

State of Montana

Fixed Income Search Report

As of September 30, 2014

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Investment Review

Range of Investment Options

Lower Expected Risk/
Lower Expected Return

Higher Expected Risk/
Higher Expected Return

Stable Value	Fixed Income/ Bond	Target Date/ Balanced	Domestic Equity			Global/ Int'l Equity	Other
1. State of Montana Stable Value	1. PIMCO Total Return Adm	1. Vanguard Balanced Idx I	Large Value	Large Blend	Large Growth	1. American Funds New Perspective R4	
	2. Neuberger Berman High Income Bond Inv	2. T. Rowe Price Retirement Series (12)	1. Vanguard Equity Income Adm	1. Vanguard Instl Idx I	1. Fidelity Contrafund	2. Franklin Mutual Global Discovery Z	
					2. Calvert Equity A*	3. Artisan Intl Inv	
			Mid Value	Mid Blend	Mid Growth	4. Dodge & Cox Intl Stock	
			1. MFS Mid Cap Value R5		1. Munder Mid Cap Core Growth A	5. Oppenheimer Developing Mkts Y	
			Small Value	Small Blend	Small Growth		
			1. Neuberger Berman Genesis Tr	1. Vanguard Small Cap Idx Sig	1. Vanguard Small Cap Growth Idx Inv		

*SRI investment option

Investment Review

Asset Allocation As of September 30, 2014

# of Options	Options	Plan Assets	% of Plan	# of Participants
1	State of Montana Stable Value	\$230,250,565	54.2%	6,117
	Total Stable Value Funds	\$230,250,565	54%	
2	PIMCO Total Return Adm	\$6,711,909	1.6%	1,779
	Neuberger Berman High Income Bond Inv	\$3,387,769	<1%	573
	Total Bond Funds	\$10,099,678	2%	
13	Vanguard Balanced Index I	\$16,822,240	4.0%	1,671
	T. Rowe Price Retirement Income	\$600,067	<1%	49
	T. Rowe Price Retirement 2005	\$253,884	<1%	37
	T. Rowe Price Retirement 2010	\$1,091,269	<1%	87
	T. Rowe Price Retirement 2015	\$2,218,247	<1%	173
	T. Rowe Price Retirement 2020	\$6,460,198	1.5%	324
	T. Rowe Price Retirement 2025	\$3,051,960	<1%	325
	T. Rowe Price Retirement 2030	\$2,003,323	<1%	323
	T. Rowe Price Retirement 2035	\$1,568,960	<1%	306
	T. Rowe Price Retirement 2040	\$1,017,584	<1%	280
	T. Rowe Price Retirement 2045	\$456,473	<1%	180
	T. Rowe Price Retirement 2050	\$169,312	<1%	69
	T. Rowe Price Retirement 2055	\$236,013	<1%	44
	Total Target Date/Balanced Funds	\$35,949,531	8%	
9	Vanguard Equity-Income Adm	\$14,080,939	3.3%	1,200
	Vanguard Institutional Index I	\$25,742,369	6.1%	2,335
	Fidelity Contrafund	\$29,026,680	6.8%	1,908
	Calvert Equity A	\$2,011,865	<1%	299
	MFS Mid Cap Value R5	\$5,304,198	1.2%	734
	Munder Mid-Cap Core Growth A	\$9,516,790	2.2%	1,868
	Neuberger Berman Genesis Tr	\$12,520,184	2.9%	2,037
	Vanguard Small Cap Index Sig	\$5,424,131	1.3%	536
	Vanguard Small Cap Growth Index Inv	\$8,167,304	1.9%	1,114
Total U.S. Equity Funds	\$111,794,459	26%		
5	American Funds New Perspective R4	\$10,807,058	2.5%	1,211
	Franklin Mutual Global Discovery Z	\$10,091,374	2.4%	899
	Artisan International Inv	\$3,291,246	<1%	567
	Dodge & Cox International Stock	\$11,958,942	2.8%	1,791
	Oppenheimer Developing Markets Y	\$638,900	<1%	168
Total International Equity Funds	\$36,787,519	9%		
TOTAL		\$424,881,752		

Prospectus Portfolio Limits and Current Allocation

	Max Allocation to High Yield	Max Allocation to Non-Dollar Bonds	Max Allocation to Non-US Bonds	Max Allocation to Equity
PIMCO Total Return Instl	10%	30%	20%	10%
Dodge & Cox Income	20%	-	25%	-
Loomis Sayles Investment Grade Bond Y	10%	-	20%	10%
Prudential Total Return Bond Q	30%	-	30%	-
Vanguard Total Bond Market Index I*	-	-	-	-

*The Fund employs an indexing investment approach designed to track the performance of the Barclays U.S. Aggregate Float Adjusted Index.

	% of Assets in High Yield	% of Assets in Emerging Mkts	% of Assets in International	% of Assets in Equities
PIMCO Total Return Instl	4%	9%	16%	0%
Dodge & Cox Income	10%	0%	0%	0%
Loomis Sayles Investment Grade Bond Y*	12%	0%	31%	4%
Prudential Total Return Bond Q	9%	8%	0%	0%
Vanguard Total Bond Market Index I	0%	2%	8%	0%

*Loomis Sayles Investment Grade Bond Y has 17.7% of assets in International, excluding Canada

Investment Review

Net-of-Fee Total Returns

As of September 30, 2014

Fund/Benchmark	YTD	(periods longer than 1 year are annualized)					Expense	
	10/9/14	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Ratio
PIMCO Total Return Instl	4.14	-0.36	3.33	3.29	4.57	5.07	5.99	0.46
Dodge & Cox Income	5.24	0.00	4.56	5.76	4.81	5.35	5.31	0.43
Loomis Sayles Investment Grade Bond Y	4.99	-2.08	4.66	6.30	6.55	7.37	7.22	0.58
Prudential Total Return Bond Q	6.36	0.07	5.24	6.01	5.23	6.90	6.02	0.46
Vanguard Total Bond Market Index I	5.04	0.18	4.11	3.91	2.34	4.06	4.64	0.07
Barclays US Agg Bond	5.09	0.17	4.10	3.96	2.43	4.12	4.62	-
Avg Intermediate-Term Bond	4.77	-0.09	4.01	4.34	3.41	4.80	4.45	0.89

Green indicates fund outperformed both benchmarks

Blue indicates fund performed between benchmarks

Red indicates fund underperformed both benchmarks

Investment Review

Risk Analytics

As of September 30, 2014

Fund/Benchmark	Upside/Downside Capture Ratio						Standard Deviation		
	Up - 3 Yr - Down		Up - 5 Yr - Down		Up - 10 Yr - Down		3 Yr	5 Yr	10 Yr
PIMCO Total Return Instl	157	129	118	109	119	101	3.78	3.61	3.93
Dodge & Cox Income	125	57	97	38	97	66	2.73	2.49	3.73
Loomis Sayles Investment Grade Bond Y	197	131	147	92	148	135	5.29	5.07	6.98
Prudential Total Return Bond Q	165	119	138	87	121	106	3.87	3.62	4.12
Vanguard Total Bond Market Index I	101	106	101	106	101	102	2.71	2.93	3.30
Barclays US Agg Bond	-	-	-	-	-	-	2.67	2.83	3.24
Avg Intermediate-Term Bond	116	93	105	85	99	104	2.93	2.97	3.91

Reported modern portfolio theory (MPT) statistics are calculated with respect to the Barclays US Agg Bond Index for fixed income funds.

Investment Review

Annual Net-of-Fee Total Returns

Fund/Benchmark	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
PIMCO Total Return Instl	-1.92	10.36	4.16	8.83	13.83	4.82	9.07	3.99	2.89	5.14
Dodge & Cox Income	0.64	7.94	4.76	7.17	16.05	-0.29	4.68	5.30	1.98	3.64
Loomis Sayles Investment Grade Bond Y	1.36	12.25	5.08	11.52	27.27	-11.42	9.93	8.07	2.34	9.91
Prudential Total Return Bond Q	-0.91	9.96	7.93	9.73	19.68	-3.55	5.42	4.39	2.45	4.91
Vanguard Total Bond Market Index I	-2.14	4.18	7.72	6.58	6.09	5.19	7.05	4.40	2.53	4.36
Barclays US Agg Bond	-2.02	4.21	7.84	6.54	5.93	5.24	6.97	4.33	2.43	4.34
Avg Intermediate-Term Bond	-1.42	7.01	5.86	7.72	13.97	-4.70	4.70	4.15	1.80	3.91

Green indicates fund outperformed both benchmarks

Blue indicates fund performed between benchmarks

Red indicates fund underperformed both benchmarks

Investment Review

Peer Group Rankings

As of September 30, 2014

Fund Name	Morningstar Category	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
PIMCO Total Return Instl	Intermediate-Term Bond	80	79	78	20	39	5
Dodge & Cox Income	Intermediate-Term Bond	43	29	16	17	31	17
Loomis Sayles Investment Grade Bond Y	Intermediate-Term Bond	99	25	10	2	2	1
Prudential Total Return Bond Q	Intermediate-Term Bond	35	11	14	10	6	5
Vanguard Total Bond Market Index I	Intermediate-Term Bond	22	48	62	78	73	44

Investment Review

Credit Quality

Fund/Benchmark	# of Holdings	YTM	Average Duration	Average Maturity	Average Credit Quality	Average Credit							Not Rated/	
						AAA/ AA	A	BBB	BB	B	Below B	Cash/ Other		
PIMCO Total Return Instl	5,964	3.29	5.68	8.35	A	43	15	30	5	3	4	0		
Dodge & Cox Income	797	2.32	4.20	7.20	A	50	11	26	8	2	0	3		
Loomis Sayles Investment Grade Bond Y	467	3.61	4.96	7.14	BBB	29	24	34	7	2	0	5		
Prudential Total Return Bond Q	1,324	3.67	5.90	8.30	BBB	43	18	20	14	5	0	1		
Vanguard Total Bond Market Index I	6,730	2.11	5.70	7.80	AA	73	13	14	0	0	0	0		
Avg Intermediate-Term Bond	784	-	4.85	6.65	BBB	60	16	18	3	1	1	1		

Investment Review

Sector Breakdown

	US Treasury	Government Related	Municipals	Mortgage Related	CMO	Corporate	High Yield	ABS/ CMBS
PIMCO Total Return Instl	49.0%	7.0%		22.0%		8.0%	4.0%	
Dodge & Cox Income	11.3%	8.7%		27.0%	7.2%	39.9%		2.7%
Loomis Sayles Investment Grade Bond Y	6.9%		0.5%			34.2%	12.6%	4.4%
Prudential Total Return Bond Q	9.8%		1.8%	2.1%		27.5%	9.3%	30.8%
Vanguard Total Bond Market Index I	39.7%	3.6%		21.1%		25.6%		2.8%

	Convertibles/ Preferred	Bank Loans	Canadian Dollar	Non-US	Emerging Markets	Cash & Equivalents	Other
PIMCO Total Return Instl				16.0%	9.0%		-14.0%
Dodge & Cox Income						3.2%	
Loomis Sayles Investment Grade Bond Y	9.3%	0.5%	13.4%	17.7%	0.0%	0.7%	
Prudential Total Return Bond Q		3.6%		6.9%	8.1%		
Vanguard Total Bond Market Index I				6.8%			0.5%

Investment Review

General Fund Information

Fund Name	Manager	Tenure (Avg/Long)	Total Assets (\$MM)	Morningstar Rating	Morningstar Analyst Rating	Ticker
PIMCO Total Return Instl	Scott A. Mather (3)*	0/0	225,216,397	★★★★	Bronze	PTTRX
Dodge & Cox Income	Dana M. Emery (9)*	14/26	27,831,889	★★★★	Gold	DODIX
Loomis Sayles Investment Grade Bond Y	Daniel J. Fuss (4)*	9/18	10,141,545	★★★★★	Gold	LSIIX
Prudential Total Return Bond Q	Robert Tipp (4)*	5/12	4,568,436	★★★★★		PTRQX
Vanguard Total Bond Market Index I	Joshua C. Barrickman	2/2	127,533,752	★★★	Silver	VBTIX

* Longest tenured manager listed with total number of fund managers listed in parentheses.

Fund Name	Closed	Minimum	Annual Report Expense Ratio	Prospectus Expense Ratio	Primary Prospectus Benchmark
PIMCO Total Return Instl	No	1,000,000	0.46	0.46	Barclays US Agg Bond
Dodge & Cox Income	No	2,500	0.43	0.43	Barclays US Agg Bond
Loomis Sayles Investment Grade Bond Y	No	100,000	0.58	0.58	Barclays US Govt/Credit
Prudential Total Return Bond Q	No	-	0.52	0.46	Barclays US Agg Bond
Vanguard Total Bond Market Index I	No	5,000,000	0.07	0.07	Barclays US Agg Float Adj

PIMCO Total Return Instl PTRX

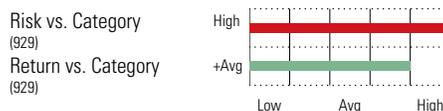
Morningstar Analyst Rating
Bronze

NAV \$	NAV Day Change %	Yield TTM %	Total Assets \$ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
10.95	↓0.00 0.00	2.11	201.6	Open	\$1	None	0.46%	★★★★	Intermediate-Term Bond	

Growth of 10,000 10-09-2004 - 10-09-2014



3 Year Average Morningstar Risk Measures



Investment Strategy

The investment seeks maximum total return, consistent with preservation of capital and prudent investment management. The fund normally invests at least 65% of its total assets in a diversified portfolio of Fixed Income Instruments of varying maturities, which may be represented by forwards or derivatives such as options, futures contracts, or swap agreements. It invests primarily in investment-grade debt securities, but may invest up to 10% of its total assets in high yield securities ("junk bonds") rated B or higher by Moody's, or equivalently rated by S&P or Fitch, or, if unrated, determined by PIMCO to be of comparable quality.

Performance 10-09-2014

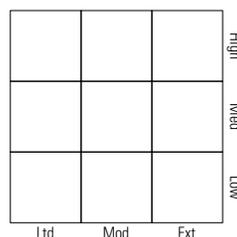
	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,414	10,043	10,404	11,611	12,918	17,994
Fund	4.14	0.43	4.04	5.10	5.25	6.05
+/- Barclays US Agg Bond TR USD	-0.96	-0.47	-0.97	2.13	0.91	1.34
+/- Category	-0.63	-0.07	-1.06	1.19	0.31	1.54
% Rank in Cat	77	69	80	20	39	5
# of Funds in Cat	1,065	1,091	1,049	927	806	573

* Currency is displayed in USD

Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	○	Neutral
Price	+	Positive
Rating		Bronze

Style Map 03-31-2010



Top Holdings 06-30-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
✳ NYSE/Liffe 10 Year US Treasury Note Future Sept14	19.44	09-26-2014	34,977.50	43,781.99
⊖ Irs Usd 3.000 09/21/16-1y (Grn) Cme	19.23	09-21-2017	42,911.50	43,317.24
✳ 5 Year US Treasury Note Future Sept14	12.42	09-30-2014	23,420.70	27,978.59
✳ Irs Usd 1.500 12/16/15-1y (Red) Cme	7.14	12-16-2016	16,049.50	16,079.05
✳ Irs Usd 1.750 06/15/16-1y (Grn) Cme	6.66	06-15-2017	15,000.00	14,993.66
% Assets in Top 5 Holdings	64.89			

⊕ Increase ⊖ Decrease ✳ New to Portfolio

Bond Statistics

	Value
Average Effective Duration (Years)	4.97
Average Effective Maturity (Years)	5.29
Average Credit Quality	Not Rated
Average Weighted Coupon	3.82
Average Weighted Price	—

Asset Allocation

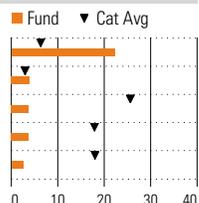
	% Net	% Short	% Long	Bench mark	Cat Avg
Cash	-67.78	246.45	178.66	—	6.85
Stock	0.38	0.00	0.38	—	0.07
Bond	153.02	9.11	162.13	—	90.36
Other	14.39	0.12	14.51	—	2.73

Management

	Start Date
Mark R. Kiesel	09-26-2014
Scott A. Mather	09-26-2014
Mihir P. Worah	09-26-2014

Top Sectors 06-30-2014

	Fund	BMark	Cat Avg
Other Government Related	22.23	—	5.46
Non-U.S. Government	3.94	—	2.10
Corporate Bond	3.75	—	24.77
U.S. Treasury	3.65	—	17.05
Commercial MBS	2.52	—	17.17



Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
09-30-2014	10.87	0.0000	0.0000	0.0000	0.0200	0.0200
08-29-2014	10.99	0.0000	0.0000	0.0000	0.0200	0.0200
07-31-2014	10.89	0.0000	0.0000	0.0000	0.0200	0.0200
06-30-2014	10.97	0.0000	0.0000	0.0000	0.0200	0.0200
05-30-2014	10.95	0.0000	0.0000	0.0000	0.0300	0.0300

PIMCO Total Return Instl PTRX

Analysis

Entering a new era.

By Eric Jacobson 9/30/2014

PIMCO Total Return enters a new era with uncertainty but also a good deal of promise.

Morningstar remains positive overall on PIMCO Total Return after the departure of Bill Gross but is downgrading the fund to Bronze because of the resulting uncertainty regarding outflows and the reshuffling of management responsibilities. When PIMCO co-founder Gross resigned on Sept. 26, 2014, the firm quickly selected Dan Ivascyn as its new "group chief investment officer," and announced that three PIMCO veterans--Mark Kiesel, Mihir Worah, and Scott Mather--would take over this fund, with Mather leading the effort.

It will take some time to see how Ivascyn and the new managers will coalesce as a team in their new roles, but there are a number of reasons to believe they will be successful after the dust settles. For starters, this is an experienced and well-respected group, with both Kiesel and Ivascyn earning Morningstar Fixed-Income Fund Manager of the Year accolades in recent years. As sector specialists, they were often credited by Gross for feeding him their best bottom-up ideas. Meanwhile, changes to the Investment Committee also bode well. The addition of Kiesel and Ivascyn to the group earlier this year following Mohamed El-Erian's departure added important feedback from the firm's best bottom-up investors, while the returning Fed maven Paul McCulley and veteran manager Chris Dialynas provide economic heft from the firm's macro thinkers. The challenges posed by outflows from the fund remain a wild card, but a hefty 42% stake in a mix of U.S. Treasury bonds and agency mortgages, in addition to cash flows received from coupon payments and maturing securities, is grounds for cautious optimism that the fund should be able to withstand a significant storm.

The fund's Bronze Morningstar Analyst Rating reflects Morningstar's high level of confidence in PIMCO's resources and overall abilities but also

the uncertainty as to exactly how all of these parts will mesh in the wake of Gross' departure.

Process Pillar: Positive

Newly appointed managers Scott Mather, Mark Kiesel, and Mihir Worah don't expect any big changes to the fund's strategy. The process will continue to be based on macroeconomic forecasting (supported by PIMCO's Investment Committee) and bottom-up analysis to determine interest-rate, yield-curve, currency, country, sector, and security-level decisions. The managers plan to defer to each individual's area of specialization when making security-specific decisions, with Mather ultimately making the final call.

Following the departure of co-CIO Mohamed El-Erian in January and now Bill Gross, the Investment Committee has undergone significant change. With the addition of some of the firm's best fundamental analysts, including new group CIO Dan Ivascyn, the committee has shifted from being dominated by macro specialists to being more balanced with those focused on bottom-up analysis. Meanwhile, the return of firm veteran Paul McCulley in mid-2014 and the anticipated return of Chris Dialynas later this year helps provide macroeconomic heft following Gross' departure.

Today's Investment Committee is designed to do a better job of channeling the expertise of PIMCO's many talented investors into a coherent and successful strategy. However, the fund's success depends on how well this body and the firm's new managers coalesce and work together.

Given Bill Gross' abrupt departure, investors have focused on the possibility that outflows could wreak havoc on the portfolio. Snap estimates of expected outflows have been all over the map, but it seems likely that outflows could total in the tens of billions of dollars.

There's no sure-fire way to predict how the fund will fare if the worst of these fears are realized, but there are some good indications that it is well

Morningstar's Take

Morningstar Analyst Rating



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

Fund Performance

	Total Return %	+/- Category
YTD	4.14	-0.63
2013	-1.92	-0.50
2012	10.36	3.35
2011	4.16	-1.70
2010	8.83	1.11

PIMCO Total Return Instl PSTRX

Analysis

positioned to weather a pretty large storm. Although liquidity has been an area of recent focus for all PIMCO funds, the firm's macroeconomic outlook has also played a big role in tilting this fund toward more-liquid exposures. As of August 2014, for example, it had a 29% exposure to a combination of conventional Treasuries and government-agency debt, along with 13% in agency mortgages. Treasuries are extremely liquid, and the mortgage TBA forward contracts that likely comprise a good slice of the agency mortgage bucket also offer good liquidity. Meanwhile, PIMCO has for some time emphasized exposure to the short end of the maturity spectrum overall, and that meant a 49% weighting in bonds maturing in less than five years.

It's possible that outflows following Gross' departure could be much worse, but the period from the fund's May 2013 asset peak to September 2014 saw roughly \$70 billion in outflows according to PIMCO, and there has been no indication that they caused any unusual problems.

Performance Pillar: + Positive

When managers leave, it often makes sense to discount a fund's past performance. Indeed, Bill Gross' public profile and the fact that he was the fund's founder and sole named manager gave the impression to many that he had single-handedly built the fund's long-term record. However, Gross never denied having a tremendous amount of help.

So it makes sense to give some attention to the fund's prior record, which has been a bit choppy since 2011. Gross had kept duration and government-bond exposures muted during that year, worrying that long-maturity Treasuries were too rich. But they began rallying in the second quarter, and the fund lost 1.1% in the third quarter, while its benchmark galloped to a 3.8% gain. It stumbled again in the summer of 2013, in part because of a spike in long-maturity yields that hit its Treasury Inflation-Protected Securities allocation especially hard and because of its exposure to sinking emerging-markets debt. And yet thanks in part to a

strong 2012, those troubles have taken its five-year return only down to the second-best quartile in the intermediate-bond category, while its three-year and longer-term returns continue to rank among the category's best. The fund's new managers will not get all of their calls right, yet over the longer haul, PIMCO as a firm has gotten things more right than wrong. Even in Gross' stead, there's reason to believe that may continue to be the case.

People Pillar: + Positive

Bill Gross had been synonymous with this fund since its 1987 inception, so his Sept. 26, 2014, resignation was jarring. However, he left behind an enormous staff of talented managers and analysts that he had hired and trained over the years, and they have stepped up to take on important roles in his absence.

They include 2013 Morningstar Fixed-Income Fund Manager of the Year Dan Ivascyn-- PIMCO's new "group chief investment officer"--and several other PIMCO veterans concurrently promoted to oversee large areas of the market as CIOs of their respective sectors. Three of them, Mark Kiesel (2012 Morningstar Fixed-Income Fund Manager of the Year), Mihir Worah, and Scott Mather, have been tasked with managing this portfolio as a team. Mather will serve as lead manager with final decision-making power.

Overall, PIMCO's staff has tremendous depth--arguably more today than it did 18 months ago--boasting world-class practitioners and intellects across the board, even despite some high-level departures since 2008. The deep sector experience of Ivascyn and the new CIOs should be a big plus for the firm's Investment Committee. Meanwhile, that body will still benefit from the continued presence of macroeconomic experts such as Andrew Balls and Saamil Parikh, as well as PIMCO veterans Chris Dialynas (returning from sabbatical) and Paul McCulley, who rejoined the firm in mid-2014.

Parent Pillar: ○ Neutral

PIMCO's new normal, without founder and former chief investment officer William H. Gross, hinges on deft leadership from a relatively new multi-chief investment officer structure. Daniel Ivascyn, who was promoted to group CIO in September 2014 upon Gross' departure for competitor Janus JNS, is also leading the investment committee that shapes portfolios for the firm's fixed-income and multiasset funds. The firm named six deputy CIOs in 2014's first quarter after then-CEO and co-CIO Mohamed El-Erian unexpectedly announced his departure. The CIOs oversee broad swaths of the firm's investment operations. These changes to PIMCO's leadership and investment processes are significant, but the firm remains a leading global fixed-income manager with broad, deep resources.

PIMCO undoubtedly will face further redemptions that may further unsettle its staff and, in turn, investment returns. (Flagship PIMCO Total Return PSTRX was in net outflows for the 16 months prior to Gross' departure.) Other threats include high expenses on many noninstitutional share classes and an SEC investigation into securities pricing in the exchange-traded fund version of the Total Return strategy. Plus, there are only three independent directors overseeing the funds--too few voices representing fundholders.

These risks are not insurmountable, but they warrant caution and a continued Parent rating of Neutral.

Price Pillar: + Positive

This fund has been a big revenue driver for PIMCO. Its advisory fee generated more than \$641 million for the fiscal year through March 2014, and its supervisory and administrative fees pulled in \$608 million. The fund has not featured management-fee breakpoints that would lower fees as assets grew, and some share classes--at this fund, the A shares and Institutional shares--are competitively priced, but others are relatively steep. As such, it's important to be choosy when picking a share class here. The better-priced classes have a big advantage.

Dodge & Cox Income DODIX

Morningstar Analyst Rating
Gold

NAV \$	NAV Day Change %	Yield TTM %	Total Assets \$ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
13.89	↓-0.01 -0.07	3.00	30.3	Open	\$2,500	None	0.43%	★★★★	Intermediate-Term Bond	Grid

Growth of 10,000 10-09-2004 - 10-09-2014



Investment Strategy

The investment seeks a high and stable rate of current income, consistent with long-term preservation of capital. The fund invests in a diversified portfolio of high-quality bonds and other debt securities. Normally, the fund will invest at least 80% of its total assets in the following categories: debt obligations issued or guaranteed by the U.S. government, its agencies or GSEs; investment-grade debt securities; unrated securities if deemed to be of investment-grade quality by Dodge & Cox; and bankers' acceptances, bank certificates of deposit, repurchase agreements, and commercial paper.

Performance 10-09-2014

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,524	10,051	10,637	11,686	13,092	16,866
Fund	5.24	0.51	6.37	5.33	5.54	5.37
+/- Barclays US Agg Bond TR USD	0.14	-0.39	1.36	2.36	1.20	0.66
+/- Category	0.47	0.00	1.27	1.42	0.59	0.86
% Rank in Cat	33	57	17	17	30	17
# of Funds in Cat	1,065	1,091	1,049	927	806	573

* Currency is displayed in USD

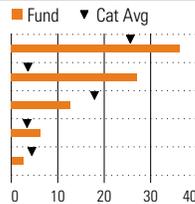
Top Holdings 06-30-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
✳ US Treasury Note 1.5%	1.81	08-31-2018	500.00	502.54
⊕ US Treasury Note 1.5%	1.78	02-28-2019	497.00	496.06
⊕ US Treasury Note 0.625%	1.61	02-15-2017	450.00	448.88
Verizon Comms 6.55%	1.42	09-15-2043	314.35	394.94
⊖ FNMA 4.5%	1.34	08-01-2031	341.80	373.62
% Assets in Top 5 Holdings	7.96			

⊕ Increase ⊖ Decrease ✳ New to Portfolio

Top Sectors 06-30-2014

	Fund	BMark	Cat Avg
Corporate Bond	36.30	—	24.77
Agency MBS Pass-Through	27.01	—	2.72
U.S. Treasury	12.69	—	17.05
Agency MBS CMO	6.32	—	2.52
Asset-Backed	2.55	—	3.55



Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
09-25-2014	13.82	0.0000	0.0000	0.0000	0.0900	0.0900
06-25-2014	13.86	0.0000	0.0000	0.0000	0.1000	0.1000
03-26-2014	13.70	0.0400	0.0000	0.0000	0.1100	0.1500
12-19-2013	13.53	0.0000	0.0000	0.0000	0.1200	0.1200
09-25-2013	13.51	0.0000	0.0000	0.0000	0.1000	0.1000

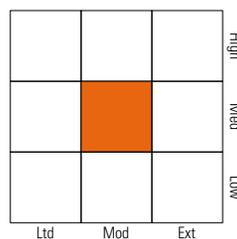
3 Year Average Morningstar Risk Measures



Pillars

Process	⊕ Positive
Performance	⊕ Positive
People	⊕ Positive
Parent	⊕ Positive
Price	⊕ Positive
Rating	★★★★ Gold

Style Map 06-30-2014



Bond Statistics

	Value
Average Effective Duration (Years)	4.33
Average Effective Maturity (Years)	6.99
Average Credit Quality	A
Average Weighted Coupon	5.01
Average Weighted Price	112.24

Asset Allocation

	% Net	% Short	% Long	Bench mark	Cat Avg
Cash	5.42	0.00	5.42	—	6.85
US Stock	0.00	0.00	0.00	—	-0.01
Non US Stock	0.00	0.00	0.00	—	0.08
Bond	93.24	0.00	93.24	—	90.36
Other	1.34	0.01	1.35	—	2.73

Management

	Start Date
Dana M. Emery	01-03-1989
Charles F. Pohl	01-01-1993
Thomas S. Dugan	01-01-1994
Kent E. Radspinner	01-01-1996
Larissa K. Roesch	01-01-1998
James H. Dignan	01-01-2002
Anthony J. Brekke	05-01-2008
Adam S. Rubinson	02-15-2010
Lucinda I. Johns	05-01-2012

Dodge & Cox Income DODIX

Analysis

This fund plays the long game.

By Cara Esser 7/22/2014

For Dodge & Cox Income, patience pays off.

With a three- to five-year investment time horizon, this fund's managers have an eye for the long term. This approach leads to low turnover (typically about a third of the portfolio each year), and the team is willing to be patient with its picks. For example, the fund bought Build America Bonds (taxable municipal bonds) from the struggling state of California in 2009 and 2010. Those positions began to pay off as the state turned around its finances and have been top performers for a few years running.

Patience also positioned the fund well for 2013's rocky bond markets. A longtime stance of shorter-than-average duration helped the fund hold up better than most as yields spiked in the aftermath of the spring's "taper talk." The fund entered 2013 with a duration of about 75% of Barclays US Aggregate Bond Index. Managers increased that duration to about 80% of the index's in the fall of 2013 but brought duration back to about 75% of the Index's as of June 30, 2014.

A focus on income as a component of total returns is apparent in the fund's generally higher-than-average yield (2.5% as of June 30) and its long-standing overweighting to corporates, including a sometimes 10%-plus weighting to junk bonds. As of June 30, the fund held about 10% in junk corporate bonds, but its overall allocation to corporates has dropped over the past year by about 5 percentage points. Within corporates, managers have favored financial names. The fund's typically high corporate stake can hurt the fund in rough credit markets. For example, in 2011, this fund underperformed the index and 80% of its peers.

Over the long haul, though, managers have been more right than wrong. During the trailing 10-year period ended July 15, 2013, the fund's average annual gain of 5.5% topped the index by 68 basis points per year and beat 80% of its intermediate-

term bond peers'. Add in a veteran and well-resourced management team and low expenses and this fund is a keeper. The fund earned an Analyst Rating of Gold.

Process Pillar: Positive

The fund's management team invests with a three- to five-year time horizon, balancing the goal of outperforming the Barclays US Aggregate Bond Index with minimizing the risk of loss over that stretch. They also place an emphasis on income as a driver of total returns. In that vein, they aim to assemble a portfolio that delivers more yield than the index.

The income focus has often resulted in overweightings to agency mortgages and corporate bonds (including a 10%-plus stake in high-yield at times) compared with both the index and the fund's peers. The fund's corporate holdings are where much of its risk resides. Managers concentrate that corporate exposure in around 50 issuers and aren't afraid to take sizable positions in down-trodden names. During the third quarter of 2013, for example, the team added to the fund's stake in Petrobras PBR, the partially state-owned Brazilian oil company. Despite recent weakness in these bonds, the managers remained confident in their investment thesis, citing the company's strategic importance to Brazil and substantial oil reserves.

An often-sizable stake in U.S. government-backed agency mortgages helps to counterbalance credit risk. The team doesn't get fancy with esoteric structured products or currency plays employed by some competitors, though the fund's managers began using a modest amount of Treasury futures to manage duration in mid-2010.

The fund's duration has generally been shorter than that of the Barclay's Aggregate Bond Index since mid-1998. In certain market environments, that position is more pronounced, but the fund doesn't stray too far from home. As of June 30, 2014, the fund's duration of 4.2 years was 75% of the index's, a slight shift from 80% in the fall of 2013.

Morningstar's Take

Morningstar Analyst Rating



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

Fund Performance

	Total Return %	+/- Category
YTD	5.24	0.47
2013	0.64	2.06
2012	7.94	0.93
2011	4.76	-1.10
2010	7.17	-0.55

Dodge & Cox Income DODIX

Analysis

The fund's managers say that low yields and tight credit spreads have made it difficult to find value in credit recently. In that vein, they've pared back financials due to valuation concerns over the last few months. This brought the fund's corporate holdings to 40% from about 45% a year ago. Managers also had about 10% in below investment-grade corporate bonds, which is not unusual for the fund.

Exposure to Treasuries has fallen over the years, even as their representation in the index ballooned, though more recently, the fund upped its (generally short-term) Treasury exposure to 11%, compared with just over 5% in June 2013. The fund's position in mortgage-backed securities remained relatively stable over the past few years at roughly a third of assets. The fund favors 15-year mortgage bonds with high coupons issued before 2008 that are less rate-sensitive relative to recently issued bonds which make up the bulk of the index's exposure.

Performance Pillar: + Positive

The fund's average annual gain of 5.5% over the past decade ended July 15, 2013, topped the Barclays US Aggregate Bond Index by 68 basis points per year and beat 80% of its intermediate-term bond peers. A focus on yield has played a role in the fund's long-term outperformance. The fund's SEC yield of 2.5% as of June 30 was higher than the iShares Core US Aggregate Bond ETF's yield of 2.0%.

Historically, the fund held more than half of its portfolio in corporate bonds, though managers trimmed those holdings recently to about 40%, including a large allocation to banks. As a result, the fund will tend to underperform when negative macroeconomic trends make headlines. Its shorter-than-benchmark duration stance means it will underperform when interest rates fall. For example, in 2011, banks underperformed and yields dropped, causing the fund to underperform the index and 80% of its peers. But, during the so-called "taper tantrum" in the summer of 2013, the fund's

shorter duration helped relative returns and its financial holdings did also well that year. The fund beat the index and more than 90% of its peers that year. For the year to date through July 21, the fund outperformed more than two thirds of its peers.

With an eye toward the long term, the team makes deliberate and early moves that should continue to give this fund an edge.

People Pillar: + Positive

The fund's nine-member investment policy committee, or IPC, is a seasoned group. Its members have between 11 and 31 years of investing experience, and all have spent the bulk of their careers at Dodge & Cox. Veteran manager committee member Robert Thompson plans to retire in 2015 and stepped down from the IPC earlier this year, bringing the number to nine from 10.

A group of 30 industry and regional analysts supports both the stock and bond managers' efforts. The team believes cross-pollination of research helps differentiate the fund because potential borrowers present to both equity and fixed-income teams at the same time and therefore tend to be more open about plans to declare dividends, buy back shares, or make acquisitions. As of March 31, 2014, roughly a dozen of this fund's corporate issuers were also held in the firm's equity portfolios.

To ensure that this fund covers all its bases, a group of 10 corporate bond generalists focus on the nuances of the corporate debt markets, conducting additional downside analysis and assessing individual securities' structure and covenants. Another experienced group of 12 analysts helps run the fund's agency mortgage, government, asset-backed, and taxable muni stakes.

Parent Pillar: + Positive

Employee-owned Dodge & Cox is an exemplary firm. CEO and president Dana Emery and chairman Charles Pohl are also lead members of the investment team and run both the firm and its funds with a long time horizon. The average fund manager tenure of more than 20 years is exceeded by few

companies, and the firm's five-year manager-retention rate is 98%.

There are no stars here; each fund is run collaboratively by an investment policy committee. Ideas can come from anyone but must survive peer review to get into the portfolios. Although the funds have seen outflows in recent years, the firm has continued to build the investment team at a slow-and-steady clip. It now totals more than 55 managers and analysts.

Dodge & Cox has rolled out only six strategies since it first opened in 1931. The most recent is a global fixed-income offering, launched in May 2014; the firm developed its foreign-bond capabilities as a natural extension of its international-equity expertise. While the firm has eschewed marketing, it is among the largest mutual fund companies today. Asset growth can hinder execution, but management has proved willing in the past to safeguard its strategies by closing funds.

Managers are heavily invested in the funds and the firm and have ample incentive to serve shareholders, as evinced by low costs, clear communications, and a sober long-term approach.

Price Pillar: + Positive

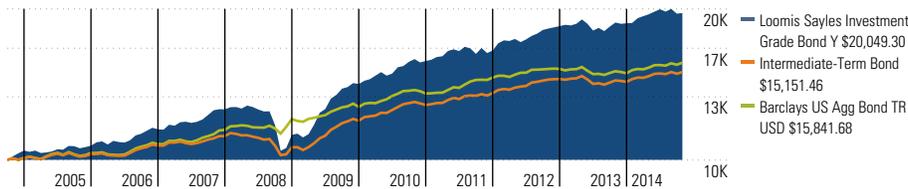
The fund's 0.43% annual expense ratio makes it one of the cheaper options available to no-load investors and represents a significant savings compared with the 0.65% median expense ratio charged by no-load intermediate-term bond peers. That said, the expense ratio has hardly budged even as assets have grown over the past five years. Relative to other options, however, there's very little cause for complaint.

Loomis Sayles Investment Grade Bond Y LSIIX

Morningstar Analyst Rating
Gold

NAV \$	NAV Day Change %	Yield TTM %	Total Assets \$ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
12.12	↓-0.03 -0.25	4.34	10.6	Open	\$100,000	None	0.58%	★★★★★	Intermediate-Term Bond	Large Blend

Growth of 10,000 10-09-2004 - 10-09-2014



Investment Strategy

The investment seeks high total investment return through a combination of current income and capital appreciation. The fund invests at least 80% of its net assets in investment grade fixed-income securities. It may invest up to 10% of its assets in below investment grade fixed-income securities (also known as "junk bonds"). The fund has the flexibility to invest up to 10% of its assets in equity securities (such as common stocks, preferred stocks and investment companies), but will limit its investments in common stocks to 5% of its assets. It may invest in fixed-income securities of any maturity.

Performance 10-09-2014

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,499	9,884	10,676	12,229	14,265	20,049
Fund	4.99	-1.16	6.76	6.94	7.36	7.20
+/- Barclays US Agg Bond TR USD	-0.10	-2.06	1.76	3.96	3.02	2.50
+/- Category	0.22	-1.66	1.67	3.02	2.42	2.70
% Rank in Cat	45	99	12	2	3	1
# of Funds in Cat	1,065	1,091	1,049	927	806	573

* Currency is displayed in USD

Top Holdings 08-31-2014

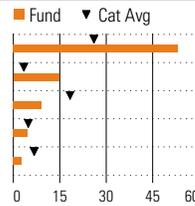
	Weight %	Maturity Date	Amount Mil	Value Mil
Corning Inc	3.55	—	17.55	366.09
US Treasury Note 0.375%	3.40	03-31-2016	350.00	350.21
US Treasury Note 0.375%	2.92	01-31-2016	300.00	300.48
Canada Govt 1%	2.78	08-01-2016	312.41	286.75
Intel Cv 3.25%	2.25	08-01-2039	137.02	231.56

% Assets in Top 5 Holdings 14.90

⊕ Increase ⊖ Decrease ✱ New to Portfolio

Top Sectors 08-31-2014

	Fund	BMark	Cat Avg
Corporate Bond	53.09	—	24.77
Non-U.S. Government	14.73	—	2.10
U.S. Treasury	9.12	—	17.05
Asset-Backed	4.69	—	3.55
Other Government Related	2.69	—	5.46



Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
10-01-2014	12.09	0.0000	0.0000	0.0000	0.0400	0.0400
09-02-2014	12.37	0.0000	0.0000	0.0000	0.0400	0.0400
08-01-2014	12.29	0.0000	0.0000	0.0000	0.0400	0.0400
07-01-2014	12.46	0.0000	0.0000	0.0000	0.0400	0.0400
06-02-2014	12.32	0.0000	0.0000	0.0000	0.0400	0.0400

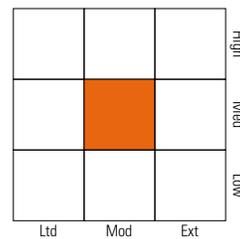
3 Year Average Morningstar Risk Measures



Pillars

Process	⊕ Positive
Performance	⊕ Positive
People	⊕ Positive
Parent	⊖ Neutral
Price	⊖ Neutral
Rating	★★★★★ Gold

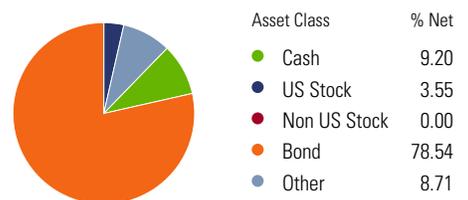
Style Map 08-31-2014



Bond Statistics

	Value
Average Effective Duration (Years)	4.34
Average Effective Maturity (Years)	6.22
Average Credit Quality	BBB
Average Weighted Coupon	5.12
Average Weighted Price	106.49

Asset Allocation



Management

	Start Date
Daniel J. Fuss	12-31-1996
Matthew J. Eagan	09-30-2006
Elaine M. Stokes	09-30-2006
Brian P. Kennedy	02-01-2013

Loomis Sayles Investment Grade Bond Y LSIIX

Analysis

A strong choice for those with the requisite risk tolerance.

By Sarah Bush 8/8/2014

Loomis Sayles Investment Grade Bond may be tame by its family's standards, but it's still got plenty of zing.

This fund is more constrained than its famous sibling Loomis Sayles Bond LSBRX. It typically limits below-investment-grade holdings to 10% of assets and non-U.S. issuers (with no limitation on Canadian exposure) to 20%, and it has a 5% cap on common stock. Still, that leaves the team here plenty of room to maneuver. Midquality BBB rated names typically dominate the portfolio (34% recently, close to double the category norm) and, unlike many dollar-dominated intermediate-term bond funds, the fund makes active use of nondollar bonds (31%, including 13% in the Canadian dollar). Its 4% equity stake stands out in a category where most funds don't hold stocks.

The experienced team of Matt Eagan, Dan Fuss, Elaine Stokes, and Brian Kennedy has put this flexibility to good use and has demonstrated an eye for value. In 2012, the fund benefited from a stake in European corporates built in the rocky market of late 2011 and a position in Irish sovereign debt, added in 2010 near the height of that country's troubles. The fund's credit-sensitive portfolio also held up relatively well in 2013 as yields spiked in the year's so-called taper tantrum, thanks in part to strong performance in its convertibles stake, while its convertibles, financials, and equities exposures all prospered in the first half of 2014. Indeed, the fund's 7.5% annualized gain over the past decade comes out near the top of the intermediate-term bond category; it also looks good relative to Morningstar's corporate-bond category (the fund hovers close to the 65% corporate threshold required for inclusion in this group).

Of course, with such flexibility comes risk. The fund lost 11.4% in 2008, lagging 80% of peers in that year's tumultuous markets; it also fell behind in 2011's rocky third quarter. This limits its appeal

for those in search of a high-quality bond fund that can provide diversification away from the equity markets. However, for those with a long time horizon and the stomach for volatility, this remains a strong choice.

Process Pillar: Positive

This strategy should look familiar to fans of Loomis Sayles Bond. The fund's management team employs a value-driven, credit-intensive approach and is always on the lookout for securities and currencies that it believes are undervalued. The fund is more constrained by prospectus than its famous sibling: It is limited to 10% of assets in below-investment-grade bonds, 20% in non-U.S. issuers (with no limitation on Canadian names), and up to 10% of assets in equities, with a 5% cap on common stock. That said, a number of themes run across this team's portfolios, including an emphasis on midquality corporates and nondollar bonds.

Not surprisingly, there's a strong contrarian bent at work here. For example, the fund loaded up on Ford F debt in 2009 when others predicted bankruptcy, a move that paid off nicely. In late 2011, it added to stakes in battered European corporates amid fears over the long-term survival of the euro; this position rallied nicely in 2012. Such level-headedness when credit markets swoon helps explain the fund's stellar long-term returns, although a penchant for credit and currency risk makes it vulnerable in flights to quality.

Under the leadership of chief investment officer Jae Park, the team has significantly built out its tools and staff dedicated to risk management, and these are integrated into the day-to-day management of the fund.

The team's macroeconomic outlook calls for continued slow growth and an ongoing upward bias to interest rates. That's led to large stakes in midquality corporates--a long-term theme here--and a preference for securities with limited correl-

Morningstar's Take

Morningstar Analyst Rating



Morningstar Pillars

Process	 Positive
Performance	 Positive
People	 Positive
Parent	 Neutral
Price	 Neutral

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

Fund Performance

	Total Return %	+/- Category
YTD	4.99	0.22
2013	1.36	2.78
2012	12.25	5.25
2011	5.08	-0.78
2010	11.52	3.81

Loomis Sayles Investment Grade Bond Y LSIIX

Analysis

ation to interest rates. (The fund's corporate stake falls just on the cusp of the 65% cutoff for inclusion in the corporate-bond category.) As of June 2014, BBB rated bonds stood at 34% of assets, while the fund devoted another 10% of assets to fare rated as below-investment-grade. The team has also built a stake in convertibles (6%) and equities (3.7% concentrated in Corning GLW) that is designed to provide income as well as upside should the economy continue to strengthen. Finally, the team continues to find opportunities in nondollar bonds (31%), including a chunk of corporates.

At the other end of the fund's credit barbell is a relatively modest 7% stake in U.S. Treasuries (up from 4% in December 2013) and a total of 25% in AAA rated securities, including Canadian, Norwegian, and Australian government debt. Canada is a particular favorite across the Loomis Sayles portfolios; the team argues that the name offers both liquidity and strong fundamentals.

The team has grown increasingly cautious on interest rates in recent years, and roughly a third of the portfolio is scheduled to mature in the next three years.

Performance Pillar: + Positive

This portfolio's bargain-hunting, corporate-heavy strategy shines in strong credit markets. That was true in 2009, when stakes in battered cyclical and blue chips like AT&T contributed to a near-category-topping 27% gain. More recently, the portfolio held up relatively well as Treasury yields spiked in 2013, thanks to large slugs of midquality corporates, junk bonds, and a mix of convertibles and equities. And, through the first half of 2014, it benefited from strong performance in its financial corporates, as well as its convertibles and equity exposure. The team's longer-term record is topnotch: Its 7.8% annualized gain over the past decade through July 2014 lands near the top of the intermediate-term bond category and is also competitive relative to the corporate-bond category.

Those heady returns come with risk. The fund typically piles on far more exposure to midquality corporates--and even the occasional troubled sovereign--than does its typical intermediate-term bond peer. That gives it one of the highest correlations to the S&P 500 in its category and leaves it vulnerable to losses when the economy slows or in broad-market flights to quality. The fund's 11.4% loss in 2008 landed it behind 80% of its peers; its 3.2% loss in August and September of 2011 was also one of the worst in the category. That's not to detract from the team's exceptional record, but this fund is probably best paired with a high-quality portfolio.

People Pillar: + Positive

Bond market legend Dan Fuss, who pioneered the fund's benchmark-agnostic approach, remains active at the helm here. He's joined by comanagers Matthew Eagan and Elaine Stokes, both Loomis Sayles veterans who have been portfolio managers of the fund since 2006. Brian Kennedy, a two-decade veteran of the firm, was named as a fourth comanager in February 2013. A 40-plus person credit team, as well as dedicated sovereign and macro researchers, supports the portfolio managers. Although comanager Kathleen Gaffney's 2012 departure for Eaton Vance was definitely a loss, there's a strong team remaining.

Under CIO Jae Park, Loomis Sayles has also invested significantly in the other resources backing this group, including the expansion of the firm's risk-management, as well as securitized-asset and macroeconomic research capabilities. Park has also established a committee structure to help fuel the firm's fixed-income teams' macroeconomic views, asset allocation, and yield-curve positioning. Working together with the portfolio managers, senior-level strategists assigned to each fund share responsibility for funneling investment ideas into the portfolio. The firm has built out the strategist group, and, in early 2014, hired Brian Hess from Brandywine Global Investment Management to serve as an emerging-markets strategist.

Parent Pillar: ○ Neutral

Paris-based Natixis Global Asset Management is the parent to Boston-based Loomis Sayles and Chicago-based Harris Associates, as well as a handful of other asset managers, including the Gateway and ASG funds. The company brings together in one organization a large number of affiliated companies that were acquired gradually and that retain considerable independence, both from an operational point of view and in management philosophy.

The investment results and culture vary considerably depending on the affiliated company involved. For example, Loomis Sayles has built a strong reputation based on the firm's well-regarded fixed-income operation and its vice chairman, Dan Fuss, who has capably led Loomis Sayles Bond the past 20 years. And, under CIO Jae Park, the firm has deepened its investment staff and resources to prepare for a post-Fuss era.

However, the firm's record in Europe and Asia is not as strong. Management charges applied to products aimed at Europe- and Asia-based investors are much higher than those on the other side of the Atlantic. Also, the results observed from Absolute Asia AM and Natixis AM are much more mixed. Furthermore, Natixis AM could do more to look after investors' interests, particularly by giving them better information on the strategies used and the securities held in the portfolio.

Price Pillar: ○ Neutral

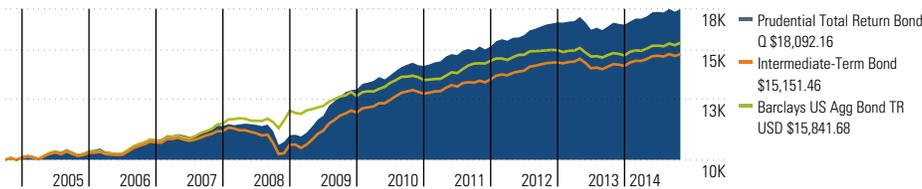
Expenses on this fund's institutional Y shares (about 63% of assets) stand at 58 basis points, landing them a shade above the median for similarly structured share classes. The 83-basis-point levy on the fund's A shares (21% of assets) receive a Morningstar Fee Level rating of Below Average, while the 1.58% fee on the C shares (16% of assets) rank as Average.

Prudential Total Return Bond Q PTRQX

Morningstar Analyst Rating

NAV \$	NAV Day Change %	Yield TTM %	Total Assets \$ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
14.46	↓0.00 0.00	3.78	4.2	Open	—	None	0.52%	★★★★★	Intermediate-Term Bond	

Growth of 10,000 10-09-2004 - 10-09-2014



3 Year Average Morningstar Risk Measures



Investment Strategy

The investment seeks total return. The fund normally invests at least 80% of the investable assets in bonds, which include all fixed-income securities, other than preferred stock, with a maturity at date of issue of greater than one year. It may invest up to 50% of investable assets in high risk, below investment-grade securities having a rating not lower than CCC-also known as high-yield debt securities or junk bonds. The fund may invest up to 45% of investable assets in foreign debt securities.

Pillars

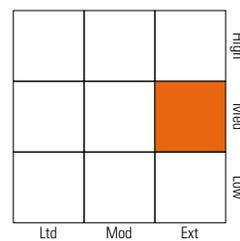
Process	—	—
Performance	—	—
People	—	—
Parent	—	—
Price	—	—
Rating	—	—

Performance 10-09-2014

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,636	10,070	10,695	11,852	14,081	18,092
Fund	6.36	0.70	6.95	5.83	7.08	6.11
+/- Barclays US Agg Bond TR USD	1.26	-0.20	1.95	2.86	2.75	1.40
+/- Category	1.59	0.20	1.86	1.91	2.14	1.60
% Rank in Cat	6	28	10	9	—	—
# of Funds in Cat	1,065	1,091	1,049	927	806	573

* Currency is displayed in USD

Style Map 06-30-2014



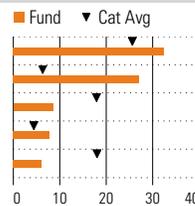
Top Holdings 08-31-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
✳ 5 Year US Treasury Note Future Dec14	9.69	12-31-2014	0.00	442.66
✳ NYSE/Liffe 10 Year US Treasury Note Future Dec14	-4.39	12-29-2014	0.00	-200.50
⊖ NYSE/Liffe 10 Year US Treasury Note Future Sept14	3.88	09-26-2014	0.00	177.24
✳ Us Ultra Bond Fut Dec14	3.56	12-19-2014	0.00	162.81
⊖ 5 Year US Treasury Note Future Sept14	3.01	09-30-2014	0.00	137.32
% Assets in Top 5 Holdings	15.75			

⊕ Increase ⊖ Decrease ✳ New to Portfolio

Top Sectors 08-31-2014

	Fund	BMark	Cat Avg
Corporate Bond	32.43	—	24.77
Other Government Related	27.01	—	5.46
U.S. Treasury	8.57	—	17.05
Asset-Backed	7.85	—	3.55
Commercial MBS	6.02	—	17.17



Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
09-30-2014	14.32	0.0000	0.0000	0.0000	0.0400	0.0400
08-29-2014	14.52	0.0000	0.0000	0.0000	0.0500	0.0500
07-31-2014	14.36	0.0000	0.0000	0.0000	0.0400	0.0400
06-30-2014	14.44	0.0000	0.0000	0.0000	0.0400	0.0400
05-30-2014	14.46	0.0000	0.0000	0.0000	0.0500	0.0500

Bond Statistics

	Value
Average Effective Duration (Years)	6.20
Average Effective Maturity (Years)	—
Average Credit Quality	BBB
Average Weighted Coupon	4.15
Average Weighted Price	—

Asset Allocation

	% Net	% Short	% Long	Bench mark	Cat Avg
● Cash	3.10	1.19	4.29	—	6.85
● US Stock	0.00	0.00	0.00	—	-0.01
● Non US Stock	0.00	0.00	0.00	—	0.08
● Bond	95.66	16.81	112.47	—	90.36
● Other	1.25	0.28	1.53	—	2.73

Management

	Start Date
Robert Tipp	10-30-2002
Michael J. Collins	11-18-2009
Richard Piccirillo	12-31-2012
Gregory Peters	03-05-2014

Prudential Total Return Bond Q PTRQX

Analysis

Morningstar's Take

Morningstar Analyst Rating —

Morningstar Pillars

Process	—	—
Performance	—	—
People	—	—
Parent	—	—
Price	—	—

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



Fund Performance

	Total Return %	+/- Category
YTD	6.36	1.59
2013	-0.91	0.51
2012	9.96	2.95
2011	7.93	2.07

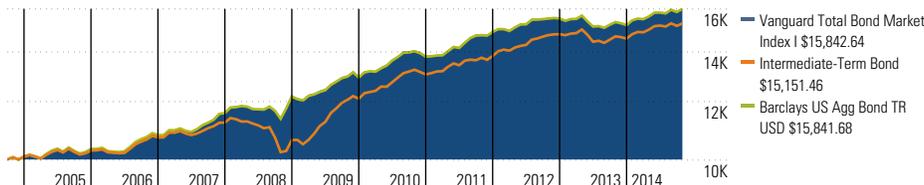
We do not currently publish an Analyst Report for this company.

Vanguard Total Bond Market Index I VBTIX

Morningstar Analyst Rating
Silver

NAV \$	NAV Day Change %	Yield TTM %	Total Assets \$ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
10.87	↓-0.01 -0.09	2.62	124.2	Open	\$5	None	0.07%	★★★	Intermediate-Term Bond	

Growth of 10,000 10-09-2004 - 10-09-2014



3 Year Average Morningstar Risk Measures



Investment Strategy

The investment seeks the performance of a broad, market-weighted bond index. The fund employs an indexing investment approach designed to track the performance of the Barclays U.S. Aggregate Float Adjusted Index. This index represents a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States-including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities-all with maturities of more than 1 year. All of the fund's investments will be selected through the sampling process, and at least 80% of the fund's assets will be invested in bonds held in the index.

Performance 10-09-2014

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,504	10,086	10,497	10,896	12,318	15,843
Fund	5.04	0.86	4.97	2.90	4.26	4.71
+/- Barclays US Agg Bond TR USD	-0.05	-0.04	-0.04	-0.07	-0.08	0.00
+/- Category	0.27	0.36	-0.13	-1.01	-0.68	0.20
% Rank in Cat	42	6	56	77	73	44
# of Funds in Cat	1,065	1,091	1,049	927	806	573

* Currency is displayed in USD

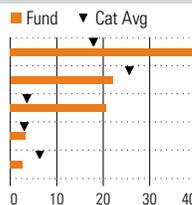
Top Holdings 08-31-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
US Treasury Note 0.375%	0.63	11-15-2015	805.95	807.72
US Treasury Note 0.25%	0.57	02-29-2016	732.05	731.48
GNMA	0.54	—	651.36	693.59
US Treasury Note 3.625%	0.54	08-15-2019	629.47	689.17
US Treasury Note 1.5%	0.52	08-31-2018	664.43	667.34
% Assets in Top 5 Holdings	2.81			

⊕ Increase ⊖ Decrease ✱ New to Portfolio

Top Sectors 08-31-2014

	Fund	BMark	Cat Avg
U.S. Treasury	39.75	—	17.05
Corporate Bond	22.01	—	24.77
Agency MBS Pass-Through	20.69	—	2.72
U.S. Agency	3.24	—	2.14
Other Government Related	2.64	—	5.46



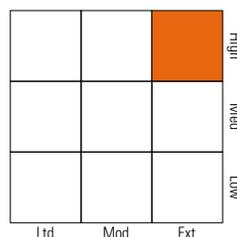
Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
09-30-2014	10.78	0.0000	0.0000	0.0000	0.0200	0.0200
08-29-2014	10.88	0.0000	0.0000	0.0000	0.0200	0.0200
07-31-2014	10.78	0.0000	0.0000	0.0000	0.0200	0.0200
06-30-2014	10.83	0.0000	0.0000	0.0000	0.0200	0.0200
05-30-2014	10.84	0.0000	0.0000	0.0000	0.0200	0.0200

Pillars

Process	⊕ Positive
Performance	⊖ Neutral
People	⊕ Positive
Parent	⊕ Positive
Price	⊕ Positive
Rating	Silver

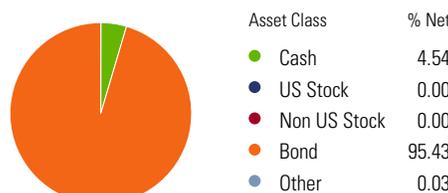
Style Map 06-30-2014



Bond Statistics

	Value
Average Effective Duration (Years)	5.60
Average Effective Maturity (Years)	7.70
Average Credit Quality	AA
Average Weighted Coupon	3.56
Average Weighted Price	107.53

Asset Allocation



Management

Joshua C. Barrickman Start Date 02-22-2013

Vanguard Total Bond Market Index I VBTIX

Analysis

This fund offers representative exposure to the U.S. investment-grade bond market.

By Thomas Boccellari 7/24/2014

Vanguard Total Bond Market Index's rock-bottom fees make it an excellent core fixed-income holding.

This fund targets investment-grade government, corporate, and securitized bonds that are denominated in U.S. dollars and weights its holdings by float-adjusted market capitalization. As a result, the portfolio skews heavily toward government and securitized bonds, which account for about 70% of the portfolio, much greater than the intermediate-bond category average. This gives the fund a higher-quality portfolio. The average credit rating of its holdings is AA, which is higher than its peers' (BBB). While that may help the fund hold up better during tough economic climates, it also results in lower expected returns. Further, the fund's duration of 5.6 years is longer than the intermediate-bond category average (4.9 years). This could hurt the fund's relative performance in a period of rising interest rates.

Low fees give this fund a sustainable edge. The fund charges a rock-bottom 0.08% expense ratio, while the median fund in the category charges 0.65%. In a low-interest-rate environment, it may be especially difficult for more-expensive funds to overcome this cost hurdle. The fund's float-adjusted market-cap-weighting approach also helps reduce transaction costs because it tilts the portfolio toward the most-liquid issues, which tend to be cheapest to trade.

Over the past decade, the fund landed in the middle of its category. Its cost advantage was offset by the lower return it earned on its higher-quality bonds. However, this quality tilt has helped the fund hold up better during economic slow-downs. For instance, in 2008, the fund had greater returns (5.2%) than the intermediate-bond category (negative 3.3%).

While this fund is still a compelling option, we are

downgrading it to a Morningstar Analyst Rating of Silver from Gold. The fund's longer-than-average duration may be a disadvantage if interest rates rise faster than expected. Heavy exposure to government-backed bonds may also put the fund at a disadvantage over the long run, as these bonds tend to offer lower yields.

Process Pillar: Positive

The fund attempts to replicate the performance of the Barclays Capital U.S. Aggregate Float Adjusted Index, a broad proxy for the investment-grade U.S. bond market. This index includes investment-grade corporate, government, and agency debt denominated in U.S. dollars. However, it excludes agency and mortgage-backed securities held by the Fed. The index weights its holdings by float-adjusted market cap and is rebalanced monthly. The fund does not hold every security in the benchmark, but instead carefully replicates the index's key characteristics, such as duration and credit quality.

When the fund was launched in 1992, it initially attempted to boost its returns by holding a higher percentage of short-term corporate bonds and asset-backed securities and fewer short-term Treasuries than did its index. This tack backfired in 2002 when concerns about corporate misdeeds disrupted the credit market and caused the fund to trail its index by 1.9 percentage points. In response to that poor performance, Vanguard improved its process and ended that substitution strategy. The managers now implement stricter controls, such as narrower limits for the fund's sector and industry weightings relative to its benchmark. The fund's tight tracking error since then suggests those efforts have worked well.

The fund's credit, sector, and interest-rate profile match the Barclays Capital U.S. Aggregate Float Adjusted Index, leading the portfolio to carry more high-quality bonds and U.S. government-related debt than the intermediate-term category average. Lately, that's meant the fund has roughly 70% of its assets in U.S. government-related debt, such as Treasuries, agency debentures, and agency MBS. That exposure largely explains the fund's 70%

Morningstar's Take

Morningstar Analyst Rating



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



Fund Performance

	Total Return %	+/- Category
YTD	5.04	0.27
2013	-2.14	-0.71
2012	4.18	-2.83
2011	7.72	1.86
2010	6.58	-1.14

Vanguard Total Bond Market Index I VBTIX

Analysis

stake in bonds rated AAA, while its typical category peer has 50% of assets parked in AAA bonds. In addition, the fund's 5.6 year duration is slightly longer than the category average of 4.9 years, meaning the fund is more sensitive to interest-rate changes.

Most intermediate-bond funds use the Barclays Capital U.S. Aggregate Bond Index as a benchmark. In July 2010, this fund switched to the float-adjusted version of that bogy, which excludes securities held by the Federal Reserve, such as Treasuries and agency mortgages. After the Fed purchased agency MBS in 2009 and 2010, for instance, the float-adjusted index now holds just 25% in agency mortgages versus the non-float-adjusted benchmark's 28%, which also results in a slightly higher duration. Differences between the two indexes are still small. However, the new benchmark offers better liquidity, which could make it easier to track.

Performance Pillar: ○ Neutral

While the fund's float-adjusted index has only outperformed its non-float-adjusted counterpart by 0.06% annualized, the increased liquidity has helped reduce tracking error. Since the switch in July 2010, tracking error has been low.

Because the fund has greater exposure to government bonds than the intermediate-bond category average, it tends to outperform when credit spreads widen, which often occurs during times of market stress. During 2008's credit crisis, the fund's hefty stake in high-quality bonds helped it gain 5.2%, topping more than 80% of its peers. However, during the ensuing rally in 2009, the fund lagged 85% of its competitors. Over the past five years, the fund has underperformed its category average by 1.28% primarily because of its longer-than-average duration and greater exposure to government bonds, which sport lower yields.

The fund's five-year standard deviation of returns (2.9%) is less than the intermediate-bond category average (3.2%). However, it generated less attractive risk-adjusted performance than the cat-

egory average during that time. Over the past 10 years, however, the fund landed in the middle of its category, outperforming the category average by 0.13% annualized while providing similar risk-adjusted returns.

People Pillar: ⊕ Positive

Joshua Barrickman was named as manager in 2013. Barrickman has worked in investment management at Vanguard since 1999 and managed investment portfolios there since 2005. Barrickman was promoted to head of Vanguard's Bond Index Group in 2013. While Barrickman does not have an investment in the fund, Vanguard aligns managers' incentives with investors' by tying compensation to operational efficiency. The index team consists of six portfolio managers and six traders, and it runs all of Vanguard's fixed-income index funds, including Vanguard Short-Term Bond Index VBISX, Vanguard Intermediate-Term Bond Index VBIIX, and Vanguard Long-Term Bond Index VBLTX.

It isn't practical for bond index funds to own all the securities in their benchmarks, so the managers must construct a subset that reflects the key attributes of the index. As a result, manager skill and experience play an important role in a fund's ability to track its index. Vanguard has one of the most-seasoned index teams in the industry and has compiled a strong long-term record of keeping pace with the funds' respective benchmarks.

Parent Pillar: ⊕ Positive

Vanguard has become one of the largest money managers by giving fund owners a fair deal and straight talk--and by providing strong performance overall.

The source of Vanguard's competitive advantage and the foundation of its culture is its mutual ownership structure. In the United States, the family's fund shareholders own Vanguard through their funds, which compels the firm to operate at cost, rather than for profit, and put investors' interests first. It also boasts traits that foster stewardship, such as above-average manager retention, a strong compliance culture, and an independent board.

Vanguard looks out for fund owners in many ways. It shares the economies of its scale via lower fees; has closed actively managed funds when inflows have jeopardized strategies; publishes clear and concise shareholder reports, investing education, commentary, and research; and avoids trendy fund launches.

The family didn't get to the top on altruism alone, though. It has aggressively expanded its lineup--especially exchange-traded funds--and assertively advertised its wares in recent years. And it has been moving into a handful of markets overseas, with more expansion to come. Still, Vanguard improves the global fund industry by inciting price competition. If it remembers its roots as it spreads its branches, Vanguard will remain a reliable steward.

Price Pillar: ⊕ Positive

The Admiral shares have a 0.08% expense ratio, making this fund one of the cheapest in the intermediate-term bond category. For investors looking to invest less than the \$10,000 Admiral share class minimum, the Investor share class also charges an attractive fee (0.20%) with a lower investment minimum (\$3,000). Vanguard's exchange-traded version of this fund charges the same 0.08% fee as the Admiral share class and does not have an investment minimum.