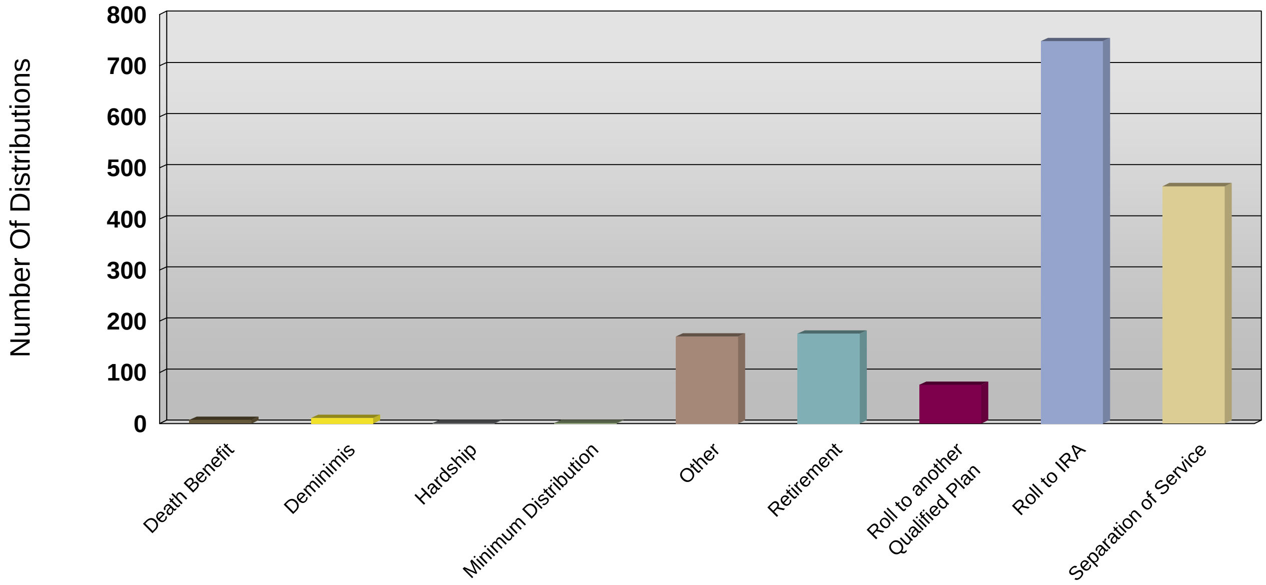


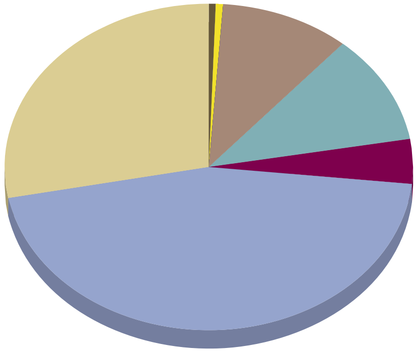


2007 Total
Contribution and Withdrawal Summary



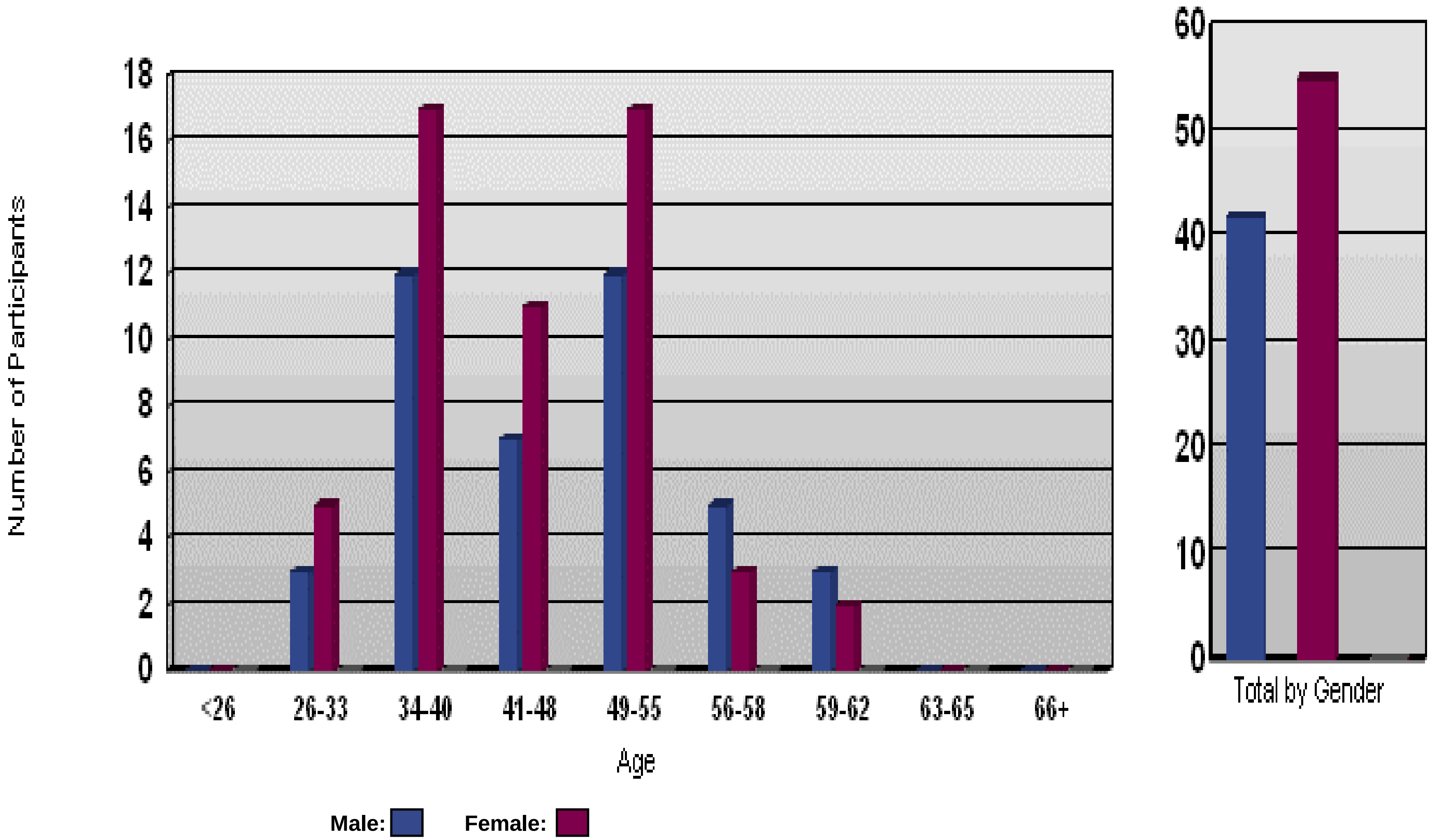
2007 Full Account Distribution by Reason



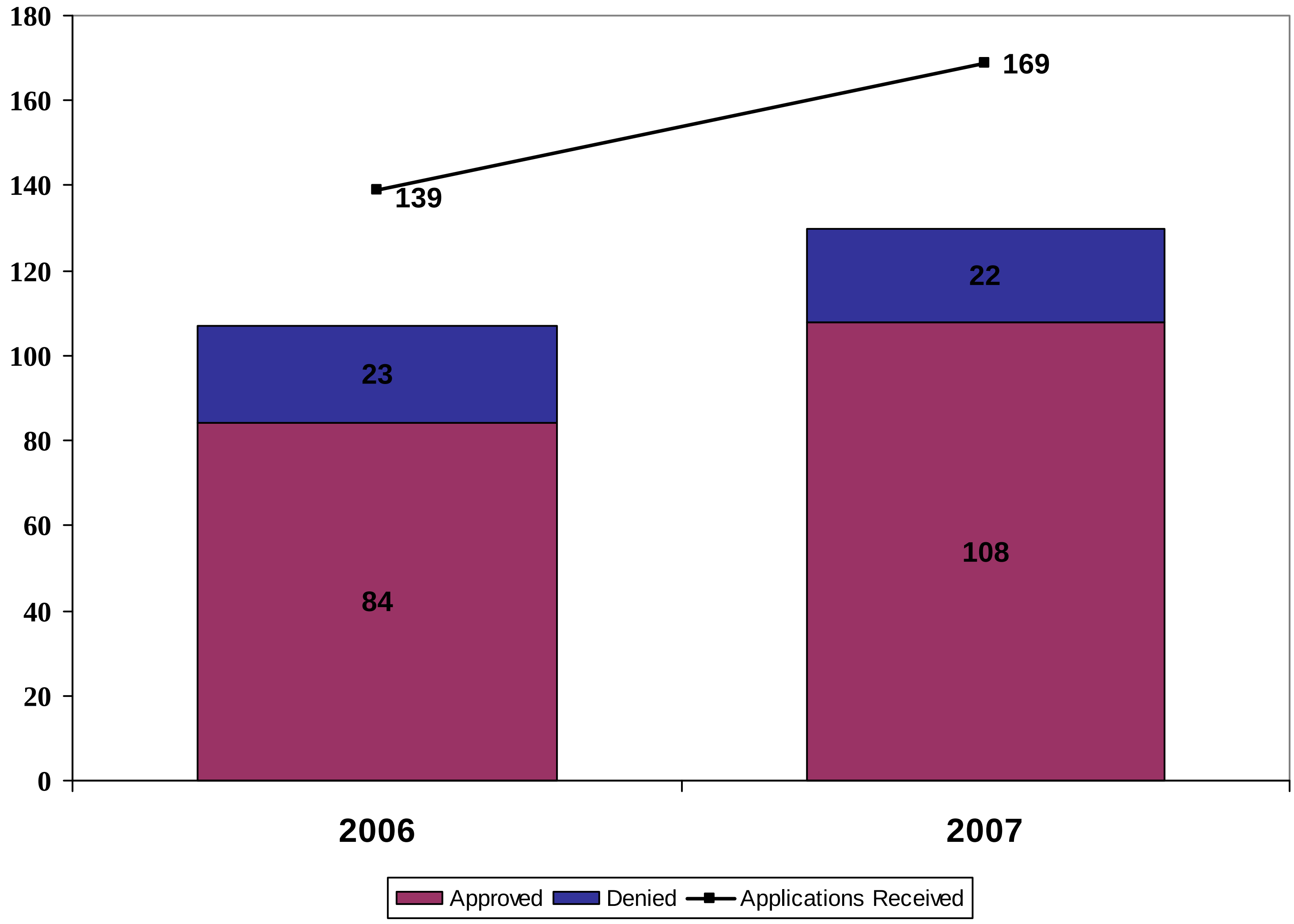


Death Benefit	0.4%
Deminimis	0.7%
Hardship	0.1%
Minimum Distribution	0.1%
Other	10.3%
Retirement	10.6%
Roll to another Qualified Plan	4.6%
Roll to IRA	45.2%
Separation of Service	28.1%
Total:	100.0%

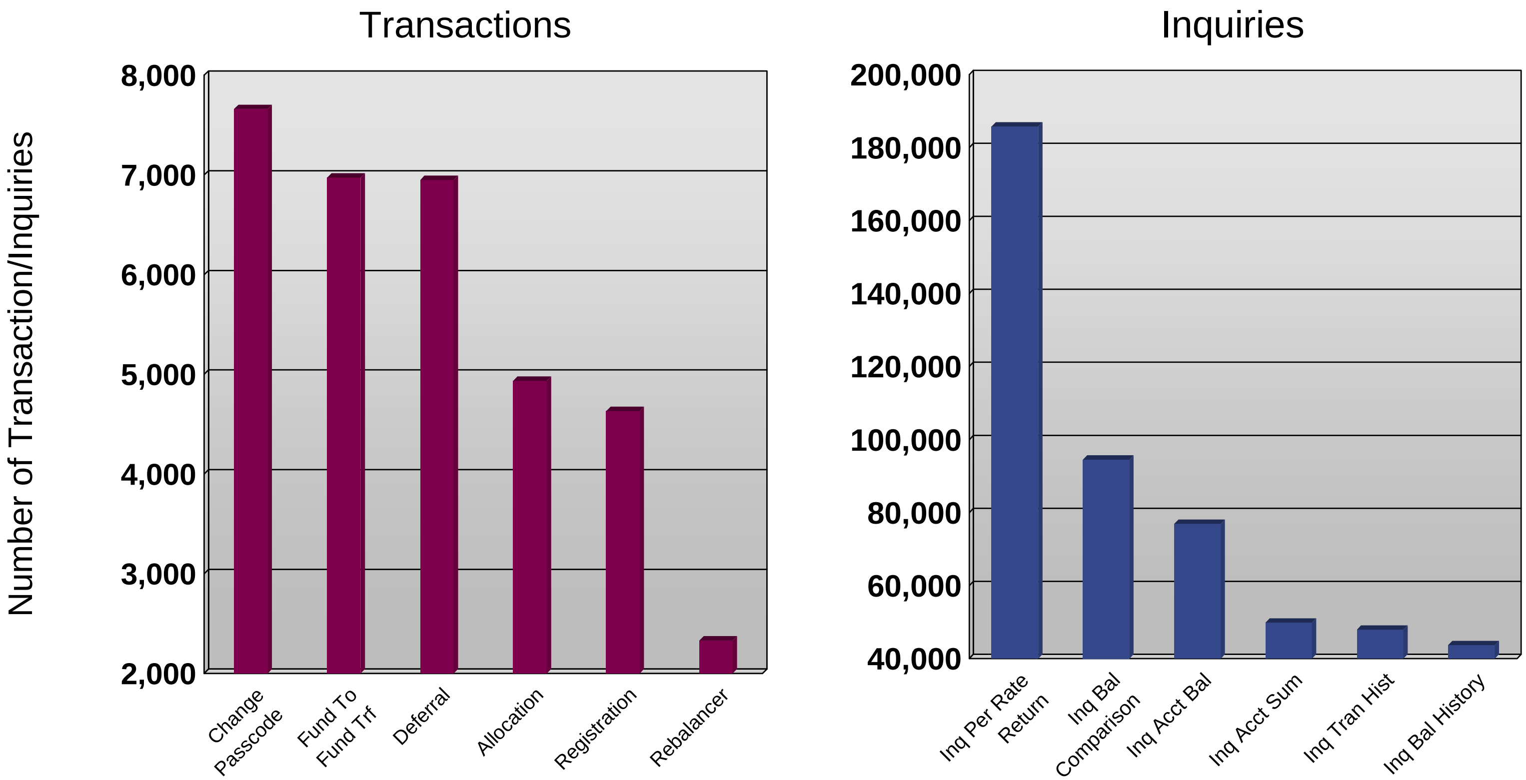
2007 WDC Participant Hardships



2007 WDC Participant Hardship Withdrawals

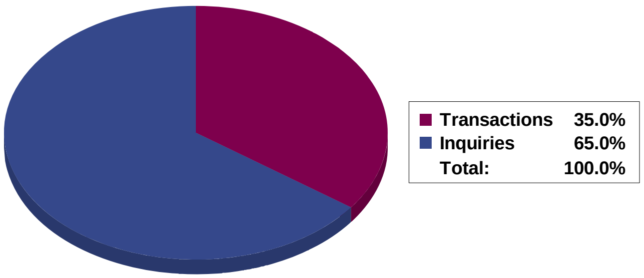


2007 Web Site Activity

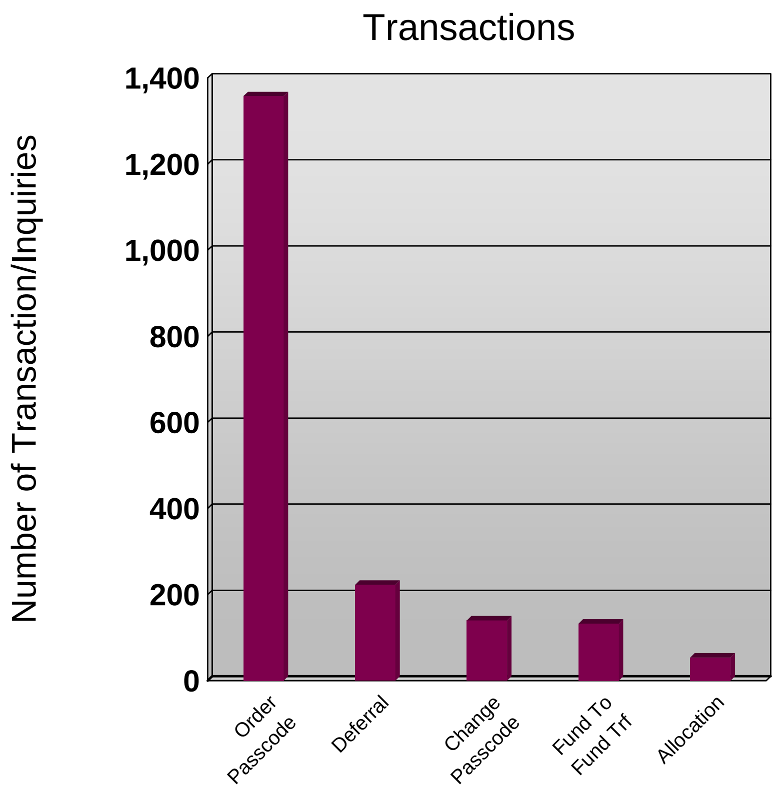


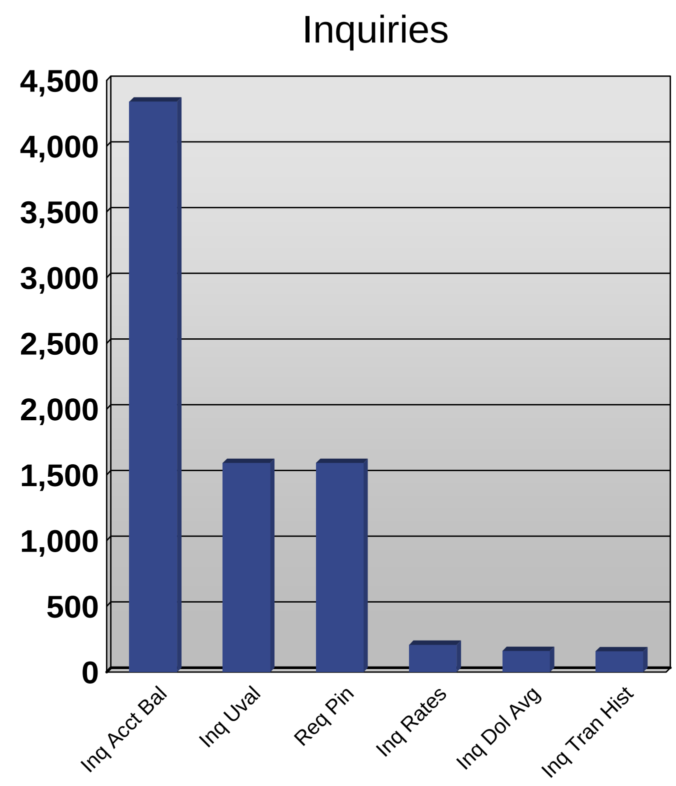
Average number of distinct visitors to the Web Site per month = 7,140

Total number of logins to the Web Site in 2007 = 483,645



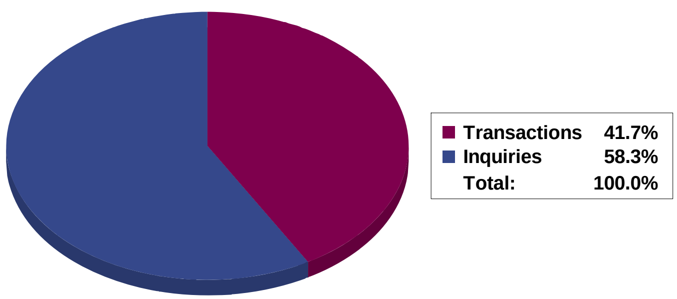
2007 KeyTalk® Activity



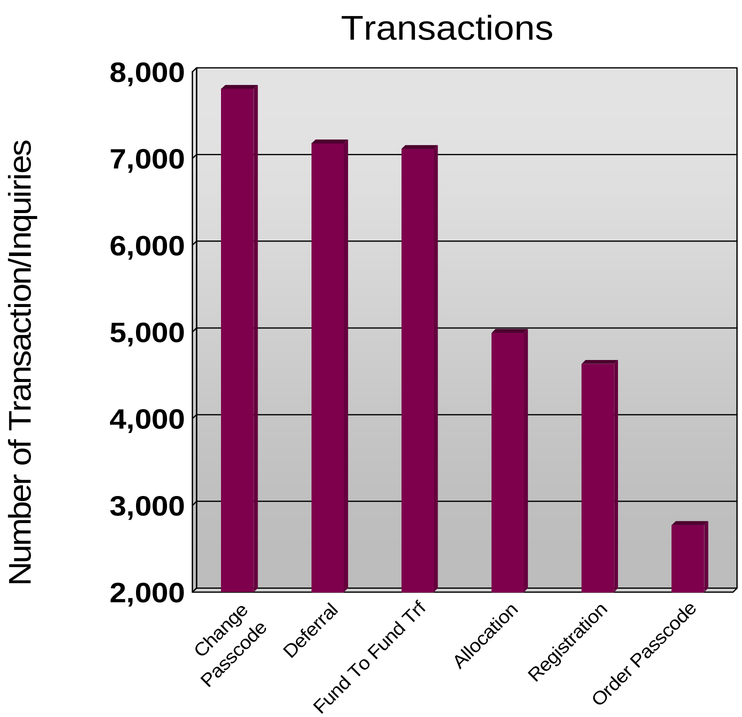


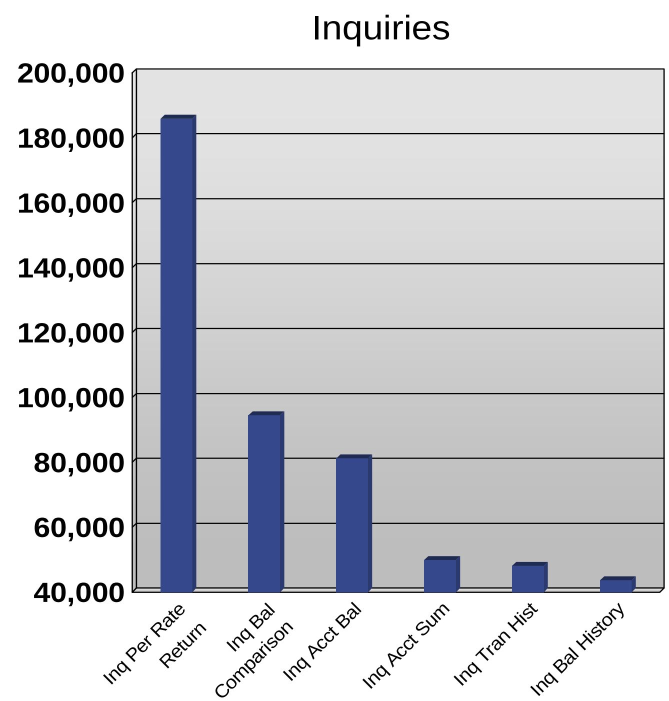
Average number of distinct callers to KeyTalk per month = 598

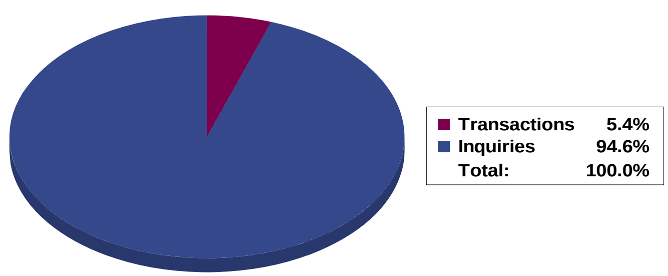
Total number of calls to KeyTalk in 2007 = 27,312



2007 Total Participant Transactions and Inquiries through the Web Site and KeyTalk®







Joint Retirement Workshops

- 2007 - Initial joint retirement presentations offered with the Wisconsin Retirement System, the Social Security Administration and the Wisconsin Deferred Compensation Program
  - WDC hosted five evening seminars around the state
  - Over 1,500 people attended
  - Opportunity for people to hear from all three entities at the same time in one location
  - Positive feedback was received on exit surveys

- 2008 - Four workshops scheduled in different locations around the state

2008 WDC Focus

- Implement 2007 WI Act 131 changes
- Promulgate changes to WI Admin. Code (Ch. ETF 70), then release RFP for fixed investment option
- Remind local school districts that the WDC may be a good solution to their concerns regarding compliance with the new requirements for s. 403(b) retirement plans
- Continue investment education and support to participants during current tough economic times
- Encourage participants to look at their retirement goals and:
  - Enroll in the WDC and tell a friend about the program
  - Increase deferrals
  - Understand asset allocations and diversify investments
  - Consider and understand distribution options

WDC

Wisconsin Deferred Compensation Program

Questions?

Thank You

etf
WISCONSIN DEPARTMENT
OF EMPLOYEE TRUST FUNDS

STATE OF WISCONSIN
Department of Employee Trust Funds
David A Stella, Secretary

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
TTY (608) 267-0676
http://etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: April 25, 2008

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: May 2008 Board Meeting Miscellaneous Items

The following items are included with the Board materials for May 6, 2008:

Wisconsin Deferred Compensation Program Information

a) Fixed Option Request For Proposal (RFP). The development of this RFP is on hold, pending the promulgation of the Wisconsin administrative code change that would permit a fund closure to start six months after the Board approved a fund phase-out, instead of on January 1.
b) Steppingstones Presentations. The attached flyer provides information on the dates and locations planned for Steppingstone presentations this spring. The 2007 pilot presentations, held at five locations around Wisconsin, were very successful; a total of 1,533 individuals attend the meetings.

Investment Product Information

c) Schwab: PCRA Report – First Quarter 2008
d) Vanguard: March 28, 2008 "Vanguard and Vanguard Institutional Investor Group Welcome New Leadership"
e) American Funds: February 15, 2008 "Brown and American Funds End Litigation" Press Release

Reports

f) Local Employer Elections – First Quarter 2008
g) Financial Emergency Withdrawal Report – First Quarter 2008

Correspondence

h) Participant Kriplean email

Miscellaneous

i) GFOA: February 22, 2008 "Monitoring and Disclosure of Fees for Defined Contribution Plans 2008 (CORBA)"

Media Articles

j) *The Wall Street Journal:* April 16, 2008 "LIBOR FOG: Bankers Cast Doubt on Key Rate Amid Crisis"
k) *Pensions and Investments:* February 18, 2008 "High Fees Push Managed Accounts Off Default List"
l) *Morningstar:* March 27,2008 "What to Make of Target-Date Funds' Allocation Tweaks"
m) *Pensions and Investments:* March 17, 2008 "New Chief Puts Stamp on Fidelity"
n) *US Securities and Exchange Commission*: March 5, 2008 Press Release "SEC Charges Fidelity, Executives and Employees for Improperly Accepting Lavish Gifts Paid for by Brokers"

Board	Mtg Date	Item #
DC	05/06/2008	11

State of Wisconsin Plan

Schwab Personal Choice Retirement Account (PCRA) Quarterly Report

As of 3/31/2008

The Schwab Self-Directed Brokerage Account Quarterly Report
For the State of Wisconsin plan as of 3/31/2008

charles SCHWAB

Plan Profile Information

Company Name	State of Wisconsin
Total PCRA Assets	$48,965,839
Total PCRA Accounts	796
Total Advisor Managed PCRA Assets	$10,497,437
Total Advisor Managed PCRA Accounts	104

PCRA Participant Profile Information

PCRA Accounts Opened This Quarter	33
PCRA Assets In and Out This Quarter*	$565,905
Average PCRA Account Balance	$61,515

Average Positions (Per Acct)

Cash & Equivalents	1.0
Mutual Funds	4.4
Total	5.4

Average Trades (Per Acct)

Cash & Equivalent	0.0
Mutual Funds	2.3
Total	2.4

Top 10 Mutual Fund Holdings	Ticker Symbols	$ MF Assets	% MF Assets
FMI LARGE CAP FUND	FMIHX	$840,368	1.93
TOCQUEVILLE GOLD FUND	TGLDX	$683,314	1.57
ARTISAN INTL SMALL CAP	ARTJX	$677,129	1.55
PIMCO ALL ASSET FUND	PAAIX	$662,397	1.52
MAINSTAY ICAP SELECT EQ FD CL	ICSLX	$653,811	1.50
ARTISAN INTL FUND	ARTIX	$647,293	1.49
HUSSMAN STRATEGIC GROWTH	HSGFX	$628,888	1.44
JULIUS BAER INTL EQUITY	BJBIX	$617,832	1.42
OAKMARK EQUITY INCOME FD	OAKBX	$608,710	1.40
COLUMBIA VALUE & RESTRUCTURING	UMBIX	$581,031	1.33

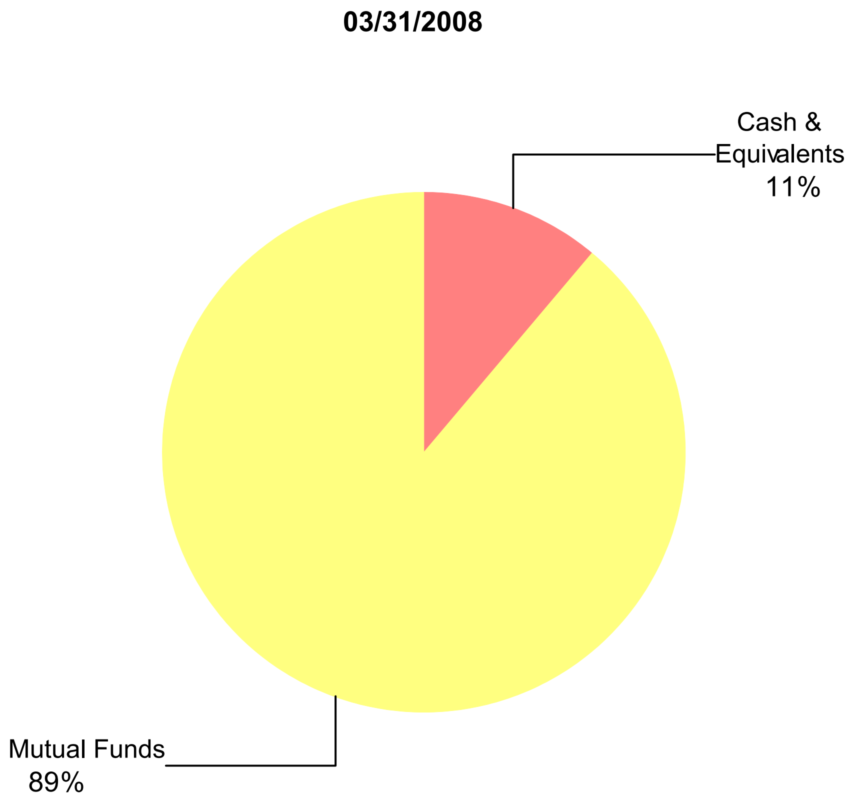
Money Market Fund Balance	Ticker Symbols	Total Value
SCHWAB MONEY MARKET FUND	SWMXX	$4,538,841

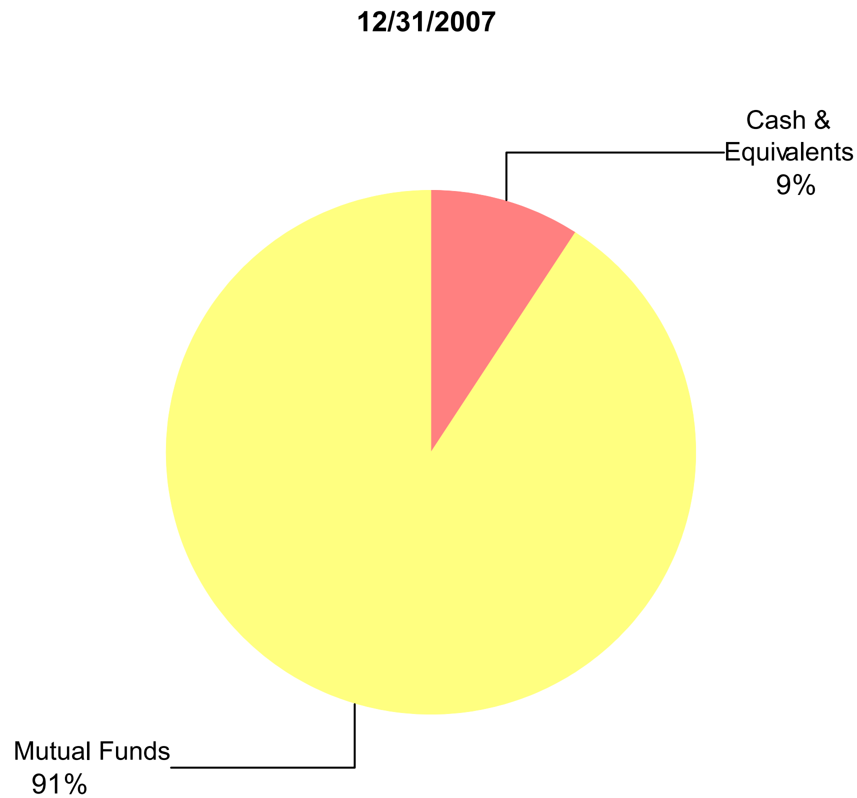
* Assets In and Out includes contributions and distributions
Top 10 Mutual Funds % does not include Money Market Funds.

The Schwab Self-Directed Brokerage Account Quarterly Report
For the State of Wisconsin plan as of 3/31/2008

charles SCHWAB

Market Value Allocation - Asset Classes
(Quarter over Quarter)





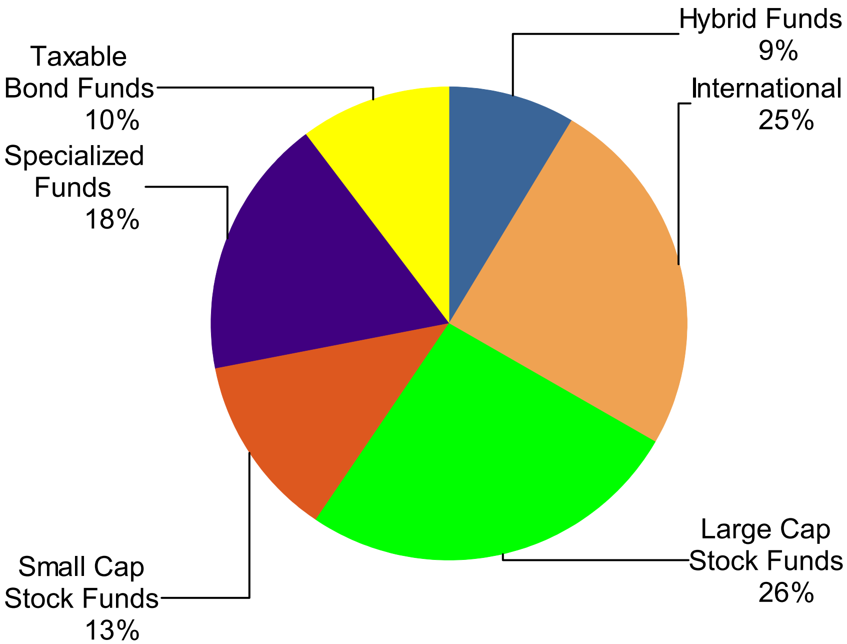
This chart illustrates the percent of PCRA participant assets in each noted asset class as percentage of total PCRA assets. Percentages are calculated as of month-end.
Money market mutual funds are classified under Cash & Equivalents

The Schwab Self-Directed Brokerage Account Quarterly Report
For the State of Wisconsin plan as of 3/31/2008

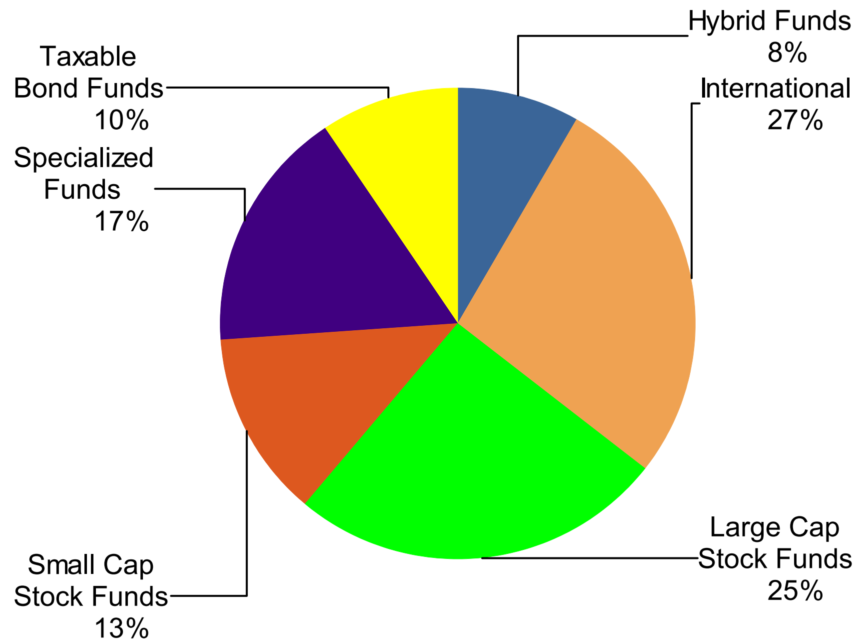
charles SCHWAB

Market Value Allocation - Mutual Funds

03/31/2008



12/31/2007

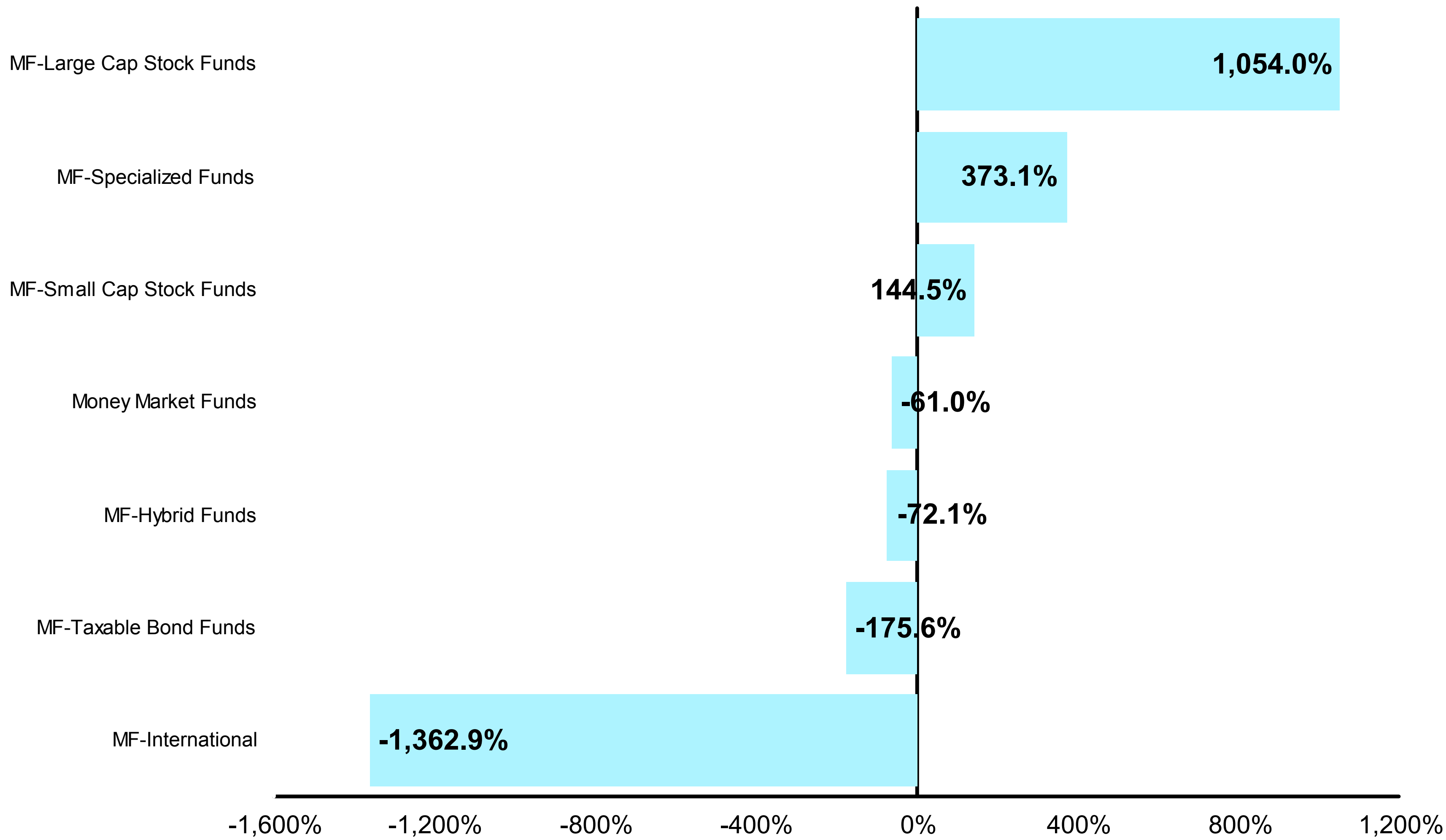


This chart illustrates the percent of PCRA participant assets in each mutual fund category, as classified by Morningstar Inc., as a percentage of total PCRA long-term mutual fund assets. Percentages are calculated as of month-end. Small cap funds are subject to greater volatility than those in other asset categories. International investments are subject to additional risks such as currency fluctuation, political instability and the potential for illiquid markets. Since sector funds focus investments on companies involved in a particular sector, the funds may involve a greater degree of risk than an investment in other mutual funds with greater diversification. All data is for informational purposes only.

The Schwab Self-Directed Brokerage Account Quarterly Report
For the State of Wisconsin plan as of 3/31/2008

charles SCHWAB

Net Asset Flow - All Investment Categories
(3-month period ending **3/31/2008**)

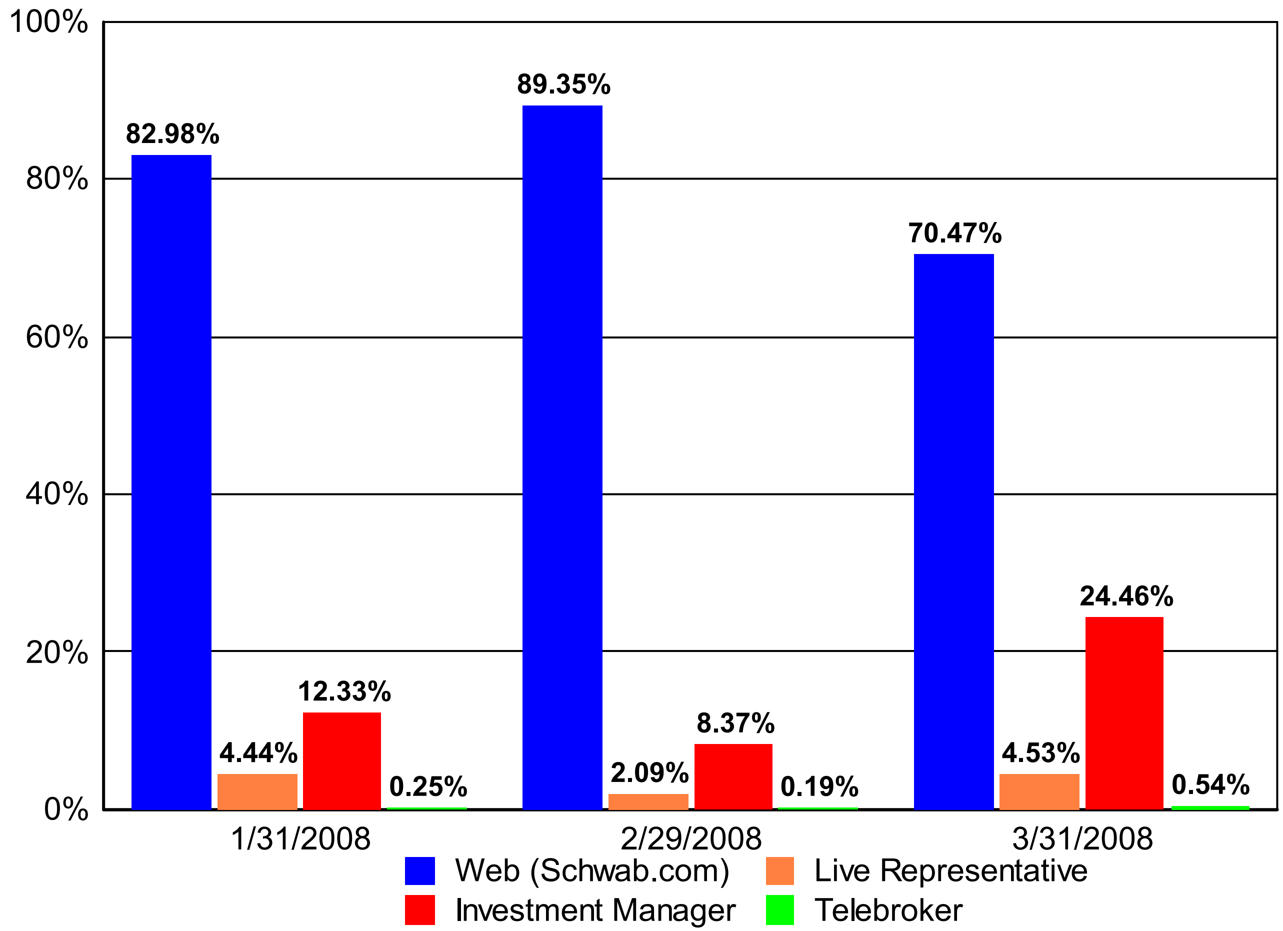


The chart illustrates the percent of total net flows within each investment category, as classified by Standard & Poor's and Morningstar Inc., over the last three-month period. Net flow percentages are calculated by adding the purchases and sales amounts within each respective investment category and dividing by the total net flows over the period. Data is for informational purposes only.

The Schwab Self-Directed Brokerage Account Quarterly Report
For the State of Wisconsin plan as of 3/31/2008

charles SCHWAB

Trading Channel Mix
(Month over Month)



This chart illustrates the trading channel participants used to place trade orders over the last three-month period. Data is for informational purposes only.

Morningstar Fund Spy

What to Make of Target-Date Funds' Allocation Tweaks

Be prepared for potential performance gyrations and continued changes.

By Greg Carlson | 03-27-08

Target-date funds are designed to be very long-term holdings. They're constructed as one-stop-shopping options that offer broad exposure to stocks and bonds, and they grow more conservative over time as they near their target date (which is meant to roughly coincide with an investor's retirement date) and after they surpass it.

However, investors should be aware that, since launching the funds, some fund shops have tweaked their target-date funds' asset allocations, and the way in which those allocations change over time. (The latter is often referred to as a glide path and can be found in a target-date fund's prospectus.) That might be surprising, given the funds' long-term goals and the fact that so many target-date funds are still relatively new--more than 60% of the funds in Morningstar's three target-date categories (target-date 2000-2014, target-date 2015-2029 and target-date 2030+) have been in operation for less than three years, and more than 85% don't have five-year track records. Moreover, it's worth noting that some of the allocation changes we've seen could cause those funds to get whipsawed over the short term. In other words, some moves have boosted exposure to asset classes that have enjoyed strong recent performance, or reduced funds' stakes to securities that have been hit hard.

Alliance Tones It Down

AllianceBernstein's target-date funds came to market in late 2005, 2.5 years into a strong rally by riskier fare such as debt-heavy firms and lower-quality bonds, with one of the more aggressive glide paths around. The AllianceBernstein Retirement Strategy Funds initially put 10% in real estate investment trusts, no matter what the age range. It also kept more than a fourth of the funds' assets in international stocks until age 40 and did not introduce bonds to the portfolios until age 45, and even then it was mostly high-yield bonds. It backed up its equity-heavy allocations with a lot of research, including a 60-page white paper that maintained that getting too conservative too early was riskier than holding generous stock helpings before and after retirement, because it increased the odds that investors would run out of money--or not be able to maintain desired spending levels--in their golden years.

It's not wise to judge the efficacy of target-date funds by a couple of years of performance. What counts in the end is if they help you meet your goals. Yet when AllianceBernstein's offerings hit the market it seemed as though they'd be more prone to big short-term ups and downs than other target-date funds. So far, that has been the case. When REITs and international stocks were rocking in 2006, all of the AllianceBernstein Target Retirement funds finished the year in the top quartile of their respective categories. In the last year or so, though, as REITs and global equity markets in general have sold off, most of the funds have fallen to the bottom quartile of their categories.

Recently, however, AllianceBernstein added a 5% intermediate-bond allocation (primarily investment-grade debt) to its Retirement Strategy funds designed for investors 40 years old or younger (the seven funds dated from 2025 through 2055). The firm also dramatically cut the global REIT helpings of the same Retirement Strategies funds because the firm said REITs have some bond-like characteristics. Instead of keeping 10% in REITs, for example the AllianceBernstein Retirement Strategy 2050 (LTQAX) and 2055 (LTWAX) funds now have about 5% there.

The changes came at an interesting time, as REITs were falling after a years-long rally, as investment-grade bonds were enjoying decent results and sporting historically low yields, and as the funds themselves approached their three-year anniversaries, a milestone to which many advisors and investors pay a lot of attention. The firm, however, called the changes minor and said it made them to comply with Department of Labor requirements for retirement plan default options, which became effective at the end of 2007. In other words, it had to make the allocation adjustments to be considered a viable default option for 401(k) plans, a huge market. So, the changes to the funds could be driven more by business concerns than a change in investment thinking. AllianceBernstein's target-date funds have attracted a modest amount of assets (less than $1.5 billion between them) thus far, and access to the 401(k) market could lead to dramatically larger inflows. And from a performance standpoint, while the funds' poor one-year showings shouldn't make much of a difference given their long-term time horizons, they do have a big impact on their' performance rankings as they near the three-year mark--a milestone that many advisors and investors look at closely. (Conversely, we believe that target-date funds' performance over such a short time period isn't meaningful when assessing their merits.)

The timing of the funds' reduced REIT weighting is less than ideal, given the recent carnage in that industry. Also, investment-grade bonds have performed strongly over the past year and now sport historically low yields, making them less attractive. Regardless of the reasons behind the changes, they should take some of the edge off of these funds, which could make them easier for more squeamish investors to own.

Vanguard Gets Bolder

Vanguard's initial attempt at target-date funds was at the opposite end of the spectrum. Vanguard Target Retirement funds, rolled out in 2003, had less in equities overall than many of their peers and nothing in emerging-market stocks. Vanguard took a more conservative tack because of research that showed investors fear the agony of defeat more than they yearn for the thrill of victory. A less aggressive allocation would be smoother and easier to own. Consequently, in subsequent years the funds often didn't keep pace with rival target-date funds as stocks rallied. (In 2005 each of the Target Retirement funds in existence at that time lagged most of their respective peers.)

The firm did a do-over in 2006, though. It rolled out five additional funds, meaningfully increased the stock helpings of all of the existing funds and added Vanguard Emerging Markets Index (VEIEX) to the mix.

We think Vanguard's tweaks also came on the heels of a bout of underperformance and included adding asset classes, such as emerging markets, that had enjoyed strong runs. There were fundamental reasons for the changes, though. The firm recognized that investors are living longer and are thus at a greater risk of running out of money in their golden years. We were critical of the first iteration of Vanguard's Target Retirement funds and applauded the changes. But the timing of the firm's changes is noteworthy, and investors should be aware that the funds could be prone to more short-term performance swings in the future than they were in their original form.

Fidelity Opts For More Equities in Retirement

In 2006, Fidelity altered the asset-allocation plans for its target-date funds--some of which have been around since 1996. Previously, the funds had merged into Fidelity Freedom Income--which keeps its equity stake at a static 20%--within five to 10 years after hitting their target dates. However, the firm decided that retirees needed to hold a larger weighting in equities further into retirement, because people are living longer and thus run a greater risk of running out of money. So the firm postponed these mergers by roughly 10 years; each fund is now absorbed by Freedom Income 10 to 15 years after its target date. This move, like Vanguard's, came well into a healthy rally by stocks. Again, however, we don't think market events drove this decision. Like Vanguard, the firm came to believe that investors need to own significant stakes in stocks well into retirement.

We think there are two takeaways for investors here. First, the target-date fund industry is still relatively new, and research into optimal asset allocations is ongoing. Thus, we wouldn't be surprised to see further changes made to target-date funds' asset allocations and glide paths, particularly over the near term. Second, it bears repeating that these changes could weigh on performance over the near term, if the fortunes of the asset classes in question reverse.

Wisconsin Deferred Compensation Program
Report of Financial Emergency Hardship Withdrawals – Ch. ETF 70.10 (6)
Deferred Compensation Board Meeting
May 6, 2008

DATE SUBMITTED BY GWRS	FINANCIAL HARDSHIP EMERGENCY WITHDRAWAL REQUEST SITUATION	ETF DECISION AND DATE
February 18, 2008 Second request April 16, 2008	The participant requested an emergency withdrawal because the household is experiencing financial difficulties and they are worried that they will lose their house. The second mortgage on the house is behind, but not yet in foreclosure. Medical bills were mentioned in the application, but no supporting documentation was provided. Denied as the participant failed to demonstrate or document how his financial situation could be considered unforeseen or unbudgetable per the IRS code requirement. Second request in April approved as the participant provided a foreclosure notice. Approved as this situation was unbudgetable per the IRS code requirement.	Denied February 18, 2008 Approved for foreclosure April 21, 2008
February 28, 2008	The participant requested an emergency withdrawal because he has been on medical leave of absence since January 2007 and has used up all his leave. The household has no other source of income and it is not anticipated that he will return to work. Approved as the medical situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 3, 2008
March 3, 2008	The participant requested an emergency withdrawal to prevent foreclosure on their primary residence. The participant's spouse is unable to work and the household has been unable to keep current with expenses on one income. They have received a foreclosure notice from their mortgage holder. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 5, 2008
March 5, 2008	The participant requested an emergency withdrawal because he has been diagnosed with a degenerative medical condition and needs a specially-modified vehicle for transportation. His current vehicle is not large enough to support the adaptive equipment needed (wheelchair lift, hand controls, etc.). The State Division of Vocational Rehabilitation will pay for the modifications to the vehicle, but not the vehicle itself. Approved as the medical situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 10, 2008
February 18, 2008 Second request March 5, 2008	The participant requested an emergency withdrawal to make mortgage payments on her primary residence. The participant recently went through a divorce, creating financial difficulties and as a result, the house is in foreclosure. Approved the emergency release of funds as this situation is beyond the participant's control. The participant later submitted additional documentation regarding the household's loss of income, resulting in a second approved withdrawal application because the situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved February 18, 2008 Second Request Approved March 10, 2008
March 12, 2008	The participant requested an emergency withdrawal to pay for medical bills beyond what her insurance covers. Approved as the medical situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 17, 2008
March 14, 2008	The participant requested an emergency withdrawal to cover loss of income. His spouse has suffered several medically-related complications and events that resulted in her termination from her job. She cannot currently work. It is unclear when she will be able to work again. Approved as the medical situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 17, 2008

DATE SUBMITTED BY GWRS	FINANCIAL HARDSHIP EMERGENCY WITHDRAWAL REQUEST SITUATION	ETF DECISION AND DATE
March 14, 2008	The participant requested an emergency withdrawal because the participant's spouse left the home and the United States and is not contributing toward household expenses, resulting in a large loss of income. The participant has been unable to keep current with expenses on one income and is facing imminent foreclosure on her primary home. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 19, 2008
March 19, 2008	The participant requested an emergency withdrawal to avoid being evicted from her apartment. The participant is unable to keep current with expenses and has received an eviction notice from her landlord. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 24, 2008
March 19, 2008	The participant requested an emergency withdrawal because the participant's spouse left and is not contributing toward household expenses, resulting in a loss of income. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 24, 2008
March 21, 2008	The participant requested an emergency withdrawal to cover loss of income and because she has received a foreclosure notice on the mortgage for her primary residence. The participant's spouse died and the participant has struggled with household expenses and funeral bills. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 24, 2008
March 25, 2008	The participant requested an emergency withdrawal to prevent foreclosure on his primary residence. He has received foreclosure notices from his mortgage holder. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 25, 2008
March 28, 2008	The participant requested an emergency withdrawal to cover loss of income and because she has received an eviction notice on the mortgage for her primary residence. The participant's spouse has been unemployed since November 2007 and the participant has struggled with household expenses. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 31, 2008
March 28, 2008	The participant requested an emergency withdrawal to cover loss of income. The participant's spouse has been unemployed since October 2007 and although he applied, he was denied unemployment benefits. The household has struggled to keep current with household expenses. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 31, 2008
March 28, 2008	The participant requested an emergency withdrawal to pay for household expenses including mortgage and property taxes. The IRS has told the participant he owes $183,000 and has been garnishing his wages by $12,354 per month. As a result, the household has struggled to keep current with household expenses and is facing foreclosure on their primary residence. Approved as this situation was unforeseen and unbudgetable per the IRS code requirement.	Approved March 31, 2008
March 28, 2008	The participant requested an emergency withdrawal to help pay for a personal care aide for her medically disabled father. The participant moved to her parents home to help care for her father, but is unable to provide all the care that is needed and continue to work. Approved the emergency release of funds as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved March 31, 2008

DATE SUBMITTED BY GWRS	FINANCIAL HARDSHIP EMERGENCY WITHDRAWAL REQUEST SITUATION	ETF DECISION AND DATE
March 31, 2008	The participant requested an emergency withdrawal because he has received a foreclosure notice on the mortgage for his primary residence. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved April 1, 2008
April 2, 2008	The participant requested an emergency withdrawal because he has fallen behind on his rent and received a 5 day notice to pay rent or vacate. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved April 7, 2008
April 2, 2008	The participant requested an emergency withdrawal to cover loss of income. The participant’s spouse has been unemployed since December 2007 and the household has struggled to keep current with household expenses. The participant is also in need of dental work which is not covered by insurance. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved April 7, 2008
April 2, 2008	The participant requested an emergency withdrawal to make the mortgage payments on his primary residence. The participant’s spouse has been off work caring for her mother and as a result, t household has struggled keep up with expenses and is facing foreclosure on their primary residence. Approved, as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved April 7, 2008
April 7, 2008	The participant requested an emergency withdrawal to prevent foreclosure on her primary residence. The participant’s roommate moved out and the participant has been unable to keep current with expenses on one income. She has received a foreclosure notice from her mortgage holder. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved April 10, 2008
April 8, 2008	The participant requested an emergency withdrawal to cover loss of income. The participant’s mother passed away in April of 2007, and the participant was responsible for covering the funeral expenses. Since the funeral the participant has been struggling with depression and has been off work. As a result of this (lost income), he has fallen behind on expenses. Approved the release as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved April 14, 2008
April 10, 2008	The participant requested an emergency withdrawal to avoid being evicted from her apartment. The participant is unable to keep current with expenses and has received an eviction notice from her landlord. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved April 16, 2008
April 16, 2008	The participant requested an emergency withdrawal to prevent foreclosure on his primary residence. He has received foreclosure notices from his mortgage holder. Approved as this situation was unplanned, unforeseen and unbudgetable per the IRS code requirement.	Approved April 21, 2008