POLICE PENSION BOARD AGENDA

NOVEMBER 8, 2012 - 1:00 P.M.

CITY HALL CONFERENCE ROOM
15 LOOCKERMAN PLAZA
DOVER, DELAWARE

Public comments are welcomed on any item and will be permitted at appropriate times. When possible, please notify the City Clerk (736-7008 or e-mail at CityClerk@dover.de.us) should you wish to be recognized.

AGENDA ADDITIONS/DELETIONS

1. Adoption of Minutes - Police Pension Board Meeting of August 15, 2012
2. Quarterly Performance Review *(Quarter Ending June 30, 2012) (Milliman, Inc.)*
3. Approval of Amendments to Investment Policy
4. Changes/Additions to Investment Managers *(Milliman, Inc.)*
5. Adjournment by 1:50 P.M.

TO ASSURE THAT THERE WILL BE A QUORUM,
PLEASE RSVP BY CONTACTING THE CITY CLERK'S OFFICE
BY EMAIL AT CITYCLERK@DOVER.DE.US OR BY CALLING 736-7008
AS SOON AS POSSIBLE.

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THE AGENDA ITEMS AS LISTED MAY NOT BE CONSIDERED IN SEQUENCE. THIS AGENDA IS SUBJECT TO CHANGE TO INCLUDE THE ADDITION OR THE DELETION OF ITEMS, INCLUDING EXECUTIVE SESSIONS.

POLICE PENSION BOARD

The Police Pension Board meeting was held on August 15, 2012 at 3:40 p.m. with Chairman Mullaney presiding. Members present were Mr. Bonar, Mr. Lynn, Mr. Stallings, Mr. Koenig, and Chief Hosfelt. Ret. Lt. Knotts was absent. Councilman Perza was also present.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was adopted as presented.

ADOPTION OF MINUTES - POLICE PENSION BOARD MEETING OF MAY 9, 2012

Ret. Cpl. Stallings moved for adoption of the minutes of the Police Pension Board meeting of May 9, 2012, seconded by Mr. Bonar and unanimously carried.

ORGANIZATIONAL ISSUES - ELECTION OF CHAIR

Chairman Mullaney opened the floor for nominations for Chair of the Police Pension Board.

Ret. Cpl. Stallings moved to nominate Rt. Lt. Mullaney to serve as Chair, seconded by Mr. Bonar.

Mr. Bonar moved to close nominations, seconded by Mr. Lynn and unanimously carried.

The motion to elect Ret. Lt. Mullaney as Chair of the Police Pension Board was unanimously carried.

QUARTERLY PERFORMANCE REVIEW *(QUARTER ENDING JUNE 30, 2012) (MILLIMAN, INC.)*

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the Quarterly Performance of the Police Pension Fund as of June 30, 2012. He noted that there was a slight decline in the asset value during the quarter, with a beginning fund balance of approximately $11M and an ending balance of approximately $10.69M. Mr. Marzinsky explained that most equity indexes were down during the quarter. Some of the actively managed investments within the Police Pension portfolio followed or trailed their benchmarks during the time period, and passive index investments followed their benchmarks. No changes to the investments were recommended at this time.

DISCUSSION - LIABILITY TO ASSET ALLOCATION STUDY *(MILLIMAN, INC.)*

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the City of Dover DE - Police Pension Asset Liability Study, dated July 31, 2012. He explained that the plan is periodically valued by the actuary, Mr. Scott Porter, Milliman, Inc., who reviews plan liability and determines the contributions required to fund the future benefits of the plan. Mr. Marzinsky noted that since the plan is closed, there is a trend in the plan toward a decline in the duration of liabilities. Mr. Porter informed him that an amortization schedule had been developed to work on funding the plan over the next seven (7) to ten (10) years.

Mr. Marzinsky advised members that, in addition to actuarial input, the expected rates of return and volatility (standard deviation) for asset categories are also considered when developing an asset liability study. He noted that this was included on Page 2 of the report. He stated that the Input

Correlation on Page 3 reflected how closely the investment asset categories move together and that a correlation of 1.00 indicates an exact match. He indicated that assets should not move up or down simultaneously since maintaining diversification is important.

Referring to Page 4 of the report, Mr. Marzinsky noted that the fourth column reflected the Police Pension Plan's current investment allocations. He stated that 36% was currently allocated to fixed income and 64% to equity investments, and the expected return of the portfolio was 6.7%. He pointed out that the target actuarial return of the portfolio was 7.0%; therefore, the portfolio return as allocated might not meet the actuarial valuation return. In addition, he stated that the standard deviation (volatility) reflected that the expected portfolio return had the potential to increase or decrease by approximately 12%. Mr. Marzinsky reviewed three (3) alternative options that were developed to allow members to consider which would add different asset categories and different allocations within categories. He noted that Option 2 would attain the projected actuarial return of 7.0%, add asset categories to the plan, slightly lower the volatility of the portfolio, and create more diversity.

Mr. Marzinsky explained that the three (3) yellow dots on the graph on Page 5 reflected the three (3) portfolio options. The green dot, representing the current Police Pension Plan portfolio, indicated that the portfolio was not as efficient as the alternative scenarios presented. Page 6 showed the variability of potential returns for the dispersion of expected outcomes and demonstrated that Option 2 would reduce the likelihood of a wider dispersion. The graph on Page 7 reflected expected future benefit payments and allowed for the development of the isolated duration number, which indicated that the core of the benefits would begin to be paid in approximately 13 years.

Mr. Marzinsky explained that Page 8 revealed a mismatch in the duration of the assets and the duration of the liabilities of the portfolio. He indicated that Page 9 contained an analysis of an optimal portfolio (Option #2) after adding longer-term fixed income investments and additional equity asset categories. He noted that incorporating these changes would raise the fixed income duration to approximately 11 years and the duration of the overall portfolio to nearly four (4) years. Mr. Marzinsky stated that moving to a completely liability-driven portfolio would not be advisable since equity exposure was needed for asset growth; however, moving closer to the duration liability would be a good idea. He explained that since the plan was closed, the liability duration would decrease as participants age. As the funded status of the plan improves through asset growth and contributions made to the plan, the plan will be "de-risked" by lowering equity exposure and increasing fixed income exposure. Mr. Marzinsky suggested that the Board consider: 1) adding asset categories to the plan, and 2) attaining a better match of the duration of future cash flows to the duration of the assets within the plan.

Responding to Mr. Bonar, Mr. Marzinsky stated that Option 2 would work toward achieving the target return on the actuarial valuation side with a lower volatility than the current portfolio.

In response to Mr. Koenig, Mr. Marzinsky stated that the 13-year isolated duration statistic was based on actuarial valuation demographics and the future benefits for participants of the plan rather than calendar years.

Noting that the liabilities of the plan were based on the plan participants (approximately 26-27 individuals) who were on different positions on the retirement spectrum, Chairman Mullaney stated that it would be unrealistic to project that these liabilities would end after 13 years. He felt that the duration of the liabilities could remain constant or rise for a couple of years depending on what occurs in the medical community.

Mrs. Mitchell stated that when Milliman's services were engaged and the Civilian Pension Plan was closed, she requested that the projected life years of the participants in the Civilian Pension Plan be considered to determine if this figure should be reset. The projections for the Civilian Pension Plan were reset at that time; however, the Police Pension Plan was not reset because contributions were currently being drawn. She indicated that the estimated timeframe for liabilities of the Police Pension Plan had been lowered each year and when this timeframe approaches ten years, it will probably be re-examined to determine if it should be held constant or reset.

In response to Chairman Mullaney, Mrs. Mitchell stated that the last actuarial study was conducted during the previous year. Due to audit and accounting requirements, a full study is conducted every two (2) years; however, an interim study is also performed in the off years. When this information is reported in the Comprehensive Annual Financial Report (CAFR), the most up-to-date market value of assets is included as well as the liability.

Mr. Bonar moved to adjust the portfolio by adopting Option 2, as outlined on Page 4, Portfolio Options, of the City of Dover, DE Police Pension Asset Liability Study dated July 31, 2012 ***(Attachment #1)*****. The motion was seconded by Mr. Lynn and unanimously carried.**

Mr. Marzinsky recommended that parameters be set for cash, fixed income, and equity investments at a future meeting and indicated that different fund managers would also be recommended for the asset categories that were added.

SCHEDULING OF FUTURE MEETING DATES

By unanimous consent members agreed that staff would set future meeting dates and coordinate with members.

Mr. Bonar moved for adjournment, seconded by Mr. Lynn and unanimously carried.

Meeting Adjourned at 4:04 P.M.

Ret. Lt. Timothy Mullaney
Chair

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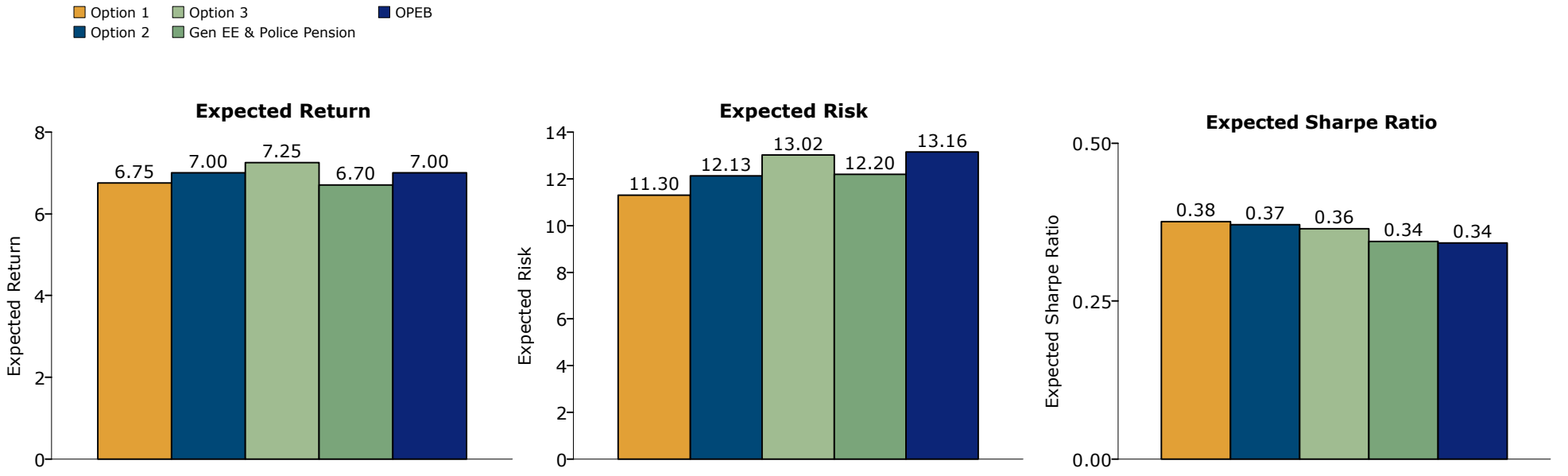
Attachment
Attachment #1 - Page 4, Portfolio Options - City of Dover, DE Police Pension Asset Liability Study dated July 31, 2012

Milliman | Asset Allocation Study

Portfolio Options

	Option 1	Option 2	Option 3	Gen EE & Police Pension	OPEB
Cash	5.000	5.000	5.000	2.000	1.000
ML U.S. Treasuries, Inflation-Linked	7.000	7.000	7.000	0.000	0.000
Barclays Capital Interm U.S.Govt/Credit	10.000	10.000	10.000	34.000	31.000
Barclays Capital Long Gov/Credit Index	20.000	17.268	12.287	0.000	0.000
Russell 1000 Value Index	12.117	10.000	11.344	14.000	10.000
Russell 1000 Growth Index	10.000	10.738	14.369	14.000	15.000
Russell Midcap Index	5.000	5.000	5.000	8.000	11.000
Russell 2000 Index	5.000	5.000	5.000	5.000	7.000
FTSE NAREIT REIT: Equity	5.000	4.994	5.000	0.000	0.000
MSCI EAFE (Net) Index	10.000	10.000	10.000	23.000	25.000
MSCI EM (Emerging Markets) Index	10.883	15.000	15.000	0.000	0.000
Fixed Income	**42.00%**	**39.27%**	**34.29%**	**36.00%**	**32.00%**
Equity	**58.00%**	**60.73%**	**65.71%**	**64.00%**	**68.00%**

	Option 1	Option 2	Option 3	Gen EE & Police Pension	OPEB
Expected Return	6.75%	7.00%	7.25%	6.70%	7.00%
Expected Standard Deviation	11.3045	12.1307	13.0225	12.1951	13.1609
Expected Sharpe Ratio	0.3760	0.3710	0.3648	0.3444	0.3422



City of Dover Delaware

Police Pension

November 8, 2012

Presented by:
Jeff Marzinsky, CIMA, CPC

Milliman, Inc.

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Section II	Asset Liability Study – Allocation Summary
Section III	Fund Detail Pages
Section IV	Investment Policy Statement Amendment

Milliman | Quarterly Investment Monitor

Market Indices - 3rd Quarter 2012

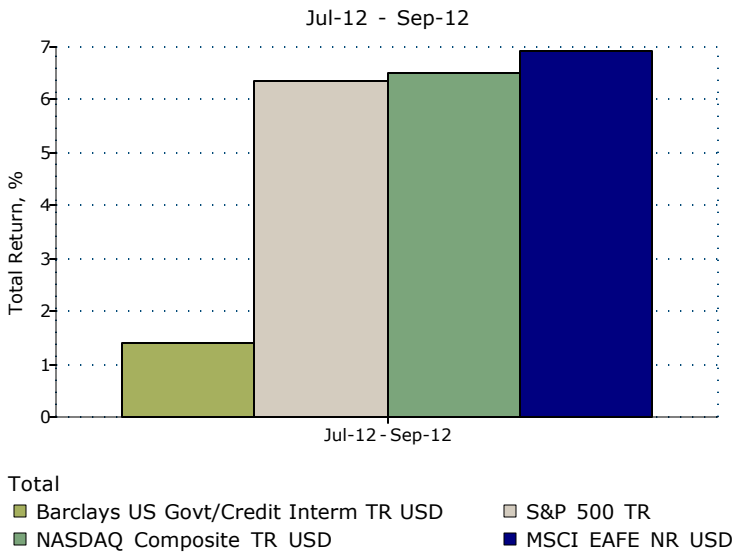


Index	3 Months	1 Year	3 Years	5 Years
BofAML US Treasury Bill 3 Mon	0.03	0.07	0.11	0.72
Barclays US Govt 1-3 Yr TR USD	0.26	0.65	1.49	2.94
Barclays US Govt/Credit Interm TR USD	1.40	4.40	5.18	5.71
Barclays US Government Long TR USD	0.34	6.41	11.93	10.94
Barclays US Long Credit TR USD	5.22	14.91	12.74	10.61
Barclays US Corporate High Yield TR USD	4.53	19.37	12.90	9.34
DJ Industrial Average TR USD	5.02	26.52	14.45	2.16
S&P 500 TR	6.35	30.20	13.20	1.05
NASDAQ 100 TR USD	7.36	32.37	18.71	6.84
NASDAQ Composite TR USD	6.50	30.53	14.81	3.89
Russell 1000 Value TR USD	6.51	30.92	11.84	-0.90
Russell 1000 TR USD	6.31	30.05	13.27	1.22
Russell 1000 Growth TR USD	6.11	29.19	14.73	3.24
Russell 2000 Value TR USD	5.67	32.63	11.72	1.35
Russell 2000 TR USD	5.25	31.91	12.99	2.21
Russell 2000 Growth TR USD	4.84	31.18	14.19	2.96
FTSE NAREIT All REITs TR	1.85	34.37	20.32	2.50
MSCI EAFE NR USD	6.92	13.75	2.12	-5.24
MSCI EAFE Small Cap NR USD	7.89	12.56	4.75	-2.98
MSCI EM NR USD	7.74	16.93	5.63	-1.28

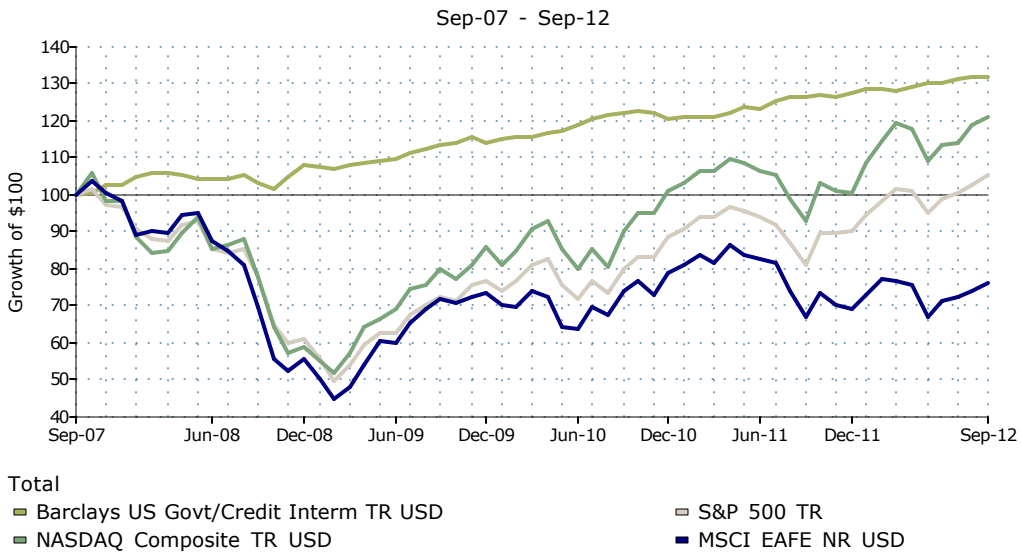
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Broad Market Commentary - 3rd Quarter 2012

Broad Markets - Quarter



Broad Markets - Five Years



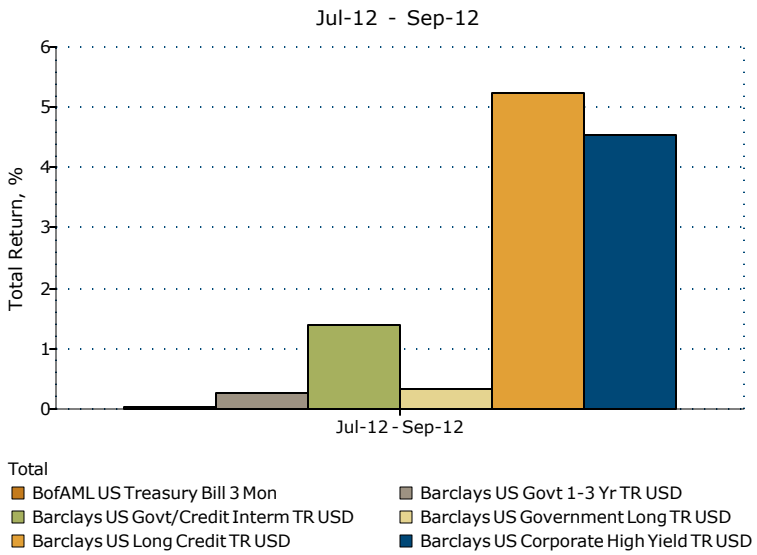
Market Commentary

- The U.S. stock market rose in response to additional stimulus by the Federal Reserve ("QE3") and improvements in certain areas of the U.S. economy, particularly the housing market.
- The international equity markets made substantial gains after the European Central Bank announced it will do "whatever it takes" to preserve the euro and approved a plan to buy unlimited amounts of bonds issued by struggling euro-zone nations.
- The Federal Reserve Bank announced its intentions to purchase $40 billion in mortgage-backed securities each month in an effort to lower mortgage interest rates, help the housing market, and ultimately, reduce unemployment.
- As the quarter ended, mutual fund investors increased their holdings in bonds and decreased their holdings in stocks. For the quarter, bond funds had net inflows of $85.4 billion, while stock funds had net outflows of $48.1 billion. Total money market mutual fund assets increased by $37.69 billion to $2.576 trillion.
- The unemployment rate fell from 8.2% to 7.8%, as total employment increased by 437,000 jobs.
- The price of oil increased from $85 per barrel to $92 during the quarter, an increase of 8.2%.
- For the three months ending September 30, 2012, annualized seasonally adjusted CPI – U was 5.0%. Rising prices for gasoline drove the increase.

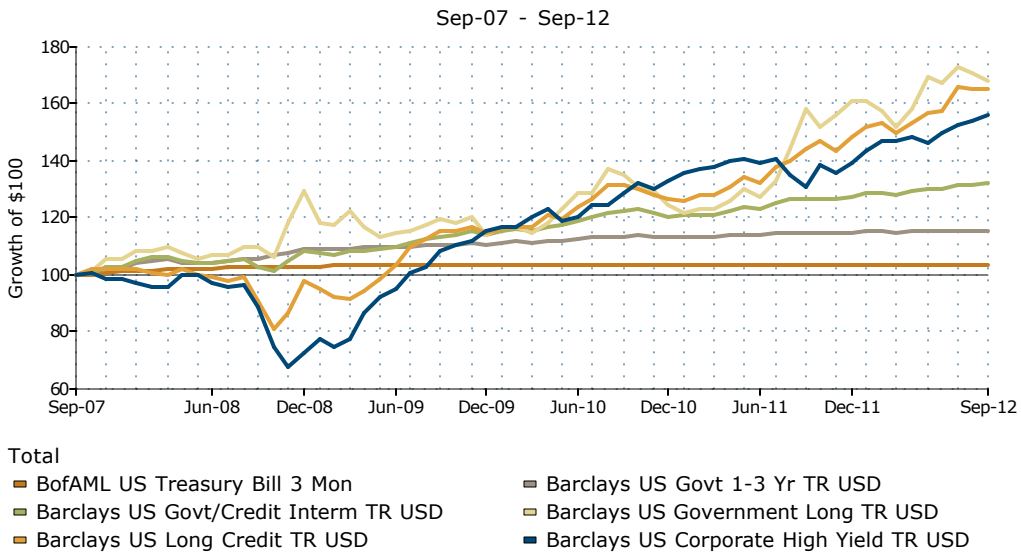
Milliman | Quarterly Investment Monitor

US Fixed Income Market Commentary - 3rd Quarter 2012

US Fixed Income - Quarter



US Fixed Income - Five Years



US Bond Market

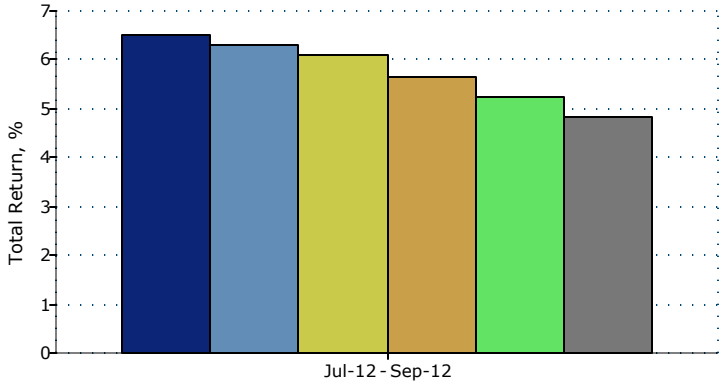
- Most fixed income markets rose in the 3rd quarter, as investors shifted from higher quality bonds to lower quality bonds.
- The short end of the yield curve remained unchanged as the Fed maintained its near-zero interest rate policy.
- Interest rates were virtually unchanged across the yield curve.
- Long-term corporate bonds were the best performing sector this quarter, up 5.53%, as corporate credit spreads hit near record lows in response to strong demand from investors.
- Long-term government bonds were the worst performing sector this quarter, up 0.34%, as investors favored bonds with higher yields.
- 91-Day T-Bill returned 0.03% in the third quarter, the same return as in the second quarter.

Milliman | Quarterly Investment Monitor

US Equity Market Commentary - 3rd Quarter 2012

US Equity - Quarter

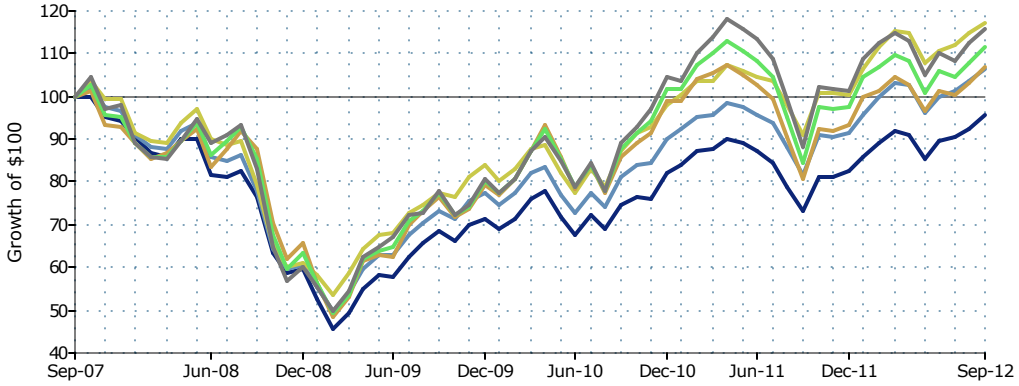
Jul-12 - Sep-12



Total
- Russell 1000 Value TR USD
- Russell 1000 TR USD
- Russell 1000 Growth TR USD
- Russell 2000 Value TR USD
- Russell 2000 TR USD
- Russell 2000 Growth TR USD

US Equity - Five Years

Sep-07 - Sep-12

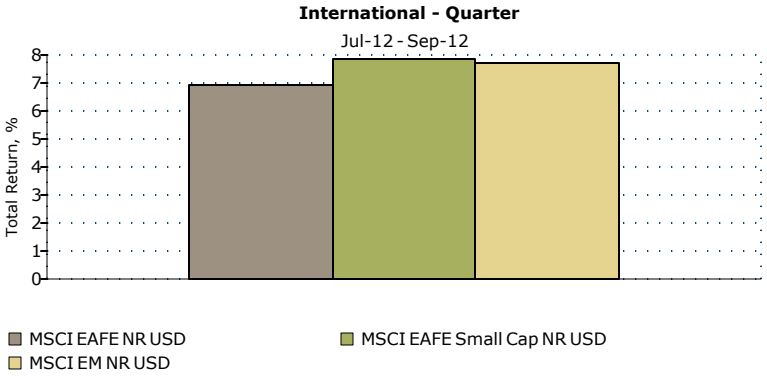


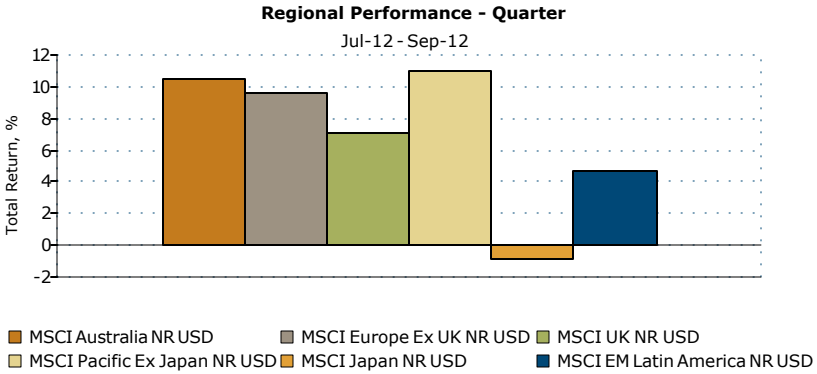
Total
- Russell 1000 Value TR USD
- Russell 1000 TR USD
- Russell 1000 Growth TR USD
- Russell 2000 Value TR USD
- Russell 2000 TR USD
- Russell 2000 Growth TR USD

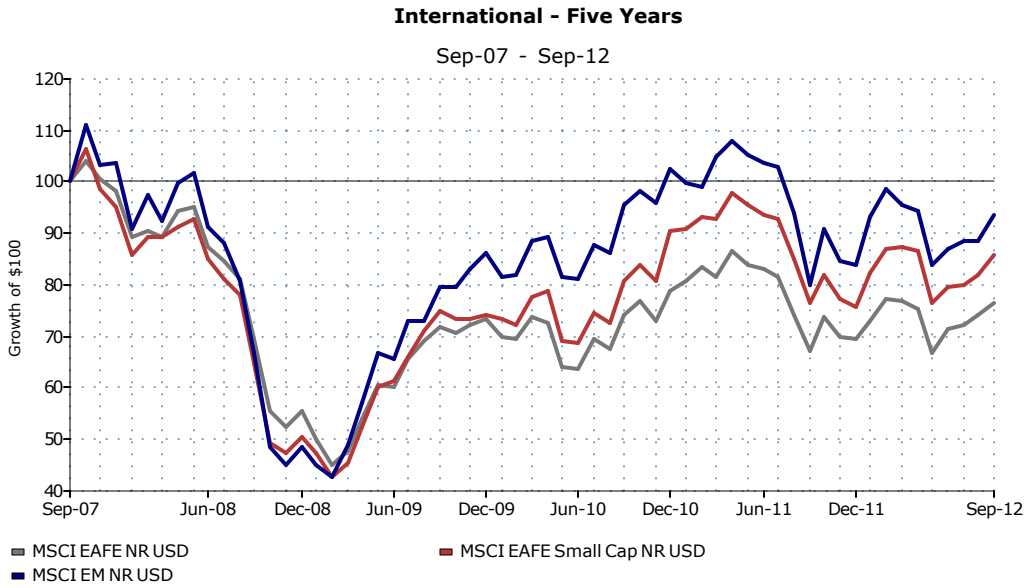
US Stock Market

- Most major domestic equity indices posted a gain for the quarter. The large-cap Russell 1000 Value Index had the best return, up 6.5%.
- Large-cap stocks outperformed small-caps, up 6.3% vs. 5.3%.
- In comparing styles, value stocks did better than growth stocks.
- In a reversal from last quarter, REITs fell 0.38%, as investors favored riskier assets over the relatively stable cash flows offered by commercial real estate. The worst performing sectors were apartments and resorts/lodging.
- Energy was the best performing sector, up 10.14%, on higher crude oil prices and concerns about supply.
- Utilities were the worst performing sector, up 0.01%, as investors generally moved out of lower-risk assets.

International Market Commentary - 3rd Quarter 2012







International Markets

- The dollar was down against the euro, pound, and yen.
- For the quarter, the EAFE Index was up 6.92% and Emerging Markets were up 7.74%. Local currency returns for the EAFE Index and Emerging Markets were 4.67% and 5.91%, respectively.
- Among the major international regions, Indian stocks had the highest return (+14.34%), spurred by a series of economic reforms, including plans to allow foreign investors to buy larger stakes in supermarkets and airlines.
- Stocks in the Asia Pacific region (except for Japan) also rose substantially (+10.71%), especially Hong Kong whose booming property market benefited real estate stocks.
- Small-cap stocks, up 7.9%, outperformed large-cap stocks, up 6.9%.

Performance Summary

Asset Allocation

	Balances As of 09/30/2012	Percent As of 09/30/2012	Balances As of 06/30/2012	Percent As of 06/30/2012	Notes
Wells Fargo Advantage Treas Plus MMkt I	$547,697	5.00%	$598,954	5.61%	
Vanguard Short-Term Bond Index Signal	$2,188,466	19.99%	$2,272,230	21.26%	
Vanguard Interm-Term Bond Index Signal	$1,108,037	10.12%	$1,186,963	11.11%	
Vanguard Equity-Income Adm	$1,545,348	14.11%	$1,477,296	13.83%	
Vanguard Morgan Growth Adm	$776,642	7.09%	$724,833	6.78%	
Vanguard PRIMECAP Inv	$608,235	5.55%	$566,323	5.30%	
Vanguard Mid-Cap Value Index Admiral	$974,067	8.90%	$888,874	8.32%	
DFA US Targeted Value I	$549,775	5.02%	$499,674	4.68%	
DFA International Value I	$726,665	6.64%	$603,121	5.64%	
American Funds New Perspective R6	$933,704	8.53%	$939,439	8.79%	
Harding Loevner Global Equity Inst	$991,777	9.06%	$927,644	8.68%	
Plan Total	**$10,950,413**		**$10,685,352**		

Investment Policy Review - Active Management

Fund Name	Return Rank 3Y	Return Rank 5Y	Excess Return 3Y	Excess Return 5Y	Relative StdDev 3Y	Relative StdDev 5Y	Alpha Rank 3Y	Sharpe Rank 3Y	Alpha Rank 5Y	Sharpe Rank 5Y
Vanguard Equity-Income Adm	2	8	3.76	3.99	0.81	0.84	3	4	7	8
Vanguard Morgan Growth Adm	32	52	-1.73	-2.32	1.19	1.14	44	37	54	51
Vanguard PRIMECAP Inv	71	34	-4.31	-1.30	1.09	1.06	65	68	34	35
DFA US Targeted Value I	34	57	-1.20	-0.52	1.08	1.08	70	60	57	56
DFA International Value I	87	79	-0.03	-0.03	1.07	1.10	85	85	48	53
American Funds New Perspective R6	27	19	1.50	2.93	0.96	0.92	32	27	20	19
Harding Loevner Global Equity Inst	27	19	1.56	3.01	0.95	0.94	29	27	19	18

Definitions

Return Rank - Fund's category percentile return rank, a value less than 50 (1 is the best and 100 is the worst) implies the fund is beating more than 50% of its peer group.

Excess Return - Fund's excess return over its becnchmark, a value greater than 0 implies the fund's return is higher than its benchmark.

Relative StdDev - Fund's standard deviation relative to its benchmark, a value less than 1 implies the fund's standard deviation is lower than its benchmark.

Alpha Rank - Fund's category percentile Alpha rank, a value less than 50 (1 is the best and 100 is the worst) implies the fund is beating more than 50% of its peer group.

Sharpe Rank - Fund's category percentile Sharpe Ratio rank, a value less than 50 (1 is the best and 100 is the worst) implies the fund is beating more than 50% of its peer group.

Investment Policy Review - Passive Management

Fund Name	Excess Return 3Y	Excess Return 5Y	Beta 3Y	Tracking Error 3Y	Beta 5Y	Tracking Error 5Y	Expense Ratio
Vanguard Short-Term Bond Index Signal	1.13	1.01	1.76	0.81	1.50	0.89	0.11
Vanguard Interm-Term Bond Index Signal	-0.01	0.09	1.02	0.34	1.02	0.43	0.11
Vanguard Mid-Cap Value Index Admiral	-1.12	0.10	0.94	2.63	0.98	4.39	0.10

Definitions

Excess Return - Fund's excess return over its becnchmark, a value greater than 0 implies the fund's return is higher than its benchmark.

Beta - Fund's Beta or sensitivity to movements compared to its benchmark, a value of 1 implies its moving in sync with its benchmark.

Tracking Error - Fund's Tracking Error versus its benchmark, a value of 0 implies the Fund's ups and downs are the same size as its benchmark.

Investment Option Return Summary

Asset Class	Fund Name	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Ticker	Mstar Rating	Expense Ratio
Taxable Money Market	Wells Fargo Advantage Treas Plus MMkt I	0.00	0.01	0.01	0.01	0.53	1.65	PISXX	NA	0.20
	BofA ML 3-month T-bill total return Index	*0.03*	*0.07*	*0.07*	*0.11*	*0.72*	*1.82*	*N/A*	*NA*	*NA*
Short-term Bond	Vanguard Short-Term Bond Index Signal	0.85	1.90	2.34	3.09	4.30	3.79	VBSSX	4.00	0.11
	Barclays US Govt/Credit 1-3 Yr TR USD	*0.52*	*1.11*	*1.36*	*1.96*	*3.29*	*3.24*	*N/A*	*NA*	*NA*
Intermediate-term Bond	Vanguard Interm-Term Bond Index Signal	2.46	6.52	8.20	8.90	8.48	6.47	VIBSX	5.00	0.11
	Barclays US Govt/Credit 5-10 Yr TR USD	*2.46*	*6.52*	*8.23*	*8.91*	*8.39*	*6.47*	*N/A*	*NA*	*NA*
Large Value	Vanguard Equity-Income Adm	5.49	13.42	29.06	15.15	2.43	9.14	VEIRX	5.00	0.22
	S&P 500 Value	*6.30*	*15.78*	*30.81*	*11.39*	*(1.56)*	*7.79*	*N/A*	*NA*	*NA*
Large Growth	Vanguard Morgan Growth Adm	5.67	16.36	27.35	13.19	1.23	8.74	VMRAX	4.00	0.30
Large Growth	Vanguard PRIMECAP Inv	5.52	12.39	24.17	10.62	2.25	10.58	VPMCX	4.00	0.45
	S&P 500 Growth	*6.40*	*17.00*	*29.65*	*14.93*	*3.55*	*8.14*	*N/A*	*NA*	*NA*
Mid-Cap Value	Vanguard Mid-Cap Value Index Admiral	5.30	12.04	27.60	12.94	2.00	NA	VMVAX	3.00	0.10
	MSCI US Mid Cap 450 Index USD	*5.23*	*12.84*	*26.53*	*14.05*	*1.90*	*10.94*	*N/A*	*NA*	*NA*
Small Value	DFA US Targeted Value I	7.38	13.91	33.58	12.54	2.05	11.57	DFFVX	3.00	0.38
	S&P 600 Value	*6.77*	*14.56*	*35.85*	*13.74*	*2.58*	*10.24*	*N/A*	*NA*	*NA*
Foreign Large Value	DFA International Value I	7.33	8.08	11.45	(0.23)	(6.46)	10.03	DFIVX	2.00	0.45
	MSCI EAFE Large Value NR USD	*7.65*	*9.58*	*13.34*	*(0.20)*	*(6.43)*	*7.46*	*N/A*	*NA*	*NA*
World Stock	American Funds New Perspective R6	6.48	16.29	23.67	8.73	0.86	10.79	RNPGX	4.00	0.46
World Stock	Harding Loevner Global Equity Inst	5.76	16.17	22.77	8.78	0.93	10.06	HLMVX	4.00	0.95
	MSCI AC World Index ND USD	*6.84*	*12.88*	*20.98*	*7.23*	*(2.07)*	*8.61*	*N/A*	*NA*	*NA*
Total Plan	POLICE GROSS-RETURN	1.18	2.24	8.49	5.33	1.40	NA	N/A	NA	NA
Total Plan	POLICE-NET RETURN	1.10	2.02	8.18	5.03	1.11	NA	N/A	NA	NA
	Police Plan Policy Index	*4.62*	*10.94*	*18.65*	*9.19*	*2.41*	*7.50*	*N/A*	*NA*	*NA*

Police Pension

Allocation Adjustment 2012 - Asset Liability Study

Asset Category	Minimum	Target	Maximum	Target Duration	Wgtd Duration	Wgtd Fixed Duration
Cash & Short Term Bond (cash @ 5%)	2%	7%	12%	0.25	0.02	0.04
US Treasuries/Inflation-linked	0%	2%	7%	6.00	0.12	0.30
Intermediate Term Bond	9%	14%	19%	6.00	0.84	2.10
Long Term Bond	12%	17%	22%	14.00	2.38	5.95
Large Cap Value – US Stock	5%	10%	15%	0.00	0.00	
Large Cap Growth – US Stock	5%	10%	15%	0.00	0.00	
Mid Cap – US Stock	0%	5%	10%	0.00	0.00	
Small Cap – US Stock	0%	5%	10%	0.00	0.00	
Real Estate/REIT	0%	5%	10%	0.00	0.00	
Non-US Stock	5%	10%	15%	0.00	0.00	
Emerging Markets	10%	15%	20%	0.00	0.00	
		100%			3.36	8.39

Dynamic Investment Policy	**Funded Status**						
Asset Category	**40%**	**70%**	**80%**	**85%**	**90%**	**95%**	**100%**
Cash & Short Term Bond	7%	7%	5%	5%	5%	5%	5%
US Treasuries/Inflation-linked	2%	2%	4%	5%	7%	10%	13%
Intermediate Term Bond	14%	15%	16%	18%	18%	21%	23%
Long Term Bond	17%	19%	20%	23%	25%	30%	34%
Large Cap Value – US Stock	10%	10%	9%	8%	8%	7%	4%
Large Cap Growth – US Stock	10%	9%	9%	8%	7%	5%	4%
Mid Cap – US Stock	5%	5%	5%	5%	5%	4%	3%
Small Cap – US Stock	5%	5%	5%	4%	4%	3%	3%
Real Estate/REIT	5%	5%	5%	4%	4%	3%	3%
Non-US Stock	10%	9%	9%	8%	7%	5%	3%
Emerging Markets	15%	14%	13%	12%	10%	7%	5%
Equity	**60%**	**57%**	**55%**	**49%**	**45%**	**34%**	**25%**
Fixed Income/Cash	**40%**	**43%**	**45%**	**51%**	**55%**	**66%**	**75%**
Total	100%	100%	100%	100%	100%	100%	100%
Approximate Weighted Plan Duration	3.36	3.70	4.01	4.61	5.01	6.07	6.93
Approximate Fixed Income Duration	8.39	8.60	8.92	9.04	9.11	9.20	9.24

FUND CHANGES REQUIRED TO MEET ALLOCATION POLICY

Fund Manager	**Asset Cat**	**Prior Bal**	**Asset Class / Strategy**	**Allocation**
Existing Funds				
WF Treas Money Mkt	CA	$274,342	T-Bills	4%
Vanguard Short Term Bond	FI	$2,341,365	Short Bonds	3%
Vanguard Intermediate Term Bond	FI	$1,179,688	Interm Bonds	14%
Vanguard Morgan Growth&PrimeCap	EQ	$1,418,207	US Large Growth	10%
Vanguard Equity Income	EQ	$1,544,250	US Large Value	10%
DFA US Targeted Value	EQ	$547,870	US Small Value	0%
Vanguard Mid Cap Value Index	EQ	$964,678	US MidCap Value	5%
Am Funds New Persp & Harding Lvnr Global	EQ	$2,037,185	Non-US Equity	10%
DFA International Value	EQ	$693,700	Foreign Developed Equity	0%
New Funds				
Target Small Cap Value (used in OPEB)	EQ		US Small Value	5%
PIMCO Long Duration & Vanguard Long Term Index	FI		Long Bond	17%
Vanguard REIT Index	EQ		US REITs	5%
Vanguard Emerging Mkts Stock Index or ETF	EQ		Emerging Markets Equity	15%
Vanguard Inflation Protected Sec	FI		Inflation-Indexed Bonds	2%
				100%

PIMCO Long Duration Total Return Instl

Ticker	Status	Yield	SEC Yield	Total Assets	Mstar Category
PLRIX	Open	3.5%	3.27%	$5,750 mil	Long-Term Bond

Morningstar Analyst Rating 04-10-12

Silver

Morningstar Pillars

Process	Positive
Performance	Positive
People	Positive
Parent	Neutral
Price	Positive

Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

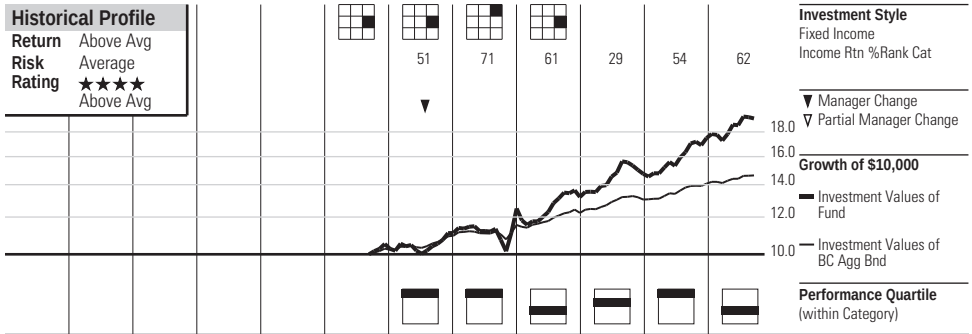
Gold | Silver | Bronze | Neutral | Negative

Pillar Spectrum

Positive | Negative | Neutral

Historical Profile

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



Investment Style
Fixed Income
Income Rtn %Rank Cat

▼ Manager Change
▽ Partial Manager Change

Growth of $10,000
Investment Values of Fund
Investment Values of BC Agg Bnd

Performance Quartile (within Category)

Performance 09-30-12

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2008	3.02	-1.99	-4.13	16.10	12.38
2009	-5.92	4.54	9.65	-2.07	5.62
2010	2.36	7.60	7.11	-5.36	11.64
2011	0.23	3.68	11.23	2.58	18.57
2012	-1.18	7.59	3.27	—	—

Trailing	Total Return%	+/- BC Agg Bnd	+/- BC Govt/Cred Long	%Rank Cat	Growth of $10,000
3 Mo	3.27	1.69	0.17	70	10,327
6 Mo	11.11	7.43	0.46	17	11,111
1 Yr	12.63	7.47	1.55	59	11,263
3 Yr Avg	12.49	6.30	0.02	37	14,234
5 Yr Avg	12.68	6.15	1.78	12	18,165
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	9.58	41	2.58	87
5 Yr (estimated)	10.07	12	2.32	67
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: 17% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	12.63			
3 Yr	12.49	+Avg	+Avg	★★★★
5 Yr	12.68	+Avg	Avg	★★★★
10 Yr	—	—	—	—
Incept	11.21			

Other Measures	Standard Index BC Agg Bnd	Best Fit Index BC Govt/Cred Long
Alpha	-3.4	1.2
Beta	2.58	0.90
R-Squared	75	93
Standard Deviation	8.05	
Mean	12.49	
Sharpe Ratio	1.50	

Morningstar's Take by Eric Jacobson 04-10-12

If you can't take the heat, you don't belong in PIMCO Long Duration Total Return's kitchen.

The fund's most recent bout of warmth came in this year's first quarter. Amid diminished fears of European crisis contagion and mildly positive economic indicators, U.S. Treasuries sold off, with the 10-year note's yield rising some 48 basis points from the end of January to April 3. That's been enough movement to knock this fund down by more than 3% over the same stretch, among the hardest hits taken by any fund in the long-term bond category.

The root of that outcome is the fund's interest-rate sensitive profile. The fund has--and uses--the flexibility to manage its duration with a wide berth, but it's benchmarked off of the Barclays Long-Term Government/Credit index, which excludes mortgages. They tend to carry modest durations and are virtually absent in the fund, as well. So while it hasn't always been so, the portfolio's duration of late has been running among the longest in the category (13.9 years as of February 2012).

But the other side of that coin looks better when yields are falling, as they did over the summer in 2011. A firmwide PIMCO decision had been in place to shorten the durations of the firm's funds, but this one still had plenty of rate-sensitivity ammo to ride the rally. Its 18.6% gain for 2011 placed it in the category's best quartile.

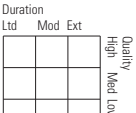
The fund does look to add value in other ways, including with bets outside of its Treasury and corporate bond focus. Of late it has held 9% in non-U.S. bonds and 8% in municipals, for example, and combined with an overall trend of falling yields, that has worked well over the long haul. The fund has beaten its benchmark handily over the trailing five years through Dec. 31, turning in an 11.7% average annual gain versus 9.7% for the index. But while it may make sense for investors looking to balance out an otherwise short portfolio, or needing a portfolio of this type for other reasons, the fund's basic construction otherwise makes it appropriate for only the most risk-tolerant investors.

Address:	PIMCO Funds Stamford, CT 06902 888-877-4626	Minimum Purchase:	$1000000	Add: $0 IRA: $0
		Min Auto Inv Plan:	$0	Add: —
		Sales Fees:	No-load	
Web Address:	www.pimco-funds.com	Management Fee:	0.25%, 0.25%A	
Inception:	08-31-06	Actual Fees:	Mgt:0.50%	Dist: —
Advisor:	Pacific Investment Management Co LLC	Expense Projections:	3Yr:$160	5Yr:$280 10Yr:$628
Subadvisor:	None	Income Distribution:	Monthly	
NTF Plans:	N/A			

Portfolio Analysis 06-30-12

Total Fixed-Income:684	Date of Maturity	Amount $000	Value $000	% Net Assets
US Treasury Bond 4.375%	05-15-41	259,800	347,036	5.95
PIMCO Short-Term Floatin	11-01-12	30,731	307,926	5.28
US Treasury Bond 6.25%	08-15-23	153,050	222,329	3.81
US Treasury Bond 4.25%	11-15-40	155,550	203,503	3.49
Resolution Fdg Fed Bk Pr	10-15-19	134,700	121,660	2.09
FNMA 6.625%	11-15-30	78,200	119,003	2.04
U S Treas Bd Stripped Pr	11-15-39	225,300	102,953	1.77
Resolution Fdg Fed Bk Pr	04-15-30	156,402	96,154	1.65
US Treasury Bond 4.5%	05-15-38	67,700	91,585	1.57
Resolution Fdg Fed Bk Pr	01-15-30	144,300	89,524	1.54
AID 5.5%	04-26-24	64,825	85,340	1.46
FNMA	06-01-17	80,650	76,546	1.31
Tennessee Valley Auth 7.	05-01-30	45,000	69,778	1.20
Quebec Prov Medium Term	12-01-43	62,600	69,733	1.20
U S Treas Sec Stripped I	05-15-37	141,100	68,954	1.18
US Treasury Bond 3.125%	11-15-41	63,500	68,272	1.17
US Treasury Bond 8%	11-15-21	40,855	64,142	1.10
US Treasury Bond 5.25%	02-15-29	42,560	60,043	1.03
US Treasury Bond 4.625%	02-15-40	40,700	56,306	0.97
FNMA 5.625%	07-15-37	38,970	55,884	0.96

Current Investment Style



[1] figure provided by fund

Avg Eff Duration[1]	13.9 Yrs
Avg Eff Maturity	22.1 Yrs
Avg Credit Quality	—
Avg Wtd Coupon	5.85%
Avg Wtd Price	116.61% of par

Coupon Range	% of Bonds	Rel Cat
0% PIK	13.2	2.9
0% to 6%	50.4	1.0
6% to 8%	31.7	1.0
8% to 10%	4.1	0.4
More than 10%	0.7	0.3

1.00=Category Average

Credit Analysis	% bonds 06-30-12		
AAA	—	BB	—
AA	—	B	—
A	—	Below B	—
BBB	—	NR/NA	—

Sector Breakdown	% of assets
US Treasury	24
Non US Government	3
Government Related	16
Corporate	34
Agency MBS Pass-Through	2
Agency MBS ARM	0
Agency MBS CMO	1
Non-Agency Residential MBS	3
Commercial MBS	1
Asset-Backed	1
Municipal	7
Cash & Equivalents	9
Other	0

Composition - Net

Cash	-6.4	Bonds	105.7
Stocks	0.0	Other	0.7

Special Securities	
Restricted/Illiquid Secs	10
Exotic Mortgage-Backed	0
Emerging-Markets Secs	4
Options/Futures/Warrants	No

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Vanguard Long-Term Bond Index Inv

Ticker	Status	Yield	SEC Yield	Total Assets	Mstar Category
VBLTX	Open	3.9%	3.44%	$5,911 mil	Long-Term Bond

Governance and Management

Stewardship Grade: A

Portfolio Manager(s)

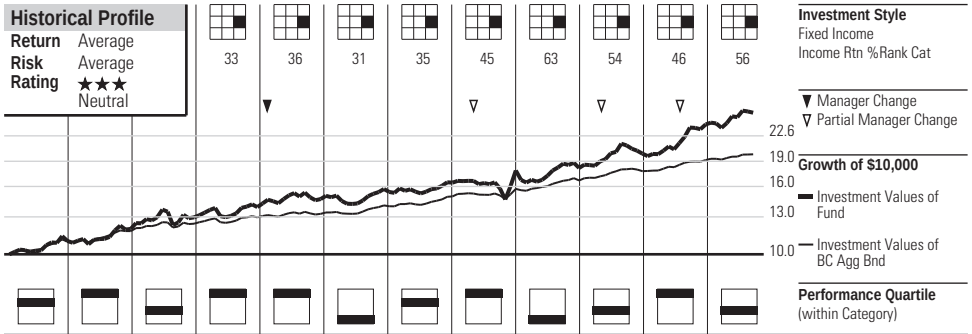
Ken Volpert had been a manager of this fund since 1994, and in 2008, Greg Davis was named comanager. Volpert is no longer listed as a manager but still leads Vanguard's taxable-bond group. Davis' team runs Vanguard's fixed-income index funds, including Short-Term Bond Index VBISX and Total Bond Market Index VBMFX.

Strategy

The fund strives to match the performance of the Barclays Capital US Long Government/Credit Index, which includes investment-grade U.S. Treasury, government-agency, and corporate bonds. Mortgage-backed securities are not included in the index. While management assembles a portfolio that resembles key traits of the index, such as duration (a measure of interest-rate sensitivity) and cash flow, the fund does not hold every security in the index.

Historical Profile

Return Average
Risk Average
Rating ★★★ Neutral



Investment Style
Fixed Income
Income Rtn %Rank Cat

▼ Manager Change
▽ Partial Manager Change

Growth of $10,000
Investment Values of Fund
Investment Values of BC Agg Bnd

Performance Quartile (within Category)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-12	History
10.83	11.67	11.50	11.82	11.84	11.53	11.65	11.98	11.56	12.04	13.91	14.60	NAV
8.17	14.35	5.50	8.40	5.32	2.67	6.59	8.64	1.76	10.27	22.05	8.33	Total Return %
-0.27	4.09	1.40	4.06	2.89	-1.66	-0.38	3.40	-4.17	3.73	14.21	4.34	+/-BC Agg Bnd
0.89	-0.46	-0.37	-0.16	-0.01	-0.04	-0.01	0.20	-0.16	0.11	-0.44	0.03	+/-BC Govt/Cred Long
6.60	6.25	5.50	5.50	5.20	5.22	5.45	5.44	5.21	5.27	4.99	3.12	Income Return %
1.57	8.10	0.00	2.90	0.12	-2.55	1.14	3.20	-3.45	5.00	17.06	5.21	Capital Return %
30	1	62	22	6	92	32	12	93	72	4	74	Total Rtn % Rank Cat
0.68	0.66	0.63	0.62	0.60	0.60	0.61	0.62	0.61	0.59	0.59	0.43	Income $
0.00	0.00	0.17	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.12	0.02	Capital Gains $
0.21	0.21	0.20	0.18	0.18	0.18	0.18	0.19	0.22	0.22	0.22	—	Expense Ratio %
6.30	5.92	5.34	5.34	5.03	5.30	5.34	5.49	5.33	4.87	4.62	—	Income Ratio %
107	141	76	62	52	55	62	67	69	54	45	—	Turnover Rate %
542	794	951	1,310	1,893	1,898	2,277	2,518	2,049	2,250	2,727	2,908	Net Assets $mil

Performance 09-30-12

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2008	1.23	-1.52	-3.60	13.03	8.64
2009	-6.16	2.85	8.59	-2.91	1.76
2010	1.54	8.84	5.54	-5.46	10.27
2011	-0.36	3.35	16.01	2.17	22.05
2012	-2.29	7.55	3.09	—	—

Trailing	Total Return%	+/- BC Agg Bnd	+/- BC Govt/Cred Long	%Rank Cat	Growth of $10,000
3 Mo	3.09	1.51	-0.01	75	10,309
6 Mo	10.87	7.19	0.22	25	11,087
1 Yr	10.69	5.53	-0.39	70	11,069
3 Yr Avg	12.28	6.09	-0.19	43	14,155
5 Yr Avg	10.89	4.36	-0.01	35	16,767
10 Yr Avg	8.01	2.69	-0.10	47	21,609
15 Yr Avg	8.38	2.23	0.00	12	33,438

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	10.37	33	1.70	25
5 Yr (estimated)	8.92	27	1.77	30
10 Yr (estimated)	6.03	41	1.84	24

Potential Capital Gain Exposure: 19% of assets

Rating and Risk

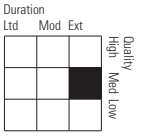
Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	10.69			
3 Yr	12.28	Avg	High	★★★
5 Yr	10.89	+Avg	Avg	★★★★
10 Yr	8.01	Avg	Avg	★★★
Incept	8.38			

Other Measures	Standard Index BC Agg Bnd	Best Fit Index BC Govt/Cred Long
Alpha	-4.7	-0.6
Beta	2.78	1.04
R-Squared	69	99
Standard Deviation	9.06	
Mean	12.28	
Sharpe Ratio	1.32	

Portfolio Analysis 06-30-12

Total Fixed-Income:1198	Date of Maturity	Amount $000	Value $000	% Net Assets
US Treasury Bond 4.375%	11-15-39	152,745	196,946	4.31
US Treasury Bond 4.5%	08-15-39	127,336	167,189	3.66
US Treasury Bond 4.25%	11-15-40	131,115	166,331	3.64
US Treasury Bond 4.25%	05-15-39	111,528	140,821	3.08
US Treasury Bond 4.75%	02-15-41	98,985	135,733	2.97
US Treasury Bond 4.375%	05-15-41	87,320	113,175	2.47
US Treasury Bond 6.25%	08-15-23	76,215	108,845	2.38
US Treasury Bond 4.375%	05-15-40	81,283	104,931	2.29
US Treasury Bond 4.625%	02-15-40	75,576	101,284	2.21
US Treasury Bond 7.125%	02-15-23	63,665	96,214	2.10
US Treasury Bond 4.5%	05-15-38	64,435	84,199	1.84
US Treasury Bond 6.875%	08-15-25	52,425	80,513	1.76
US Treasury Bond 5.25%	11-15-28	55,110	75,337	1.65
US Treasury Bond 3.875%	08-15-40	61,365	73,130	1.60
US Treasury Bond 6.125%	08-15-29	45,140	67,858	1.48
US Treasury Bond 4.375%	02-15-38	49,523	63,459	1.39
US Treasury Bond 6.75%	08-15-26	26,905	41,383	0.90
US Treasury Bond 7.5%	11-15-24	22,090	35,202	0.77
CMT Market Liquidity Rat		23,086	23,086	0.50
General Elec Cap Corp Mt	03-15-32	18,975	21,531	0.47

Current Investment Style



[1] figure provided by fund

Avg Eff Duration[1]	14.6 Yrs
Avg Eff Maturity	24.2 Yrs
Avg Credit Quality	A
Avg Wtd Coupon	5.69%
Avg Wtd Price	128.71% of par

Coupon Range	% of Bonds	Rel Cat
0% PIK	0.1	0.0
0% to 6%	56.1	1.1
6% to 8%	39.7	1.2
8% to 10%	3.7	0.4
More than 10%	0.5	0.2

1.00=Category Average

Credit Analysis	%	% bonds 06-30-12	
AAA	46	BB	0
AA	7	B	0
A	23	Below B	0
BBB	24	NR/NA	0

Sector Breakdown	% of assets
US Treasury	41
Non US Government	4
Government Related	3
Corporate	45
Agency MBS Pass-Through	0
Agency MBS ARM	0
Agency MBS CMO	0
Non-Agency Residential MBS	0
Commercial MBS	0
Asset-Backed	0
Municipal	6
Cash & Equivalents	0
Other	0

Composition - Net

Cash	0.5	Bonds	99.4
Stocks	0.0	Other	0.1

Special Securities

Restricted/Illiquid Secs	1
Exotic Mortgage-Backed	0
Emerging-Markets Secs	4
Options/Futures/Warrants	No

Morningstar's Take by David Falkof 10-12-11

Vanguard Long-Term Bond Index's recent strong performance underscores its significant risks.

After delivering an impressive 10.3% gain in 2010, this index fund returned a remarkable 17.4% year to date through Oct. 7, 2011. During both years, fears about the eurozone's sovereign debt crisis and slowing global growth pushed Treasury yields lower, turbo-charging this fund's performance. That flight to quality has helped this fund in two ways. For one, it holds 41% of its assets in Treasuries, more than any other long-term bond fund (most invest predominantly in corporate bonds). In addition, the fund's 13.9-year duration (a measure of interest-rate sensitivity) is one of the category's highest, allowing it to profit more from falling yields.

Those same characteristics that have helped lately, however, also pose significant risks to the fund. Treasury yields have dropped to all-time lows; in August, the yield on the 10-year note fell below 2% for the first time since the 1950s. When yields eventually rise, the fund's lengthy duration could cause considerable pain in both absolute and relative terms. The fund's higher-quality bias also could cause it to lag other long-term bond funds in a rising-rate environment because higher-quality bonds produce less income to offset capital losses.

The fund's extreme sensitivity to bond yield movements means it's only suitable for long-term investors and institutions looking to match long-dated liabilities. Within that framework, though, it does its job well. Manager Greg Davis has a strong record of tracking this fund's benchmark and has produced similarly capable results at his other bond index fund charges. Moreover, the fund's 0.22% expense ratio makes it the category's cheapest option for no-load investors. Thus, the fund works well for those who can withstand the acute volatility of a long-term bond fund.

Address:	PO Box 2600 Valley Forge, PA 19482 800-662-7447	Minimum Purchase:	$3000	Add: $100 IRA: $3000
		Min Auto Inv Plan:	$0	Add: $50
		Sales Fees:	No-load	
Web Address:	www.vanguard.com	Management Fee:	0.19%	
Inception:	03-01-94	Actual Fees:	Mgt:0.19%	Dist: —
Advisor:	Vanguard Group, Inc.	Expense Projections:	3Yr:$71	5Yr:$124 10Yr:$280
Subadvisor:	None	Income Distribution:	Monthly	
NTF Plans:	Vanguard NTF			

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Vanguard REIT Index Inv

Ticker	Status	Yield	Total Assets	Mstar Category
VGSIX	Open	3.2%	$28,072 mil	Real Estate

Morningstar Analyst Rating 06-29-12

Silver

Morningstar Pillars

Process	Positive
Performance	Neutral
People	Positive
Parent	Positive
Price	Positive

Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

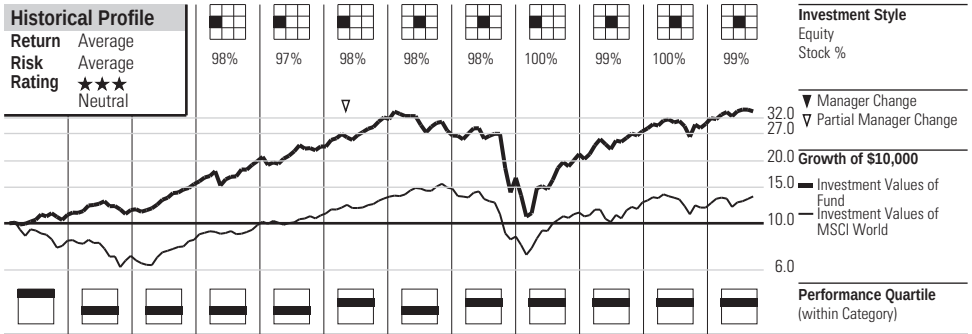
Gold | Silver | Bronze | Neutral | Negative

Pillar Spectrum

Positive | Negative | Neutral

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 MSCI World

Performance Quartile (within Category)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-12	History
12.13	11.84	15.18	18.79	19.80	25.58	20.45	12.13	14.84	18.38	19.25	21.58	NAV
12.35	3.75	35.65	30.76	11.89	35.07	-16.46	-37.05	29.58	28.30	8.47	14.72	Total Return %
29.17	23.64	2.54	16.04	2.40	15.00	-25.50	3.66	-0.41	16.54	14.01	1.71	+/-MSCI World
0.00	0.17	-0.53	-2.40	-1.93	-0.90	1.09	2.15	1.12	0.23	-0.90	0.25	+/-DJ Real Est
7.19	6.40	6.74	6.40	5.11	4.82	2.69	2.84	5.41	4.12	3.60	2.57	Income Return %
5.16	-2.65	28.91	24.36	6.78	30.25	-19.15	-39.89	24.17	24.18	4.87	12.15	Capital Return %
20	54	58	68	56	46	51	31	50	32	43	38	Total Rtn % Rank Cat
0.81	0.76	0.78	0.95	0.94	0.94	0.68	0.57	0.64	0.60	0.65	0.49	Income $
0.00	0.00	0.00	0.00	0.22	0.12	0.33	0.41	0.00	0.00	0.00	0.00	Capital Gains $
0.33	0.28	0.27	0.24	0.21	0.21	0.21	0.20	0.21	0.26	0.26	0.24	Expense Ratio %
5.73	4.35	4.90	4.10	3.44	2.91	2.27	2.52	3.36	3.94	2.22	2.30	Income Ratio %
21	10	12	7	13	17	11	13	10	16	12	10	Turnover Rate %
1,230	1,784	3,051	4,663	4,407	6,066	4,137	2,732	3,763	2,585	2,444	2,625	Net Assets $mil

Performance 09-30-12

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2008	2.13	-5.39	5.35	-38.16	-37.05
2009	-32.08	30.03	34.54	9.05	29.58
2010	10.02	-4.01	13.10	7.42	28.30
2011	6.50	3.51	-14.59	15.20	8.47
2012	10.71	3.70	-0.07	—	—

Trailing	Total Return%	+/- MSCI World	+/- DJ Real Est	%Rank Cat	Growth of $10,000
3 Mo	-0.07	-6.78	0.31	56	9,993
6 Mo	3.62	2.32	0.26	42	10,362
1 Yr	32.16	10.57	0.10	36	13,216
3 Yr Avg	20.30	12.82	-0.22	30	17,410
5 Yr Avg	2.55	4.70	0.95	26	11,342
10 Yr Avg	11.31	3.27	0.03	42	29,197
15 Yr Avg	8.70	4.84	-0.24	48	34,950

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	18.83	43	1.22	89
5 Yr (estimated)	1.14	26	1.37	55
10 Yr (estimated)	9.57	41	1.56	53

Potential Capital Gain Exposure: 17% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	32.16			
3 Yr	20.30	Avg	Avg	★★★
5 Yr	2.55	+Avg	+Avg	★★★
10 Yr	11.31	Avg	Avg	★★★
Incept	10.75			

Other Measures	Standard Index MSCI World	Best Fit Index DJ Real Est
Alpha	12.4	0.1
Beta	0.92	0.99
R-Squared	68	100
Standard Deviation	19.06	
Mean	20.30	
Sharpe Ratio	1.06	

Portfolio Analysis 06-30-12

Share change since 03-12 Total Stocks:111	Sector	PE	Tot Ret%	% Assets
Simon Property Group Inc	Real Est	30.0	20.06	10.99
Public Storage	Real Est	44.4	5.96	4.98
Equity Residential	Real Est	—	2.65	4.44
Ventas Inc	Real Est	47.0	16.29	4.32
HCP Inc	Real Est	30.7	10.98	4.29
Boston Properties Inc	Real Est	46.3	12.71	3.81
Prologis Inc	Real Est	138.9	25.46	3.62
Vornado Realty Trust	Real Est	50.5	8.14	3.32
AvalonBay Communities In	Real Est	59.5	6.36	3.19
Health Care REIT, Inc.	Real Est	86.2	9.96	2.91
Host Hotels & Resorts In	Real Est	—	10.09	2.65
Digital Realty Trust, In	Real Est	49.8	8.05	2.14
Macerich Company	Real Est	34.5	16.36	1.85
Kimco Realty Corp	Real Est	58.5	27.16	1.84
General Growth Propertie	Real Est	—	34.88	1.81
SL Green Realty Corporat	Real Est	55.9	21.28	1.64
UDR Inc	Real Est	—	1.49	1.61
Federal Realty Investmen	Real Est	58.5	18.36	1.57
Realty Income Corporatio	Real Est	44.4	20.75	1.32
Essex Property Trust	Real Est	72.5	7.85	1.27

Current Investment Style

Value Blnd Growth	Market Cap	%
Large	Giant	0.0
Mid	Large	48.0
Small	Mid	36.5
	Small	12.9
	Micro	2.7
	Avg $mil:	8,155

Value Measures		Rel Category
Price/Earnings	42.62	1.07
Price/Book	2.17	1.01
Price/Sales	6.07	1.10
Price/Cash Flow	16.73	1.03
Dividend Yield %	3.45	1.01

Growth Measures	%	Rel Category
Long-Term Ernings	5.82	0.90
Book Value	1.68	0.95
Sales	-5.06	NMF
Cash Flow	-35.34	NMF
Historical Ernings	14.23	1.02

Profitability	%	Rel Category
Return on Equity	7.69	0.99
Return on Assets	2.68	1.03
Net Margin	19.00	1.03

Industry Weightings	% of Stocks	Rel Cat
Retail	13.9	1.2
Residential	14.1	1.1
Industrial	0.7	0.7
Healthcare	15.2	1.1
Office	11.6	1.0
Diversified	4.6	0.9
Hotel/Motel	1.8	1.2
Mgmt & Dev	0.0	0.0
Other	38.0	0.9

Composition - Net



Cash	0.6
Stocks	99.4
Bonds	0.0
Other	0.0
Foreign (% of Stock)	0.0

Morningstar's Take by Rob Wherry 06-29-12

Low fees and a decent record give this fund plenty of appeal.

Vanguard REIT ranks among the cheapest options for diversified real estate exposure. This index fund's 0.24% annual expense ratio is the third lowest in Morningstar's real estate category, placing behind offerings from Fidelity and DFA. (Expenses fall 14 basis points for Vanguard's Admiral share class.) Investors have found that cost structure attractive. With $24 billion in assets, the fund is the largest in the category. The next biggest is just one fifth its size.

The fund tracks an index that encompasses a wide spectrum of real estate firms. The MSCI U.S. REIT benchmark consists of 100-plus securities that focus on apartments, malls, office buildings, and long-term care centers, among other types of properties. The fund does a solid job tracking its bogy. Its valuation profile, average market cap, and yield closely mirror the MSCI Index's. That said, the fund does deviate from category peers in some regards. Granted, like most real estate offerings, this fund is top-heavy. Slightly less than 50% of assets are invested in its top 10 holdings. Almost 50 funds in the category are more concentrated, though, and this offering's 115 holdings doubles the tally of the average actively managed real estate fund. It also avoids some of the sector's more tangential areas, including timber REITs, real estate operating companies, and service firms. Instead, it tilts more toward the real estate industry's higher quality companies like mall operator Simon Property Group SPG.

The fund has an admirable performance record. A high R-squared underscores its close correlation with the index, and its long-term performance has been relatively in line with that bogy, minus fees. When lesser-quality REITs surge, investors should expect this fund to lag. Top-rated actively managed funds have easily beaten it over long periods of time, too. This offering has surpassed the category average over the past decade, though, and it remains a compelling option for investors seeking reliable, low-cost real estate exposure.

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Inception:	05-13-96	Actual Fees:	Mgt:0.21%	Dist: —
Advisor:	Vanguard Group, Inc.	Expense Projections:	3Yr:$77	5Yr:$135 10Yr:$306
Subadvisor:	None	Income Distribution:	Quarterly	
NTF Plans:	Vanguard NTF			

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Vanguard Emerging Mkts Stock Idx

Ticker	Status	Yield	Total Assets	Mstar Category
VEIEX	Open	3.2%	$71,720 mil	Diversified Emerging Mkts

Morningstar Analyst Rating 11-15-11

Silver

Morningstar Pillars

Process	Positive
Performance	Neutral
People	Neutral
Parent	Positive
Price	Positive

Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

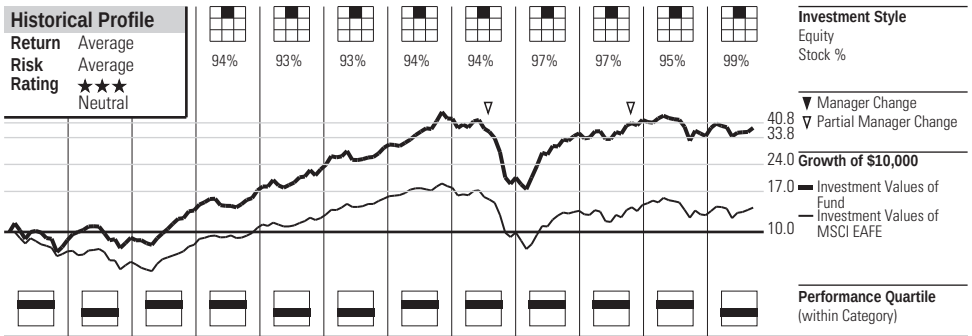
Gold | Silver | Bronze | Neutral | Negative

Pillar Spectrum

Positive | Negative | Neutral

Historical Profile

Return Average
Risk Average
Rating ★★★ Neutral



2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-12	History
8.37	7.63	11.85	14.68	19.07	24.27	33.12	14.90	25.90	30.34	24.11	26.47	NAV
-2.88	-7.43	57.65	26.12	32.05	29.39	38.90	-52.81	75.98	18.86	-18.78	11.08	Total Return %
18.56	8.51	19.06	5.87	18.51	3.05	27.73	-9.43	44.20	11.11	-6.64	1.00	+/-MSCI EAFE
-0.26	-1.26	1.83	0.57	-1.95	-2.75	-0.52	0.52	-2.53	-0.02	-0.36	-0.90	+/-MSCI Emg Mkt
2.38	1.46	2.25	2.19	2.15	2.08	2.42	2.11	2.11	1.68	1.74	1.30	Income Return %
-5.26	-8.89	55.40	23.93	29.90	27.31	36.48	-54.92	73.87	17.18	-20.52	9.78	Capital Return %
41	62	30	29	52	72	37	38	36	44	41	54	Total Rtn % Rank Cat
0.21	0.12	0.17	0.26	0.32	0.40	0.59	0.70	0.31	0.43	0.53	0.31	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 $
0.57	0.57	0.53	0.48	0.45	0.42	0.37	0.32	0.40	0.35	0.33	—	Expense Ratio %
1.67	1.67	2.26	2.44	2.48	2.20	2.24	2.81	2.16	1.97	2.25	—	Income Ratio %
23	65	16	11	15	26	9	20	12	12	10	—	Turnover Rate %
801	896	1,873	3,140	6,018	8,109	13,313	5,143	7,765	3,218	2,279	2,355	Net Assets $mil

Performance 09-30-12

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2008	-10.48	-1.35	-25.98	-27.82	-52.81
2009	0.07	34.14	21.15	8.22	75.98
2010	2.47	-9.12	18.74	7.49	18.86
2011	1.78	-0.97	-23.97	5.99	-18.78
2012	13.94	-8.41	6.45	—	—

Trailing	Total Return%	+/- MSCI EAFE	+/- MSCI Emg Mkt	%Rank Cat	Growth of $10,000
3 Mo	6.45	-0.47	-1.29	64	10,645
6 Mo	-2.50	-1.80	-0.66	55	9,750
1 Yr	17.74	3.99	0.81	37	11,774
3 Yr Avg	5.09	2.97	-0.54	52	11,606
5 Yr Avg	-1.73	3.51	-0.45	40	9,164
10 Yr Avg	16.58	8.38	-0.42	33	46,370
15 Yr Avg	7.51	4.14	—	36	29,630

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	4.60	45	0.46	57
5 Yr (estimated)	-2.28	32	0.57	17
10 Yr (estimated)	16.35	18	0.20	5

Potential Capital Gain Exposure: 2% of assets

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	17.74			
3 Yr	5.09	Avg	Avg	★★★
5 Yr	-1.73	Avg	Avg	★★★
10 Yr	16.58	Avg	Avg	★★★
Incept	7.60			

Other Measures	Standard Index MSCI EAFE	Best Fit Index MSCI Emg Mkt
Alpha	3.3	-0.5
Beta	1.03	1.01
R-Squared	81	98
Standard Deviation	22.35	
Mean	5.09	
Sharpe Ratio	0.33	

Portfolio Analysis 06-30-12

Share change since 03-12 Total Stocks:872	Sector	Country	% Assets
Samsung Electronics Co L	Technology	Korea	2.35
China Mobile Ltd.	Comm Svs	China	1.95
America Movil, S.A.B. de	Comm Svs	Mexico	1.51
China Construction Bank	Finan Svs	China	1.47
Gazprom OAO ADR	Energy	Russia	1.30
Taiwan Semiconductor Man	Technology	Taiwan	1.27
Samsung Electronics Co L	Technology	Korea	1.13
Industrial And Commercia	Finan Svs	China	1.07
CNOOC, Ltd.	Energy	China	1.06
Hyundai Motor Co Ltd	Cnsmr Cyc	Korea	0.93
Tencent Holdings Ltd.	Technology	China	0.89
Mtn Group Limited	Comm Svs	South Africa	0.87
Bank Of China Ltd.(Dup)	Finan Svs	China	0.85
Vale SA ADR	Basic Mat	Brazil	0.84
PetroChina Co Ltd H Shar	Energy	China	0.81
Hon Hai Precision Ind. C	Technology	Taiwan	0.79
LUKOIL Oil Company JSC A	Energy	Russia	0.78
Petroleo Brasileiro SA P	Energy	Brazil	0.72
Taiwan Semiconductor Man	Technology	Taiwan	0.70
Itau Unibanco Holding SA	Finan Svs	Brazil	0.69

Morningstar's Take by Gregg Wolper 11-15-11

In one sense, shareholders of Vanguard Emerging Markets Stock Index have reason to be disappointed this year, but in another way, they can be satisfied that they're getting what they wanted.

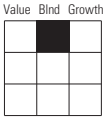
This fund has plunged 23.6% for the year to date through Sept. 23, 2011. The trouble has been spread widely across markets. Of the biggest emerging markets, China (top-ranked in this fund, with 17.3% of assets at the end of August) has been held back by fears of slowing growth and rising inflation, while Brazil (second at 15.2%) has investors concerned about that country's new government as well as a potential decline in exports if China does slow down. Other prominent emerging markets such as India and Russia also have fared poorly this year. Smaller ones, notably Thailand and Indonesia, have held up better, but play far lesser roles in this portfolio.

While this year's decline isn't pleasant for shareholders, the fund is meeting its goal. Its 23.6% loss is exactly the same as the decline in its benchmark, the MSCI Emerging Markets Index.

Matching the index as closely as possible is this fund's mission, so shareholders can't complain if it achieves that aim. Moreover, it has come close to mirroring its benchmark over the long term as well, although that is tougher to measure because to adjust for limited liquidity in some places, Vanguard used a customized MSCI benchmark until 2006 rather than the standard MSCI Emerging Markets Index it now uses.

This fund, therefore, has merit. Moreover, its Admiral shares and exchange-traded fund shares are very cheap, with expense ratios of 0.22% each. Its slightly more costly Investor shares, at 0.35%, are also far less expensive than actively managed alternatives as well as prominent rival ETFs. (The Admiral shares have a $10,000 minimum, while the Investor shares' minimum is $3,000.) If emerging markets return to favor, this fund should reliably deliver their gains. But it will provide no cushion when things go sour.

Current Investment Style



Market Cap	%
Giant	48.0
Large	39.8
Mid	12.0
Small	0.2
Micro	0.0

Avg $mil: 18,201

Value Measures		Rel Category
Price/Earnings	10.56	0.98
Price/Book	1.41	0.89
Price/Sales	0.86	0.89
Price/Cash Flow	4.47	0.81
Dividend Yield %	2.98	0.96

Growth Measures	%	Rel Category
Long-Term Erngs	12.15	0.92
Book Value	11.81	1.19
Sales	-4.42	NMF
Cash Flow	3.86	0.56
Historical Erngs	10.09	0.21

Composition - Net

Cash	0.0	Bonds	0.0
Stocks	98.6	Other	1.4
Foreign (% of Stock)			99.7

Sector Weightings	% of Stocks	Rel MSCI EAFE	3 Year High	3 Year Low
Cyclical	46.02	—		
BasicMat	12.59	—	16	13
CnsmrCyc	8.35	—	9	7
FinanSvs	23.16	—	24	22
Real Est	1.92	—	2	2
Sensitive	41.71	—		
CommSrvs	8.18	—	9	7
Energy	11.41	—	14	11
Industrl	7.57	—	8	7
Technlgy	14.55	—	15	12
Defensive	12.28	—		
CnsmrDef	7.93	—	8	5
Hlthcare	0.97	—	3	1
Utilities	3.38	—	4	3

Regional Exposure	% Stock		% Stock
UK/W. Europe	0	N. America	0
Japan	0	Latn America	21
Asia X Japan	60	Other	19

Country Exposure	% Stock		% Stock
China	18	Taiwan	11
South Korea	15	South Africa	8
Brazil	13		

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Web Address:	www.vanguard.com	Management Fee:	0.23%	
Inception:	05-04-94	Actual Fees:	Mgt:0.23%	Dist: —
Advisor:	Vanguard Group, Inc.	Expense Projections:	3Yr:$106	5Yr:$185 10Yr:$418
Subadvisor:	None	Income Distribution:	Annually	
NTF Plans:	Vanguard NTF			

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Vanguard Inflation-Protected Secs Inv

Ticker	Status	Yield	SEC Yield	Total Assets	Mstar Category
VIPSX	Open	2.3%	-1.11%	$44,277 mil	Inflation-Protected Bond

Morningstar Analyst Rating 11-15-11

Gold

Morningstar Pillars

Process	Positive
Performance	Positive
People	Positive
Parent	Positive
Price	Positive

Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

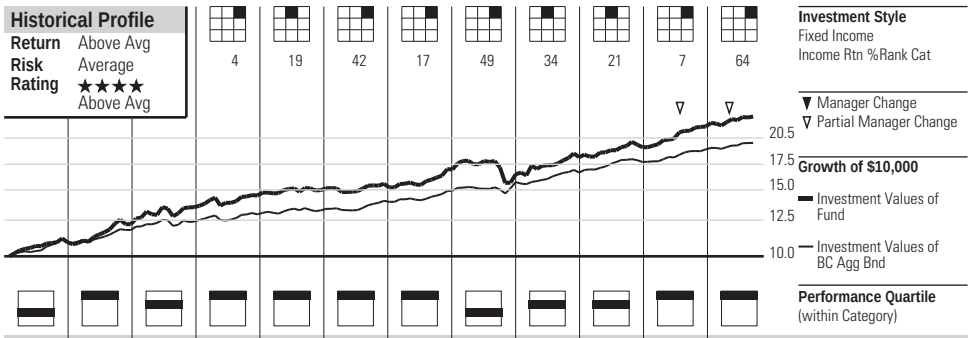
Gold | Silver | Bronze | Neutral | Negative

Pillar Spectrum

Positive | Negative | Neutral

Historical Profile

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



Investment Style
Fixed Income
Income Rtn %Rank Cat

▼ Manager Change
▽ Partial Manager Change

Growth of $10,000
Investment Values of Fund
Investment Values of BC Agg Bnd

Performance Quartile
(within Category)

Performance 09-30-12

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2008	5.31	-0.14	-3.88	-3.89	-2.85
2009	5.25	0.25	3.05	1.91	10.80
2010	0.36	3.90	2.57	-0.74	6.17
2011	1.85	3.40	4.84	2.56	13.24
2012	0.68	3.24	2.14	—	—

Trailing	Total Return%	+/- BC Agg Bnd	+/- BC US Tr US TIPS	%Rank Cat	Growth of $10,000
3 Mo	2.14	0.56	0.02	33	10,214
6 Mo	5.45	1.77	0.11	20	10,545
1 Yr	8.89	3.73	-0.21	24	10,889
3 Yr Avg	9.16	2.97	-0.13	18	13,007
5 Yr Avg	7.61	1.08	-0.32	30	14,430
10 Yr Avg	6.39	1.07	-0.25	39	18,578
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	8.00	13	1.06	53
5 Yr (estimated)	6.49	14	1.04	28
10 Yr (estimated)	4.92	11	1.38	37

Potential Capital Gain Exposure: 16% of assets

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-12	History
10.62	11.84	12.21	12.57	12.16	11.78	12.45	11.52	12.55	13.00	14.11	14.85	NAV
7.61	16.61	8.00	8.27	2.59	0.43	11.59	-2.85	10.80	6.17	13.24	6.17	Total Return %
-0.83	6.35	3.90	3.93	0.16	-3.90	4.62	-8.09	4.87	-0.37	5.40	2.18	+/-BC Agg Bnd
-0.29	0.04	-0.40	-0.19	-0.25	0.02	-0.05	-0.50	-0.61	-0.14	-0.32	-0.08	+/-BC US Tr US TIPS
4.37	4.39	3.85	4.70	5.53	3.54	5.60	5.01	1.86	2.55	4.43	0.91	Income Return %
3.24	12.22	4.15	3.57	-2.94	-3.11	5.99	-7.86	8.94	3.62	8.81	5.26	Capital Return %
58	14	30	22	22	21	10	57	35	37	10	25	Total Rtn % Rank Cat
0.45	0.46	0.45	0.57	0.68	0.43	0.65	0.61	0.21	0.32	0.57	0.13	Income $
0.07	0.06	0.12	0.07	0.05	0.00	0.00	0.00	0.00	0.00	0.02	0.00	Capital Gains $
0.25	0.25	0.22	0.18	0.17	0.20	0.20	0.20	0.25	0.22	0.20	—	Expense Ratio %
6.38	3.92	4.55	3.46	4.83	4.83	3.87	5.02	2.00	2.48	4.21	—	Income Ratio %
122	75	108	63	73	47	21	28	14	29	28	—	Turnover Rate %
772	2,988	4,746	7,182	6,332	5,440	6,662	8,593	12,946	12,979	15,220	16,269	Net Assets $mil

Rating and Risk

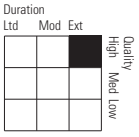
Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	8.89			
3 Yr	9.16	+Avg	+Avg	★★★★
5 Yr	7.61	+Avg	Avg	★★★★
10 Yr	6.39	+Avg	Avg	★★★★
Incept	7.61			

Other Measures	Standard Index BC Agg Bnd	Best Fit Index BC US Tr US TIPS
Alpha	1.2	-0.1
Beta	1.28	1.00
R-Squared	51	99
Standard Deviation	4.84	
Mean	9.16	
Sharpe Ratio	1.82	

Portfolio Analysis 06-30-12

Total Fixed-Income:33	Date of Maturity	Amount $000	Value $000	% Net Assets
US Treasury Note	04-15-16	2,144,000	2,327,050	5.47
US Treasury Note 0.125%	01-15-22	2,044,900	2,201,889	5.18
US Treasury Note 1.125%	01-15-21	1,770,000	2,144,141	5.04
US Treasury Note	07-15-21	1,833,000	2,086,129	4.91
US Treasury Note 2%	01-15-14	1,564,100	2,022,516	4.76
US Treasury Bond 3.875%	04-15-29	864,200	1,956,047	4.60
US Treasury Bond 2.375%	01-15-25	1,213,770	1,952,657	4.59
US Treasury Note 1.25%	07-15-20	1,236,100	1,515,624	3.56
US Treasury Bond 3.625%	04-15-28	683,890	1,501,875	3.53
US Treasury Bond 2%	01-15-26	966,698	1,430,929	3.36
US Treasury Note 0.5%	04-15-15	1,228,600	1,354,754	3.19
US Treasury Bond	02-15-41	887,500	1,332,841	3.13
US Treasury Bond 2.375%	01-15-27	857,389	1,313,565	3.09
US Treasury Note 1.375%	01-15-20	1,022,000	1,265,297	2.98
US Treasury Note 1.875%	07-15-19	923,750	1,191,711	2.80
US Treasury Note 1.25%	04-15-14	1,027,000	1,152,832	2.71
US Treasury Bond 2.5%	01-15-29	770,200	1,146,520	2.70
US Treasury Note 1.375%	07-15-18	936,500	1,141,467	2.68
US Treasury Note 1.625%	01-15-15	847,215	1,085,162	2.55
US Treasury Bond 1.75%	01-15-28	787,125	1,083,985	2.55

Current Investment Style



[1] figure provided by fund

Avg Eff Duration[1]	8.6 Yrs
Avg Eff Maturity	9.6 Yrs
Avg Credit Quality	AAA
Avg Wtd Coupon	1.68%
Avg Wtd Price	135.67% of par

Coupon Range	% of Bonds	Rel Cat
0% PIK	0.0	0.0
0% to 6%	100.0	1.0
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 06-30-12	
AAA	100	BB	0
AA	0	B	0
A	0	Below B	0
BBB	0	NR/NA	0

Sector Breakdown	% of assets
US Treasury	0
Non US Treasury	0
US Treasury Inflation-Protected	100
Non US Inflation-Protected	0
Government Related	0
Corporate	0
Agency MBS	0
Non-Agency Residential MBS	0
Commercial MBS	0
Asset-Backed	0
Covered Bond	0
Municipal	0

Composition - Net			
Cash	0.1	Bonds	99.9
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 David Falkof 11-15-11

A manager change at Vanguard Inflation-Protected Securities' should be smoother than TIPS' bumpy ride.

In mid-August 2011, Vanguard hired Gemma Wright-Casparius to replace this fund's longtime comanager Ken Volpert, who remains at the firm as head of Vanguard's taxable fixed-income group. Wright-Casparius joins John Hollyer, who has comanaged the fund with Volpert since its June 2000 inception. In her previous role, Wright-Casparius ran a global inflation-linked bond portfolio for Singapore's sovereign wealth fund, although she has no public track record.

These changes aren't terribly concerning. Volpert remains at the firm overseeing the team that manages this fund, and Hollyer has expertly run the fund for years with the same straightforward approach. Unlike some inflation-protected bond peers who augment their Treasury Inflation-Protected Securities holdings with tactical moves in and out of other bond sectors, Hollyer sticks with TIPS, making small shifts along their maturity spectrum depending on where he finds value. He and Wright-Casparius don't plan to change that strait-laced style. The fund's low expense ratio also means they don't need to get fancy for the fund to compete.

The combination of low fees and a no-frills approach has delivered consistently good results over the long run. Since the fund's 2000 inception it has outpaced its typical peer during 87% of rolling three-year periods. Still, there are risks to consider. TIPS have had a great run recently, fueling this fund's 10.2% gain for the year to date through Aug. 29. That strong performance has come as investors seeking safety pushed TIPS' real yields to historic lows, even negative for maturities under 10 years. Although TIPS offer protection against rising inflation, they can suffer losses when real yields rise, as they did in late 2010. The fund is a solid option for long-term TIPS exposure, but investors should brace for some volatility.

Address:	PO Box 2600 Valley Forge, PA 19482 800-662-7447	Minimum Purchase:	$3000	Add: $100 IRA: $3000
		Min Auto Inv Plan:	$0	Add: —
		Sales Fees:	No-load	
Web Address:	www.vanguard.com	Management Fee:	0.17%	
Inception:	06-29-00	Actual Fees:	Mgt:0.17%	Dist: —
Advisor:	Vanguard Group, Inc.	Expense Projections:	3Yr:$64	5Yr:$113 10Yr:$255
Subadvisor:	None	Income Distribution:	Quarterly	
NTF Plans:	Vanguard NTF			

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AMENDMENT I

TO THE
INVESTMENT POLICY STATEMENT FOR
CITY OF DOVER POLICE PENSION BOARD

The following amendment to the investment policy has been reviewed and approved by the Board:

I. Allocation of Plan Assets – The plan will utilize a dynamic policy linked to funded status of the plan. As funded status improves to the next threshold, the allocation of the plan will be adjusted to the specified allocation. Within each threshold, there will be a range of +/- 5% to the target to allow for modest market fluctuations before rebalancing of the portfolio. The portfolio will be reviewed at least quarterly and adjusted as necessary to maintain alignment with the target allocations.

Dynamic Investment Policy	**Funded Status**						
Asset Category	**40%**	**70%**	**80%**	**85%**	**90%**	**95%**	**100%**
Cash & Short Term Bond	7%	7%	5%	5%	5%	5%	5%
US Treasuries/Inflation-linked	2%	2%	4%	5%	7%	10%	13%
Intermediate Term Bond	14%	15%	16%	18%	18%	21%	23%
Long Term Bond	17%	19%	20%	23%	26%	30%	34%
Large Cap Value – US Stock	10%	10%	9%	8%	8%	7%	4%
Large Cap Growth – US Stock	10%	9%	9%	8%	7%	5%	4%
Mid Cap – US Stock	5%	5%	5%	5%	5%	4%	3%
Small Cap – US Stock	5%	5%	5%	4%	4%	3%	3%
Real Estate/REIT	5%	5%	5%	4%	4%	3%	3%
Non-US Stock	10%	9%	9%	8%	7%	5%	3%
Emerging Markets	15%	14%	13%	12%	10%	7%	5%
Equity	**60%**	**57%**	**55%**	**49%**	**45%**	**34%**	**25%**
Fixed Income/Cash	**40%**	**43%**	**45%**	**51%**	**56%**	**66%**	**75%**
Total	100%	100%	100%	100%	101%	100%	100%

II. Performance Monitoring Benchmarks – The plan will utilize asset category specific benchmarks to monitor investment manager performance. In addition, overall portfolio performance will be benchmarked to a normal portfolio composed of category indexes allocated based on the Dynamic Investment Policy funded status position.

Asset Category	**Index**
Cash & Money Market	CitiGroup 3 Month TBill
Short-term Bond	BofA Merrill Lynch 1-3 Yr Corp Index
Intermediate-term Bond	BarCap Interm US Govt/Credit Index
Long-term Bond	BarCap Long GovtCredit Index
Large Cap Value	S&P/Citi 500 Value
Large Cap Blend	S&P 500 Index
Large Cap Growth	S&P/Citi 500 Growth
Mid Cap Value	S&P/Citi Mid-Cap 400 Value
Mid Cap	S&P 400 Mid Cap
Mid Cap Growth	S&P/Citi Mid-Cap 400 Growth
Small Cap Value	S&P/Citi Small Cap 600 Value
Small Cap	S&P 600 Small Cap
Small Cap Growth	S&P/Citi Small Cap 600 Growth
MSCI ACWI xUS NR	MSCI EAFE
S&P EPAC EMI	MSCI EAFE Small Cap
MSCI EM NR	MSCI EM (Emerging Markets)
REIT/Real Estate	FTSE NAREIT Equity REIT

AMENDMENT I

TO THE
INVESTMENT POLICY STATEMENT FOR
CITY OF DOVER POLICE PENSION BOARD

III. Approval by the Board – To indicate approval of this amendment to the Investment Policy Statement, the appropriate designated Board member shall sign below.

This Amendment to the Statement of Investment Policy approved by action of the Board.

Date: _____ Approved by: _____
Chairman

Title: _____



The analysis in this report was prepared utilizing data from third parties and other sources including but not limited to internal computer software and databases, including among others mpiStylus Pro©,, software designed by Markov Processes International. Reasonable care has been taken to assure the accuracy of the data contained herein, and comments are objectively stated and are based on facts gathered in good faith. These reports do not constitute investment advice with respect to the sale or disposition of individual securities. Milliman disclaims responsibility, financial or otherwise, for the accuracy or completeness of this report.

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