State of Montana

Core Fixed-Income Mutual Fund Search

As of December 31, 2014

Presented by:
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Introduction

Bill Gross, the co-founder of PIMCO and portfolio manager of the PIMCO Total Return Fund, announced on September 26, 2014, that he would be leaving PIMCO to join Janus Capital Management. Later that day, PIMCO confirmed that Dan Ivascyn would become PIMCO's Group CIO effective immediately. The Total Return Fund is now managed by three portfolio managers (Scott Mather, Mark Kiesel, and Mihir Worah). Due to the departure of Bill Gross from PIMCO, concerns related to the size and speed of client outflows, departures of some other senior investment professionals, and organizational changes within the firm, Buck issued a recommendation to all clients in the U.S. to sell the Total Return Fund.

The Total Return fund has experienced monthly outflows continuously since the second quarter of 2013. From January 1, 2013, through December 31, 2014 the fund has had over $145 billion in outflows, with approximately $80 billion in outflows occurring since the announcement of Mr. Gross's departure. The rate of client outflows appears to have slowed with $9.5 billion leaving the fund during November and $19.4 billion during December, down from approximately $25 billion per month in September and October. PIMCO has also announced that it has re-hired several senior investment professionals who had recently left the firm.

This report provides a side-by-side comparison of alternative intermediate bond funds for the Committee's consideration. The Committee has a large number of options available including:

1) Retain PIMCO Total Return
2) Defer any decision to a future meeting
3) Place PIMCO Total Return on the Watch List
4) Replace PIMCO Total Return with an alternative fund
5) Retain PIMCO Total Return and add an additional intermediate term bond fund to the plan's investment menu

Buck recommends removing PIMCO Total Return from the plan and replacing it with Loomis Sayles Core Plus N.

Range of Investment Options
457 Plan

Lower Expected Risk/ Lower Expected Return → **Higher Expected Risk/ Higher Expected Return**

Stable Value
1. State of Montana Stable Value

Fixed Income/ Bond
1. PIMCO Total Return Adm
2. Neuberger Berman High Income Bond Inv

Target Date/ Balanced
1. Vanguard Balanced Idx I
2. T. Rowe Price Retirement Series (12)

Domestic Equity

	Value	Blend	Growth
Large	Large Value: 1. Vanguard Equity Income Adm	Large Blend: 1. Vanguard Instl Idx I	Large Growth: 1. Fidelity Contrafund; 2. Calvert Equity A*
Mid	Mid Value: 1. MFS Mid Cap Value R5	Mid Blend	Mid Growth: 1. Munder Mid Cap Core Growth A
Small	Small Value: 1. Neuberger Berman Genesis Tr	Small Blend: 1. Vanguard Small Cap Idx Adm	Small Growth: 1. Vanguard Small Cap Growth Idx Inv

Global/ Int'l Equity
1. American Funds New Perspective R4
2. Franklin Mutual Global Discovery Z
3. Artisan Intl Inv
4. Dodge & Cox Intl Stock
5. Oppenheimer Developing Mkts Y

Other

*SRI investment option

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Range of Investment Options
401(a) Plan

Lower Expected Risk/ Lower Expected Return → **Higher Expected Risk/ Higher Expected Return**

Stable Value

1. State of Montana Stable Value

Fixed Income/ Bond

1. Prudential Total Return Bond Q

Target Date/ Balanced

1. Vanguard Balanced Idx I
2. T. Rowe Price Retirement Series (12)

Domestic Equity

Large Value	Large Blend	Large Growth
1. Vanguard Equity Income Adm	1. JPMorgan US Equity R5 2. BlackRock Equity Idx - Collective F	1. Alger Capital Appreciation Z

Mid Value	Mid Blend	Mid Growth
1. MFS Mid Cap Value R5		1. Munder Mid Cap Core Growth A

Small Value	Small Blend	Small Growth
1. Target Small Cap Value T	1. Vanguard Small Cap Idx Adm	1. Vanguard Small Cap Growth Idx Inv

Global/ Int'l Equity

1. American Funds New Perspective A
2. Oakmark Intl I
3. Vanguard Total Intl Stock Idx Inv
4. Oppenheimer Developing Mkts Y

Other

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Asset Allocation
457 Plan

As of December 31, 2014

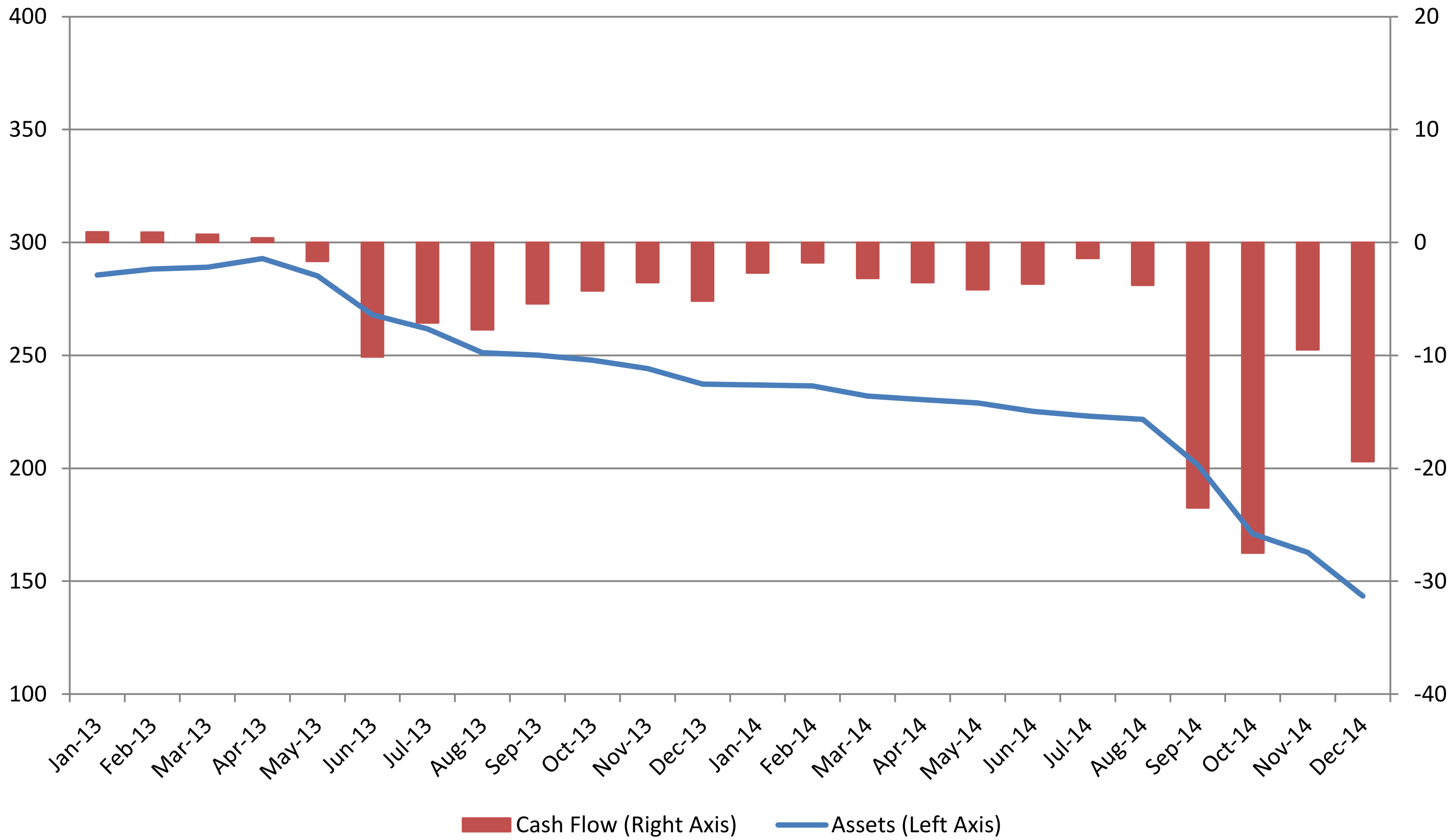
# of Options	Options	Plan Assets	% of Plan	# of Participants
1	**State of Montana Stable Value**	**$231,109,664**	**53.6%**	6,096
	Total Stable Value Funds	**$231,109,664**	**54%**	
2	PIMCO Total Return Adm	$6,662,987	1.5%	1,761
	Neuberger Berman High Income Bond Inv	$3,289,329	<1%	572
	Total Bond Funds	**$9,952,317**	**2%**	
13	**Vanguard Balanced Index I**	**$17,566,170**	**4.1%**	1,681
	T. Rowe Price Retirement Balanced	$560,714	<1%	50
	T. Rowe Price Retirement 2005	$258,640	<1%	35
	T. Rowe Price Retirement 2010	$1,117,879	<1%	88
	T. Rowe Price Retirement 2015	$2,301,890	<1%	174
	T. Rowe Price Retirement 2020	$6,840,350	1.6%	335
	T. Rowe Price Retirement 2025	$3,520,536	<1%	343
	T. Rowe Price Retirement 2030	$2,127,432	<1%	323
	T. Rowe Price Retirement 2035	$1,672,356	<1%	338
	T. Rowe Price Retirement 2040	$1,142,842	<1%	291
	T. Rowe Price Retirement 2045	$525,523	<1%	198
	T. Rowe Price Retirement 2050	$182,466	<1%	81
	T. Rowe Price Retirement 2055	$257,067	<1%	52
	Total Target Date/Balanced Funds	**$38,073,867**	**9%**	
9	Vanguard Equity-Income Adm	$14,706,047	3.4%	1,221
	Vanguard Institutional Index I	**$27,241,116**	**6.3%**	2,333
	Fidelity Contrafund	**$29,738,274**	**6.9%**	1,922
	Calvert Equity A	$2,166,514	<1%	306
	MFS Mid Cap Value R5	$5,722,759	1.3%	735
	Munder Mid-Cap Core Growth A	$10,134,626	2.3%	1,865
	Neuberger Berman Genesis Tr	**$12,865,266**	**3.0%**	2,002
	Vanguard Small Cap Index Adm	$5,621,990	1.3%	532
	Vanguard Small Cap Growth Index Inv	$8,373,448	1.9%	1,132
	Total U.S. Equity Funds	**$116,570,039**	**27%**	
5	American Funds New Perspective R4	$10,881,744	2.5%	1,203
	Franklin Mutual Global Discovery Z	$10,003,371	2.3%	900
	Artisan International Inv	$3,127,073	<1%	558
	Dodge & Cox International Stock	$11,192,297	2.6%	1,761
	Oppenheimer Developing Markets Y	$499,039	<1%	166
	Total International Equity Funds	**$35,703,523**	**8%**	
	TOTAL	**$431,409,409**		

Asset Allocation
401(a) Plan
As of December 31, 2014

# of Options	Options	Plan Assets	% of Plan	# of Participants
1	State of Montana Stable Value	$10,338,390	7.6%	386
	Total Stable Value Funds	**$10,338,390**	**8%**	
1	Prudential Total Return Bond Q	$2,413,076	1.8%	370
	Total Bond Funds	**$2,413,076**	**2%**	
13	Vanguard Balanced Index I	$59,893,926	44.3%	1,690
	T. Rowe Price Retirement Balanced	$49,214	<1%	14
	T. Rowe Price Retirement 2005	$287,818	<1%	51
	T. Rowe Price Retirement 2010	$101,128	<1%	13
	T. Rowe Price Retirement 2015	$386,104	<1%	42
	T. Rowe Price Retirement 2020	$661,098	<1%	75
	T. Rowe Price Retirement 2025	$1,563,670	1.2%	102
	T. Rowe Price Retirement 2030	$1,389,959	1.0%	93
	T. Rowe Price Retirement 2035	$2,123,952	1.6%	131
	T. Rowe Price Retirement 2040	$1,267,094	<1%	123
	T. Rowe Price Retirement 2045	$1,687,637	1.2%	166
	T. Rowe Price Retirement 2050	$1,387,122	1.0%	143
	T. Rowe Price Retirement 2055	$739,545	<1%	91
	Total Target Date/Balanced Funds	**$71,538,266**	**53%**	
9	Vanguard Equity-Income Adm	$6,522,631	4.8%	431
	BlackRock Equity Idx - Collective F	$2,166,113	1.6%	194
	JPMorgan US Equity R5	$2,851,472	2.1%	251
	Alger Capital Appreciation Z	$8,295,534	6.1%	486
	MFS Mid Cap Value R5	$5,214,746	3.9%	465
	Munder Mid-Cap Core Growth A	$3,787,125	2.8%	374
	Target Small Capitalization Value T	$3,260,054	2.4%	333
	Vanguard Small Cap Index Adm	$3,878,935	2.9%	355
	Vanguard Small Cap Growth Index Inv	$4,263,583	3.2%	400
	Total U.S. Equity Funds	**$40,240,191**	**30%**	
4	American Funds New Perspective A	$5,260,156	3.9%	462
	Oakmark International I	$4,013,333	3.0%	418
	Vanguard Total Intl Stock Index Inv	$1,127,036	<1%	202
	Oppenheimer Developing Markets Y	$409,430	<1%	86
	Total International Equity Funds	**$10,809,956**	**8%**	
	TOTAL	**$135,339,879**		

PIMCO Total Return Cash Flows (in $ Billions)

As of December 31, 2014



PIMCO Total Return Cash Flows

As of December 31, 2014

PIMCO Total Return	(in $ Millions)			
Month Ending		Assets		Cash Flow
1/31/2013	$	285,603	$	919
2/28/2013	$	288,211	$	891
3/31/2013	$	289,086	$	723
4/30/2013	$	292,876	$	400
5/31/2013	$	285,162	$	(1,678)
6/30/2013	$	267,997	$	(10,131)
7/31/2013	$	261,734	$	(7,108)
8/31/2013	$	251,105	$	(7,739)
9/30/2013	$	250,051	$	(5,437)
10/31/2013	$	247,863	$	(4,275)
11/30/2013	$	244,095	$	(3,554)
12/31/2013	$	237,264	$	(5,182)
1/31/2014	$	236,929	$	(2,698)
2/28/2014	$	236,464	$	(1,786)
3/31/2014	$	231,917	$	(3,165)
4/30/2014	$	230,431	$	(3,553)
5/31/2014	$	228,927	$	(4,179)
6/30/2014	$	225,216	$	(3,666)
7/31/2014	$	223,132	$	(1,398)
8/31/2014	$	221,611	$	(3,779)
9/30/2014	$	201,585	$	(23,495)
10/31/2014	$	170,899	$	(27,500)
11/30/2014	$	162,800	$	(9,500)
12/31/2014	$	143,400	$	(19,400)

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 Core Plus Bond N	25%	0%	10%	0%
Metropolitan West Total Return Bond I	20%	-	-	-
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.

Net-of-Fee Total Returns

As of December 31, 2014

Fund/Benchmark	YTD 1/8/15	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Expense Ratio
		(periods longer than 1 year are annualized)						
PIMCO Total Return Instl	**0.87**	**1.32**	**4.69**	**4.69**	**4.26**	**5.14**	**5.99**	**0.46**
Dodge & Cox Income	**0.36**	**0.89**	**5.48**	**5.48**	**4.64**	**5.17**	**5.28**	**0.43**
Loomis Sayles Core Plus Bond N	**0.61**	**0.33**	**6.39**	**6.39**	**5.63**	**6.97**	**6.38**	**0.44**
Metropolitan West Total Return Bond I	**0.58**	**1.57**	**5.99**	**5.99**	**5.91**	**6.96**	**6.69**	**0.45**
Prudential Total Return Bond Q	**0.76**	**1.91**	**7.25**	**7.25**	**5.33**	**6.71**	**6.06**	**0.46**
Vanguard Total Bond Market Index I	**0.69**	**1.73**	**5.90**	**5.90**	**2.59**	**4.39**	**4.72**	**0.07**
Barclays US Agg Bond	0.68	1.79	5.97	5.97	2.66	4.45	4.71	-
Avg Intermediate-Term Bond	0.54	1.11	5.18	5.18	3.38	4.78	4.41	0.89

Green indicates fund outperformed both benchmarks

Blue indicates fund performed between benchmarks

Red indicates fund underperformed both benchmarks

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Risk Analytics

As of December 31, 2014

Fund/Benchmark	Upside/Downside Capture Ratio Up - 3 Yr	Down	Up - 5 Yr	Down	Up - 10 Yr	Down	Standard Deviation 3 Yr	5 Yr	10 Yr
PIMCO Total Return Instl	**139**	**118**	**116**	**118**	**119**	**103**	**3.63**	**3.58**	**3.93**
Dodge & Cox Income	**109**	**40**	**94**	**44**	**96**	**67**	**2.47**	**2.48**	**3.73**
Loomis Sayles Core Plus Bond N	**162**	**111**	**141**	**108**	**132**	**126**	**4.21**	**3.98**	**4.99**
Metropolitan West Total Return Bond I	**138**	**50**	**125**	**58**	**116**	**68**	**2.84**	**2.93**	**3.47**
Prudential Total Return Bond Q	**153**	**104**	**136**	**104**	**121**	**107**	**3.72**	**3.61**	**4.11**
Vanguard Total Bond Market Index I	**100**	**103**	**101**	**105**	**101**	**102**	**2.69**	**2.76**	**3.28**
Barclays US Agg Bond	-	-	-	-	-	-	2.67	2.69	3.22
Avg Intermediate-Term Bond	107	87	102	89	97	104	2.85	2.87	3.87

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

Annual Net-of-Fee Total Returns

Fund/Benchmark	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
PIMCO Total Return Instl	**4.69**	**-1.92**	**10.36**	**4.16**	**8.83**	**13.83**	**4.82**	**9.07**	**3.99**	**2.89**
Dodge & Cox Income	**5.48**	**0.64**	**7.94**	**4.76**	**7.17**	**16.05**	**-0.29**	**4.68**	**5.30**	**1.98**
Loomis Sayles Core Plus Bond N	**6.39**	**-0.49**	**11.31**	**7.68**	**10.35**	**16.62**	**0.61**	**6.06**	**5.34**	**1.10**
Metropolitan West Total Return Bond I	**5.99**	**0.50**	**11.54**	**5.52**	**11.65**	**17.30**	**-1.28**	**6.48**	**7.21**	**3.31**
Prudential Total Return Bond Q	**6.96**	**-0.91**	**9.96**	**7.93**	**9.73**	**19.68**	**-3.55**	**5.42**	**4.39**	**2.45**
Vanguard Total Bond Market Index I	**5.90**	**-2.14**	**4.18**	**7.72**	**6.58**	**6.09**	**5.19**	**7.05**	**4.40**	**2.53**
Barclays US Agg Bond	5.97	-2.02	4.21	7.84	6.54	5.93	5.24	6.97	4.33	2.43
Avg Intermediate-Term Bond	5.16	-1.42	7.01	5.86	7.72	13.97	-4.70	4.70	4.15	1.80

Green indicates fund outperformed both benchmarks

Blue indicates fund performed between benchmarks

Red indicates fund underperformed both benchmarks

Peer Group Rankings

As of December 31, 2014

Fund Name	Morningstar Category	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
PIMCO Total Return Instl	Intermediate-Term Bond	44	71	71	22	37	4
Dodge & Cox Income	Intermediate-Term Bond	73	48	48	16	36	16
Loomis Sayles Core Plus Bond N	Intermediate-Term Bond	90	16	16	5	3	2
Metropolitan West Total Return Bond I	Intermediate-Term Bond	20	26	26	3	3	1
Prudential Total Return Bond Q	Intermediate-Term Bond	15	7	7	8	5	4
Vanguard Total Bond Market Index I	Intermediate-Term Bond	8	29	29	75	67	42

Credit Quality

Fund/Benchmark	# of Holdings	YTM	Average Duration	Average Maturity	Average Credit Quality
PIMCO Total Return Instl	**5,964**	**3.29**	**5.68**	**8.35**	**A**
Dodge & Cox Income	**797**	**2.32**	**4.20**	**7.20**	**A**
Loomis Sayles Core Plus Bond N	**391**	**3.76**	**5.54**	**7.94**	**A-**
Prudential Total Return Bond Q	**1,324**	**3.67**	**5.90**	**8.30**	**BBB**
Metropolitan West Total Return Bond I	**1,399**	**-**	**4.63**	**8.67**	**-**
Vanguard Total Bond Market Index I	**6,730**	**2.11**	**5.70**	**7.80**	**AA**
Avg Intermediate-Term Bond	784	-	4.85	6.65	BBB

Fund/Benchmark	AAA/ AA	A	BBB	BB	B	Below B	Not Rated/ Cash/ Other
PIMCO Total Return Instl	**43**	**15**	**30**	**5**	**3**	**4**	**0**
Dodge & Cox Income	**50**	**11**	**26**	**8**	**2**	**0**	**3**
Loomis Sayles Core Plus Bond N	**37**	**16**	**25**	**17**	**3**	**0**	**2**
Prudential Total Return Bond Q	**43**	**18**	**20**	**14**	**5**	**0**	**1**
Metropolitan West Total Return Bond I	**73**	**9**	**7**	**3**	**1**	**7**	**0**
Vanguard Total Bond Market Index I	**73**	**13**	**14**	**0**	**0**	**0**	**0**
Avg Intermediate-Term Bond	60	16	18	3	1	1	1

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 Core Plus Bond N	13.0%	3.6%		10.6%		31.0%	18.9%	9.0%
Metropolitan West Total Return Bond I	27.5%			36.4%		16.1%		13.8%
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 Core Plus Bond N	0.1%	2.9%		7.5%	1.5%	2.0%	
Metropolitan West Total Return Bond I						6.0%	0.2%
Prudential Total Return Bond Q		3.6%		6.9%	8.1%		
Vanguard Total Bond Market Index I				6.8%			0.5%

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	201,585,257	★★★★	Bronze	PTTRX
Dodge & Cox Income	Dana M. Emery (9)*	15/26	30,256,463	★★★★	Gold	DODIX
Loomis Sayles Core Plus Bond N	Peter W. Palfrey (2)*	17/18	3,337,300	★★★★★	Gold	NERNX
Metropolitan West Total Return Bond I	Tad Rivelle (4)*	16/18	38,453,011	★★★★★	Gold	MWTIX
Prudential Total Return Bond Q	Robert Tipp (4)*	5/12	6,340,095	★★★★★		PTRQX
Vanguard Total Bond Market Index I	Joshua C. Barrickman	2/2	139,095,859	★★★	Silver	VBTIX

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

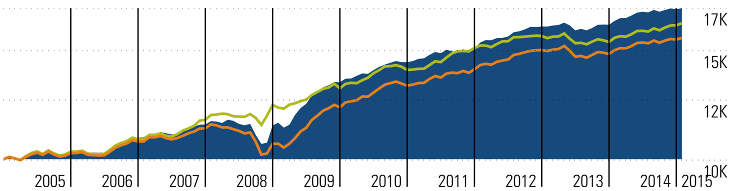
Fund Name	Closed	Minimum	Annual Report Expense Ratio	Prospectus Expense Ratio	Revenue Sharing	Primary Prospectus Benchmark
PIMCO Total Return Instl	No	1,000,000	0.46	0.46	0.00	Barclays US Agg Bond
Dodge & Cox Income	No	2,500	0.43	0.43	0.08	Barclays US Agg Bond
Loomis Sayles Core Plus Bond N	No	-	0.46	0.44	0.00	Barclays US Agg Bond
Metropolitan West Total Return Bond I	No	3,000,000	0.40	0.45	0.10	Barclays US Agg Bond
Prudential Total Return Bond Q	No	-	0.49	0.46	0.00	Barclays US Agg Bond
Vanguard Total Bond Market Index I	No	5,000,000	0.07	0.07	0.00	Barclays US Agg Float Adj

Dodge & Cox Income DODIX

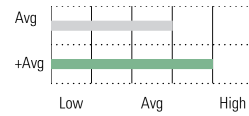
Morningstar Analyst Rating
Gold

NAV $	NAV Day Change %	Yield TTM %	Total Assets $ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
13.83	↓-0.01 | -0.07	2.79	39.1	Open	$2,500	None	0.43%	★★★★	Intermediate-Term Bond	

Growth of 10,000 01-08-2005 - 01-08-2015



3 Year Average Morningstar Risk Measures



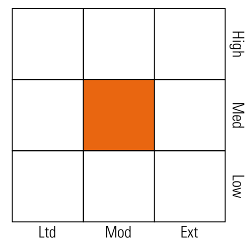
Pillars

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

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.

Style Map 09-30-2014



Performance 01-08-2015

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,036	10,045	10,563	11,475	12,833	16,835
Fund	0.36	0.45	5.63	4.69	5.11	5.35
+/- Barclays US Agg Bond TR USD	-0.31	-0.64	-0.97	1.75	0.63	0.55
+/- Category	-0.18	-0.32	0.03	1.13	0.39	0.85
% Rank in Cat	86	85	58	18	35	18
# of Funds in Cat	1,084	1,072	1,036	911	806	586

* Currency is displayed in USD

Bond Statistics

Bond Statistics	Value
Average Effective Duration (Years)	4.10
Average Effective Maturity (Years)	7.10
Average Credit Quality	BBB
Average Weighted Coupon	4.54
Average Weighted Price	109.92

Top Holdings 09-30-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
⊕ US Treasury Note 0.875%	2.48	05-15-2017	750.00	749.06
☼ US Treasury Note 0.5%	2.02	07-31-2017	621.00	611.69
☼ US Treasury Note 1.625%	1.97	07-31-2019	600.00	596.44
☼ US Treasury Note 0.625%	1.95	09-30-2017	600.00	591.24
⊕ US Treasury Note 0.75%	1.73	03-15-2017	525.00	524.02
% Assets in Top 5 Holdings	10.16			

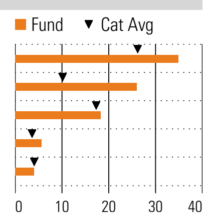
⊕ Increase ⊖ Decrease ☼ New to Portfolio

Asset Allocation

	% Net	% Short	% Long	Bench mark	Cat Avg
Cash	3.77	0.00	3.77	—	2.69
US Stock	0.00	0.00	0.00	—	0.04
Non US Stock	0.00	0.00	0.00	—	0.03
Bond	95.22	0.00	95.22	—	95.27
Other	1.01	0.07	1.09	—	1.98

Top Sectors 09-30-2014

	Fund	BMark	Cat Avg
Corporate Bond	34.83	—	25.33
Agency MBS Pass-Through	26.01	—	9.28
U.S. Treasury	18.22	—	16.45
Agency MBS CMO	5.63	—	2.75
Asset-Backed	3.99	—	3.21



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

Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
12-19-2014	13.76	0.0400	0.0100	0.0000	0.0900	0.1400
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

MORNINGSTAR®

Dodge & Cox Income DODIX

Analysis

This concentrated and credit heavy portfolio is a long-term winner.
By Cara Esser 12/19/2014

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 a third of the portfolio each year), and the team is willing to be patient with its picks. A veteran and well-resourced team, time-tested process, low expenses, and an impressive long-term track record earn this fund a Morningstar Analyst Rating of Gold.

The fund focuses on income as a component of total returns and has a yield that's generally higher than peers' and its benchmark (2.5% as of Sept. 30, 2014) and has an overweighting to corporates, including a sometimes 10%-plus weighting to junk bonds. The team tends to concentrate corporate exposure in around 50 issuers and isn't afraid to take sizable positions in downtrodden names. Meanwhile, the fund has historically been more cautious when it comes to interest-rate risk, typically sporting a duration short of its Barclays U.S. Aggregate Bond Index.

Managers also look outside familiar territory. For example, the firm has added to its non-U.S. stake over the years, including a number of U.K. banks. Managers believe banking systems are contingent liabilities for the countries they are in and need to understand that sovereign's ability to backstop the banks. They are comfortable with the Bank of England the fund has invested about 3% in U.K. banks.

This focus on corporates can leave it out of step with peers and its benchmark, the Barclays U.S. Aggregate Bond Index, at times. For example, during the credit market rally in 2009, the fund beat its average peer by 200 basis points and beat the index by nearly 600; it also held up relatively well in 2013 when rates rose. But in 2011's rough credit market, which favored longer-duration bonds and Treasuries, the fund underperformed the index and 80% of peers. The overweighting to corporate bonds also hurt relative returns at the end of 2014, but it eked out a slight gain over the Index for the year to date through Nov. 30.

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 results in overweightings to agency mortgages and corporate bonds (including a 10%-plus stake in high-yield) compared with the index and peers. The fund's corporate holdings are where much of its risk resides and those holdings are concentrated in around 50 issuers. And, managers aren't afraid to take unusual positions. For example, during the third quarter of 2014, the team swapped some of its Petrobras PBR bonds for asset-backed securities issued by the state of Rio, Brazil that pay a stream of royalties from each barrel of oil Petrobras produces. While the managers remained confident of Petrobras' strategic importance to Brazil, they believed the ABS are protected from some of the political issues that could take a toll on Petrobras.

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, though managers can use a modest amount of Treasury futures to manage duration.

The fund's duration has generally been shorter than that of the Barclays 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

Morningstar's Take

Morningstar Analyst Rating 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

Fund Performance

	Total Return %	+/- Category
YTD	—	—

Dodge & Cox Income DODIX

Analysis

2013.

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 5.4% over the past decade ended Nov. 30, 2014, topped the Barclays US Aggregate Bond Index by 61 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 2.4% as of Sept. 30 was slightly higher than the 2.2% yield of iShares Core US Aggregate Bond AGG.

Historically, the fund held more than half of its portfolio in corporate bonds, though as tight credit spreads and low yields made these bonds less attractive, managers cut that allocation to below 40% as of Sept. 30. This still represents a substantial overweighting to corporate credit and, as a result, the fund will tend to underperform when negative macroeconomic trends make headlines. Its longtime shorter-than-benchmark duration stance means it will underperform when interest rates fall. For example, the fund underperformed peers and the index during 2011’s credit crunch, but during the so-called “taper tantrum” in the summer of 2013, the fund’s shorter duration helped relative returns.

Over the long haul, managers have been more right than wrong--during the trailing 10 years ended Nov. 30, 2014, the fund's average annual gain of 5.4% topped the index by 61 basis points annually and beat more than 80% of its peers.

People Pillar: Positive

The fund's nine-member fixed-income investment policy committee, or IPC, is a seasoned group. Its members have between one and three decades 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 in 2014, 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.

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, and handles trading. Another experienced group of 12 analysts helps run the fund's agency mortgage, government, asset-backed, and taxable muni stakes. The firm added a global bond analyst in 2014 to replace an analyst who resigned earlier in the year.

Parent Pillar: Positive

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 any analyst but must survive extensive peer review. 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 totals roughly 60 managers and analysts, most of whom become partners.

Dodge & Cox has rolled out only six strategies since it first opened in 1931. The most recent is a global fixed-income offering that 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

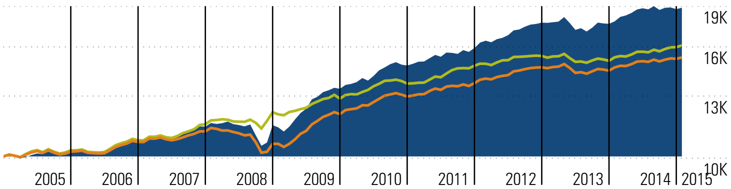
The fund's 0.43% annual expense ratio falls into the lowest quintile of no-load Intermediate Term Bond peers. That said, the expense ratio has hardly budged even as assets have grown over the past five years. Relative to other options, however, there's very little cause for complaint.

Loomis Sayles Core Plus Bond N NERNX

Morningstar Analyst Rating
Gold

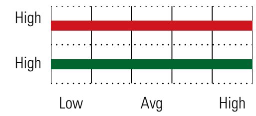
NAV $	NAV Day Change %	Yield TTM %	Total Assets $ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
13.21	↑0.01 | 0.08	3.54	4.7	Open	—	None	0.46%	★★★★★	Intermediate-Term Bond	

Growth of 10,000 01-08-2005 - 01-08-2015



3 Year Average Morningstar Risk Measures

Risk vs. Category (913)
Return vs. Category (913)



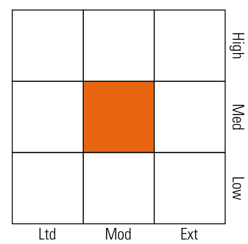
Pillars

Process	Positive
Performance	Positive
People	Positive
Parent	Neutral
Price	Neutral
Rating	Gold

Investment Strategy

The investment seeks high total investment return through a combination of current income and capital appreciation. The fund normally invests at least 80% of its net assets in bonds, which include debt securities of any maturity. It invests primarily in investment grade securities. The fund may also invest up to 20% of its assets in bonds rated below investment grade, and up to 10% of its assets in non-U.S. dollar-denominated securities. Its investments may include securities issued by U.S. and non-U.S. corporations and governments, securities issued by supranational entities, U.S. government-sponsored agency debenture.

Style Map 10-31-2014



Performance 01-08-2015

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,061	10,065	10,671	11,810	13,948	18,751
Fund	0.61	0.65	6.71	5.70	6.88	6.49
+/- Barclays US Agg Bond TR USD	-0.07	-0.44	0.11	2.76	2.40	1.69
+/- Category	0.07	-0.11	1.11	2.14	2.16	2.00
% Rank in Cat	39	70	19	—	—	—
# of Funds in Cat	1,084	1,072	1,036	911	806	586

* Currency is displayed in USD

Bond Statistics

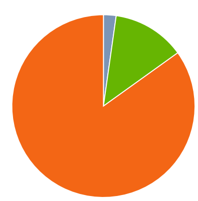
Bond Statistics	Value
Average Effective Duration (Years)	5.90
Average Effective Maturity (Years)	8.28
Average Credit Quality	BBB
Average Weighted Coupon	4.76
Average Weighted Price	99.30

Top Holdings 10-31-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
☼ Fed Natl Mort Assc 4%	5.14	12-15-2042	162.09	171.63
☼ Fed Natl Mort Assc 3.5%	3.51	12-15-2042	113.67	117.21
⊕ Mex Bonos Desarr Fix Rt Bonds 06/21 6.5	3.36	06-10-2021	1,434.50	111.98
⊖ US Treasury Note 0.375%	1.93	03-31-2016	64.45	64.52
⊕ FNMA 6.625%	1.68	11-15-2030	38.83	55.98
% Assets in Top 5 Holdings	15.62			

⊕ Increase ⊖ Decrease ☼ New to Portfolio

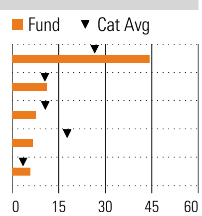
Asset Allocation



Asset Class	% Net
Cash	12.85
US Stock	0.00
Non US Stock	0.00
Bond	84.92
Other	2.24

Top Sectors 10-31-2014

	Fund	BMark	Cat Avg
Corporate Bond	44.21	—	25.33
Agency MBS Pass-Through	11.20	—	9.28
Commercial MBS	7.64	—	9.40
U.S. Treasury	6.61	—	16.45
Non-U.S. Government	5.79	—	2.23



Management

	Start Date
Peter W. Palfrey	12-31-1996
Richard G. Raczkowski	05-01-1999

Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
12-16-2014	12.99	0.0300	0.0500	0.0000	0.0500	0.1200
11-24-2014	13.32	0.0000	0.0000	0.0000	0.0400	0.0400
10-24-2014	13.38	0.0000	0.0000	0.0000	0.0300	0.0300
09-24-2014	13.32	0.0000	0.0000	0.0000	0.0400	0.0400
08-25-2014	13.48	0.0000	0.0000	0.0000	0.0400	0.0400

MORNINGSTAR®

Loomis Sayles Core Plus Bond N NERNX

Analysis

An impressive choice, but not without risk.
By Sarah Bush 12/10/2014

Loomis Sayles Core Bond Plus has plenty of appeal, but it's far from conservative.

Managers Peter Palfrey and Rick Raczkowski have built an impressive record in their 15-plus years running this fund. Nimble adjustments to the portfolio's risk profile have helped the fund land in the top third of its intermediate-term bond Morningstar Category in every year from 2006 to 2013. Through the first 11 months of 2014, the fund was once again near the top of the group, thanks in part to shrewd adjustments to its yield-curve and duration positioning. Unlike many who expected bond yields to rise in 2014, this team favored long-maturity bonds for much of the year.

However, the fund's success comes with a significant dose of risk. Palfrey and Raczkowski have broad flexibility in running this fund and can hold up to 20% in high yield (20% as of October 2014), a sizable chunk relative to the category. The pair will also venture abroad. For example, the fund recently held 21% in emerging-markets names, including a slug of dollar-denominated corporates. The fund will opportunistically hedge its foreign-currency exposure but recently had meaningful exposure to the Mexican peso (4%) and the Brazilian real (3%).

Although the team has mostly sidestepped trouble over the past decade, its willingness to take on credit and currency risk could leave it vulnerable to losses if the pair misstep. Indeed, the fund has suffered through several relatively short periods of significant pain in recent years. For example, as bond yields marched higher in 2013's "taper tantrum" and emerging markets suffered disproportionately, this fund suffered a near-category-worst 6% loss between May and August.

This fund carries considerable appeal for those comfortable with its risks. Its impressive record, together with an experienced and long-tenured management team, Loomis Sayles' significant investments in quantitative tools and risk management, and an improving expense profile, stand behind the upgrade of this fund's Morningstar Analyst Rating to Gold from Silver.

Process Pillar: Positive
This fund measures itself against the Barclays U.S. Aggregate Bond Index but has plenty of latitude to venture beyond the benchmark's confines. It can and will hold up to 20% in high yield and up to 10% in nondollar holdings. The managers employ a top-down approach to determine the fund's sector weights, as well as yield-curve and duration positioning (usually staying within two years of the benchmark's duration).

The managers first determine the current stage of the market cycle--expansion, downturn, credit repair, and recovery--to arrive at the fund's strategic positioning. Since 2009's initial rebound for credit, they've argued that the market has been in the recovery cycle, a climate they think should lead to expanding risk appetite and favors taking on more credit and liquidity risk.

Within this framework, the team will make tactical shifts. For example, unlike many managers who were bearish on long-maturity bonds coming into 2014, the team came into the year with a duration longer than that of its bogy and with an overweighting to long-term bonds. As bond yields rallied into the summer, they shortened the fund's duration to neutral before taking advantage of an increase in bond yields to add duration in the fall. This time, however, they favored long-term Treasury Inflation-Protected Securities, which suffered disproportionately in the early fall.

The managers went on the offensive with respect to credit in late 2011 and have stayed there through late 2014. They argue that the market remains in a recovery/expansion phase and have kept the fund's high-yield stake (20% as of October 2014) at the high end of its historic range and well above intermediate-term category norms. The team has favored BB names with upgrade potential; financials such as Ally and International Lease Finance have been particular favorites. While the

Morningstar's Take

Morningstar Analyst Rating: Gold

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	—	—

Loomis Sayles Core Plus Bond N NERNX

Analysis

fund's allocation to investment-grade debt is down from 38% in fall 2013, at 31% it is still overweight relative to the Barclays U.S. Aggregate Bond Index. Here, the managers have favored emerging-markets issuers including quasi-sovereigns such as Petrobras.

Emerging markets (21% including corporates and sovereigns) come with additional liquidity risk and can be vulnerable to additional volatility, as in 2013's turbulent markets. The managers argue there's greater risk to owning U.S. industrial bonds, given the potential for stock buybacks and merger and acquisition activity to take their toll on creditworthiness.

After shorting the euro in 2011 (up to 5% at its peak), the team built stakes in Spanish, Italian, and Portuguese government bonds over the next several years. These added nicely to returns in 2014; as of October 2014, the fund had sold all but a small position in Portugal.

Performance Pillar: Positive

This fund has gone a long way toward earning its all-weather bona fides. Impressively, the historically credit-heavy portfolio played solid defense when corporate prices plummeted in late 2008, supported by a 9% yen position. Then, thanks to a timely shift back into the battered corporate sector, it landed in the category's upper echelons in the credit-fueled markets of 2009 and 2010. The managers also dodged trouble in 2011, thanks to a decision to sell corporates and add long U.S. Treasuries.

Strong showings in 2008 and 2011 should not be mistaken for conservatism. Some of the tools the team employs can amp up volatility, particularly its tactical use of foreign currencies and taste for emerging-markets corporates. Indeed, 2013 highlighted the potential risks of its approach. As Treasury rates marched higher from May through August 2013, roiling bond markets, this fund's long Treasuries position, and a stake in emerging-markets corporates contributed to a near-category-worst 6% loss. However, the fund's stakes in high yield and commercial-mortgage-backed-securities helped it recover later in the year. In 2014, well-timed adjustments to the fund's yield-curve positioning and stakes in Spanish and Italian sovereign debt helped it to a 7% year-to-date return through November that topped roughly 90% of its peers'.

Over time, the fund's stellar long-term returns have amply rewarded investors for its risks.

People Pillar: Positive

This fund's managers have carved their own niche in the shadow of the firm's luminary, Dan Fuss, and the team that runs flagship Loomis Sayles Bond LSBRX. Peter Palfrey began managing the fund alongside former manager Cathy Bunting in 1996, and Rick Raczkowski came on board when Bunting retired in 1999. At the time, they worked for Back Bay Advisors, a Loomis Sayles affiliate; the two merged in 2001.

The merger coincided with a rough patch for the fund in 2001 and 2002 because of some missteps in the telecom sector. Around that time, Palfrey and Raczkowski revamped the strategy to depend less on corporate credit and reflect a more macro-oriented approach similar to how they'd managed portfolios previously.

Key to their success in implementing a more diversified, top-down approach has been the build-out of Loomis Sayles' fixed-income resources and analytics undertaken by firm CIO Jae Park. Park joined the firm in 2002 and has since hired teams devoted to securitized and quant research, improved the group's risk analytics, and fostered a sector team structure to improve groupwide information sharing. Palfrey participates on the firm's macro and U.S. yield-curve teams, while Raczkowski sits on the global asset-allocation team. In addition, the pair gets support from Loomis Sayles' renowned group of roughly 40-plus credit researchers, ranging from associates to senior analysts.

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

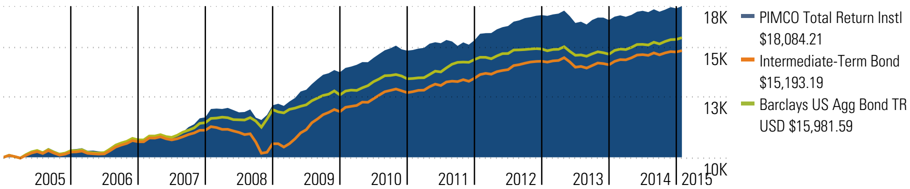
This fund's A share class used to charge an arm and a leg compared with peers, but its annual expense ratio has gotten more reasonable in recent years. Before 2008, it charged more than 1%, but that levy has dropped steadily in recent years, reaching 0.79% in 2013, which is below the median of 87 basis points for similarly distributed intermediate-term bond funds. Nearly half of this fund's $3.4 billion in assets are concentrated in its Institutional share class, and that price tag has also dropped in recent years to 0.54%, roughly in line with the peer group median. That's certainly progress, but fees will have to come down even further for this fund to have a meaningful cost advantage over competitors.

PIMCO Total Return Instl PTTRX

Morningstar Analyst Rating
Bronze

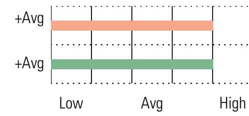
NAV $	NAV Day Change %	Yield TTM %	Total Assets $ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
10.75	↓-0.01 | -0.09	4.13	143.4	Open	$1	None	0.46%	★★★★	Intermediate-Term Bond	

Growth of 10,000 01-08-2005 - 01-08-2015



3 Year Average Morningstar Risk Measures

Risk vs. Category (913)
Return vs. Category (913)



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.

Pillars

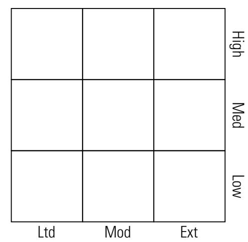
Process	Positive
Performance	Positive
People	Positive
Parent	Neutral
Price	Positive
Rating	Bronze

Performance 01-08-2015

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,087	10,089	10,567	11,393	12,842	18,084
Fund	0.87	0.89	5.67	4.44	5.13	6.10
+/- Barclays US Agg Bond TR USD	0.19	-0.20	-0.94	1.50	0.65	1.30
+/- Category	0.32	0.12	0.07	0.88	0.40	1.61
% Rank in Cat	2	44	57	22	34	4
# of Funds in Cat	1,084	1,072	1,036	911	806	586

* Currency is displayed in USD

Style Map 03-31-2010



Top Holdings 09-30-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
☼ Fin Fut Euro$ Cme (Red) 12/14/15	28.45	12-15-2015	231,956.00	57,348.22
☼ Fin Fut Euro$ Cme (Red) 03/14/16	22.62	03-15-2016	184,987.00	45,606.23
☼ 10 Year US Treasury Note Future Dec14	16.47	12-29-2014	26,628.70	33,190.18
☼ Fin Fut Euro$ Cme (Red) 09/19/16	10.82	09-20-2016	88,959.00	21,808.30
⊕ Irs Usd 3.000 09/21/16-1y (Grn) Cme	6.59	09-21-2017	13,185.20	13,279.67
% Assets in Top 5 Holdings	84.94			

⊕ Increase ⊖ Decrease ☼ New to Portfolio

Bond Statistics

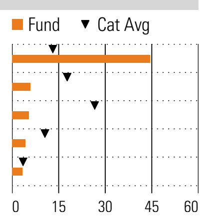
Bond Statistics	Value
Average Effective Duration (Years)	4.97
Average Effective Maturity (Years)	5.29
Average Credit Quality	Not Rated
Average Weighted Coupon	3.87
Average Weighted Price	188.04

Asset Allocation

	% Net	% Short	% Long	Bench mark	Cat Avg
Cash	-89.24	146.58	57.34	—	2.69
Stock	0.39	0.00	0.39	—	0.07
Bond	180.72	9.28	190.00	—	95.27
Other	8.13	0.86	8.99	—	1.98

Top Sectors 09-30-2014

	Fund	BMark	Cat Avg
Other Government Related	44.41	—	11.83
U.S. Treasury	5.89	—	16.45
Corporate Bond	5.42	—	25.33
Agency MBS Pass-Through	4.25	—	9.28
Non-U.S. Government	3.30	—	2.23



Management

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

Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
12-31-2014	10.66	0.0000	0.0000	0.0000	0.0300	0.0300
12-29-2014	10.64	0.0000	0.0000	0.0000	0.2100	0.2100
12-10-2014	10.90	0.0800	0.0000	0.0000	0.0000	0.0800
11-28-2014	11.03	0.0000	0.0000	0.0000	0.0200	0.0200
10-31-2014	10.94	0.0000	0.0000	0.0000	0.0200	0.0200

PIMCO Total Return Instl PTTRX

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: Bronze

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	—	—

PIMCO Total Return Instl PTTRX

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 Saumil 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 PTTRX 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

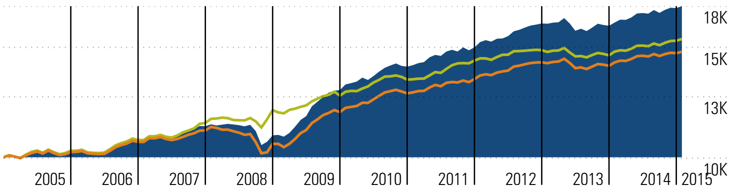
This fund has been a big revenue driver for PIMCO. Its advisory fee generated more than $641 million for the fiscal year through March 2014, and its supervisory and administrative fees pulled in $608 million. The fund has not featured management-fee breakpoints that would lower fees as assets grew, and 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.

Prudential Total Return Bond Q PTRQX

Morningstar Analyst Rating
—

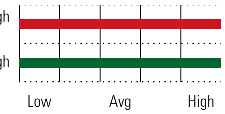
NAV $	NAV Day Change %	Yield TTM %	Total Assets $ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
14.54	↓-0.02 | -0.14	3.67	6.8	Open	—	None	0.49%	★★★★★	Intermediate-Term Bond	

Growth of 10,000 01-08-2005 - 01-08-2015



3 Year Average Morningstar Risk Measures

Risk vs. Category (913) High
Return vs. Category (913) High



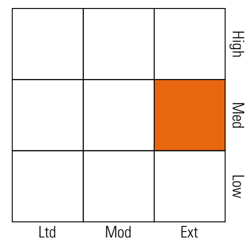
Investment Strategy

The investment seeks total return. The fund will seek to achieve its objective through a mix of current income and capital appreciation as determined by the fund's investment subadviser. It invests, under normal circumstances, at least 80% of the fund's investable assets in bonds. For purposes of this policy, bonds include all fixed-income securities, other than preferred stock, with a maturity at date of issue of greater than one year. The fund may invest up to 30% of its investable assets in high risk, below investment-grade securities having a rating of not lower than CCC. It may invest up to 30% of its investable assets in foreign debt securities.

Pillars

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

Style Map 09-30-2014



Performance 01-08-2015

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,076	10,109	10,782	11,782	13,758	18,204
Fund	0.76	1.09	7.82	5.62	6.59	6.17
+/- Barclays US Agg Bond TR USD	0.09	0.00	1.22	2.68	2.11	1.37
+/- Category	0.22	0.33	2.23	2.06	1.86	1.68
% Rank in Cat	6	12	4	6	—	—
# of Funds in Cat	1,084	1,072	1,036	911	806	586

* Currency is displayed in USD

Bond Statistics

Bond Statistics	Value
Average Effective Duration (Years)	6.10
Average Effective Maturity (Years)	—
Average Credit Quality	BBB
Average Weighted Coupon	4.14
Average Weighted Price	—

Top Holdings 11-30-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
☼ 5 Year US Treasury Note Future Mar15	14.99	03-31-2015	0.01	950.08
☼ NYSE/Liffe 2 Year US Treasury Note Future Mar15	11.53	03-27-2015	0.00	731.05
☼ 90day Euro Fut Dec14	-3.93	12-15-2014	0.00	-249.41
☼ Ultra Treasury Bond Future Mar15	3.08	03-20-2015	0.00	195.07
US Treasury Note 2%	1.60	02-28-2021	100.39	101.50
% Assets in Top 5 Holdings	27.26			

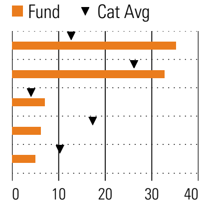
⊕ Increase ⊖ Decrease ☼ New to Portfolio

Asset Allocation

	% Net	% Short	% Long	Bench mark	Cat Avg
Cash	2.53	0.82	3.35	—	2.69
US Stock	0.00	0.00	0.00	—	0.04
Non US Stock	0.00	0.00	0.00	—	0.03
Bond	96.02	14.30	110.31	—	95.27
Other	1.46	0.27	1.73	—	1.98

Top Sectors 11-30-2014

	Fund	BMark	Cat Avg
Other Government Related	35.17	—	11.83
Corporate Bond	32.72	—	25.33
Asset-Backed	7.06	—	3.21
U.S. Treasury	6.20	—	16.45
Commercial MBS	5.00	—	9.40



Management

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

Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
12-31-2014	14.44	0.0000	0.0000	0.0000	0.0400	0.0400
12-30-2014	14.42	0.0000	0.0000	0.0000	0.0100	0.0100
12-10-2014	14.43	0.0200	0.0000	0.0000	0.0000	0.0200
11-28-2014	14.53	0.0000	0.0000	0.0000	0.0400	0.0400
10-31-2014	14.45	0.0000	0.0000	0.0000	0.0400	0.0400

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
14.54	↓-0.02 | -0.14	3.67	6.8	Open	—	None	0.49%	★★★★★	Intermediate-Term Bond	

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

Gold Silver Bronze Neutral Negative

Fund Performance

	Total Return %	+/- Category
YTD	—	—

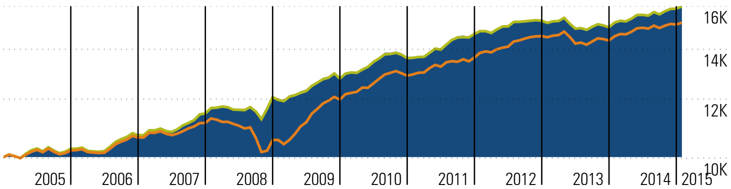
We do not currently publish an Analyst Report for this company.

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
10.94	↓-0.03 | -0.27	2.56	136.7	Open	$5	None	0.07%	★★★	Intermediate-Term Bond	

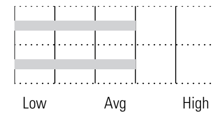
Growth of 10,000 01-08-2005 - 01-08-2015



3 Year Average Morningstar Risk Measures

Risk vs. Category (913) Avg

Return vs. Category (913) Avg



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.

Pillars

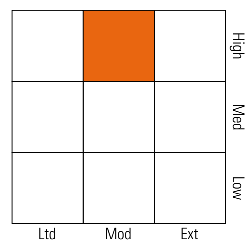
Process	Positive
Performance	Neutral
People	Positive
Parent	Positive
Price	Positive
Rating	Silver

Performance 01-08-2015

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,069	10,111	10,648	10,887	12,425	15,995
Fund	0.69	1.11	6.48	2.87	4.44	4.81
+/- Barclays US Agg Bond TR USD	0.02	0.02	-0.12	-0.07	-0.04	0.01
+/- Category	0.15	0.34	0.88	-0.69	-0.29	0.32
% Rank in Cat	18	10	26	73	64	41
# of Funds in Cat	1,084	1,072	1,036	911	806	586

* Currency is displayed in USD

Style Map 06-30-2014



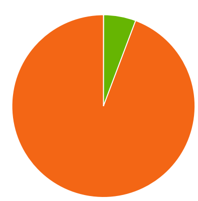
Top Holdings 11-30-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
☼ Ginnie Mae Jumbos TBA 4% 2044-12-01	0.65	12-01-2044	846.62	907.60
☼ Ginnie Mae Jumbos TBA 3.5% 2044-12-01	0.60	12-01-2044	792.42	832.04
US Treasury Note 3.625%	0.58	08-15-2019	734.47	806.65
US Treasury Note 0.25%	0.53	02-29-2016	732.05	732.28
⊕ US Treasury Note 0.25%	0.50	05-15-2016	701.01	701.01
% Assets in Top 5 Holdings	2.86			

⊕ Increase ⊖ Decrease ☼ New to Portfolio

Bond Statistics	Value
Average Effective Duration (Years)	5.60
Average Effective Maturity (Years)	7.70
Average Credit Quality	AA
Average Weighted Coupon	3.48
Average Weighted Price	107.46

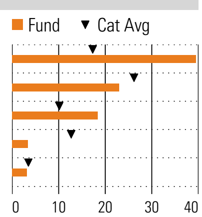
Asset Allocation



Asset Class	% Net
Cash	5.70
US Stock	0.00
Non US Stock	0.00
Bond	94.27
Other	0.03

Top Sectors 11-30-2014

	Fund	BMark	Cat Avg
U.S. Treasury	39.43	—	16.45
Corporate Bond	22.93	—	25.33
Agency MBS Pass-Through	18.38	—	9.28
Other Government Related	3.35	—	11.83
U.S. Agency	3.21	—	2.63



Management

	Start Date
Joshua C. Barrickman	02-22-2013

Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
12-31-2014	10.87	0.0000	0.0000	0.0000	0.0200	0.0200
12-22-2014	10.87	0.0100	0.0100	0.0000	0.0000	0.0300
11-28-2014	10.91	0.0000	0.0000	0.0000	0.0200	0.0200
10-31-2014	10.86	0.0000	0.0000	0.0000	0.0200	0.0200
09-30-2014	10.78	0.0000	0.0000	0.0000	0.0200	0.0200

MORNINGSTAR®

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 slowdowns. 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 — 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

Fund Performance

	Total Return %	+/- Category
YTD	—	—

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 category 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

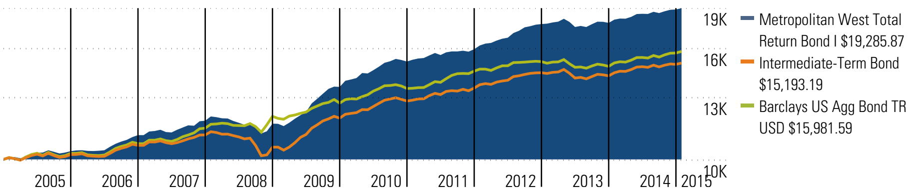
The Admiral shares have a 0.08% expense ratio, making this fund one of the cheapest in the intermediate-term bond category. For investors looking to invest less than the $10,000 Admiral share class minimum, the Investor share class also charges an attractive fee (0.20%) with a lower investment minimum ($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.

Metropolitan West Total Return Bond I MWTIX

Morningstar Analyst Rating
Gold

NAV $	NAV Day Change %	Yield TTM %	Total Assets $ Bil	Status	Min. Inv.	Load	Expenses	Morningstar Rating™	Category	Investment Style
10.96	-0.02 | -0.18	2.28	53.0	Open	$3	None	0.40%	★★★★★	Intermediate-Term Bond	

Growth of 10,000 01-08-2005 - 01-08-2015



Investment Strategy

The investment seeks to maximize long-term total return. The fund normally invests at least 80% of its net assets in investment grade fixed income securities or unrated securities that are determined by the Adviser to be of similar quality. Up to 20% of its net assets may be invested in securities rated below investment grade. Under normal conditions, the portfolio duration is two to eight years and the dollar-weighted average maturity ranges from two to fifteen years. The fund invests in the U.S. and abroad, including emerging markets, and may purchase securities of varying maturities issued by domestic and foreign corporations and governments.

Performance 01-08-2015

	YTD	1 Mo	1 Yr	3Yr Ann	5Yr Ann	10Yr Ann
Growth of 10,000	10,058	10,094	10,646	11,927	13,874	19,286
Fund	0.58	0.94	6.46	6.05	6.77	6.79
+/- Barclays US Agg Bond TR USD	-0.10	-0.15	-0.14	3.11	2.29	1.99
+/- Category	0.03	0.17	0.86	2.49	2.04	2.30
% Rank in Cat	50	36	27	3	2	1
# of Funds in Cat	1,084	1,072	1,036	911	806	586

* Currency is displayed in USD

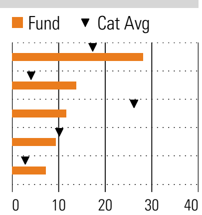
Top Holdings 09-30-2014

	Weight %	Maturity Date	Amount Mil	Value Mil
US Treasury Note 2.75%	3.48	02-15-2024	1,301.74	1,337.12
☼ US Treasury Note 0.5%	3.39	07-31-2016	1,302.17	1,303.58
☼ US Treasury Note 0.5%	2.60	09-30-2016	1,000.00	998.41
☼ US Treasury Bond 3.125%	2.49	08-15-2044	971.01	959.10
☼ US Treasury Note 0.5%	2.45	08-31-2016	942.26	941.76
% Assets in Top 5 Holdings	14.41			

⊕ Increase ⊖ Decrease ☼ New to Portfolio

Top Sectors 09-30-2014

	Fund	BMark	Cat Avg
U.S. Treasury	28.18	—	16.45
Asset-Backed	13.77	—	3.21
Corporate Bond	11.62	—	25.33
Agency MBS Pass-Through	9.42	—	9.28
Non-Agency Residential MBS	7.27	—	1.96



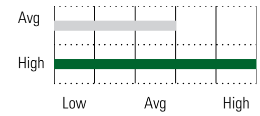
Dividend and Capital Gains Distributions

Distribution Date	Distribution NAV	Long-Term Capital Gain	Long-Term Short Gain	Return of Capital	Dividend Income	Distribution Total
12-31-2014	10.90	0.0000	0.0000	0.0000	0.0200	0.0200
12-12-2014	10.92	0.0100	0.0200	0.0000	0.0000	0.0300
11-28-2014	10.93	0.0000	0.0000	0.0000	0.0200	0.0200
10-31-2014	10.88	0.0000	0.0000	0.0000	0.0200	0.0200
09-30-2014	10.81	0.0000	0.0000	0.0000	0.0200	0.0200

3 Year Average Morningstar Risk Measures

Risk vs. Category
(913)

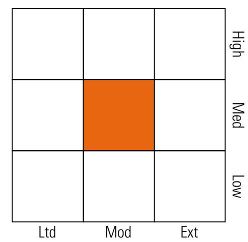
Return vs. Category
(913)



Pillars

Process	Positive
Performance	Positive
People	Positive
Parent	Neutral
Price	Positive
Rating	Gold

Style Map 09-30-2014



Bond Statistics	Value
Average Effective Duration (Years)	4.63
Average Effective Maturity (Years)	8.67
Average Credit Quality	BBB
Average Weighted Coupon	2.84
Average Weighted Price	100.70

Asset Allocation

	% Net	% Short	% Long	Bench mark	Cat Avg
Cash	11.94	0.00	11.94	—	2.69
US Stock	0.03	0.00	0.03	—	0.04
Non US Stock	0.00	0.00	0.00	—	0.03
Bond	82.44	0.06	82.50	—	95.27
Other	5.59	0.04	5.62	—	1.98

Management

	Start Date
Stephen M. Kane	03-31-1997
Laird R. Landmann	03-31-1997
Tad Rivelle	03-31-1997
Bryan T. Whalen	05-31-2004

MORNINGSTAR®

Metropolitan West Total Return Bond I MWTIX

Analysis

Consistent in important ways.
By Karin Anderson 10/28/2014

Metropolitan West Total Return Bond sets the bar high.

This team's experience and stability are impressive. Its three named managers--Steve Kane, Laird Landmann, and Tad Rivelle--have worked together for more than two decades. This trio has also built a stable bench of mortgage, credit, and rate specialists. The team's valuation-focused approach is also a point of consistency. The fund is benchmarked against the Barclays U.S. Aggregate Bond Index, but the team can go outside the bogy in its hunt for bargains. As a result, high-yield corporates and nonagency residential mortgages have figured prominently here, leading to a more aggressive credit profile than many of its intermediate-term bond peers.

After taking full advantage of a rebound among credit-sensitive bonds in 2012, the team has kept a more subdued risk profile as a result of its value discipline and its view that the economy is in the late stage of the credit cycle with heightened downside risk. That's included reducing the fund's exposure to corporate credit by a few percentage points (14% in investment-grade and 2% in high yield as of June 30, 2014), while its U.S. government allocation (27%) remains on the high end of its historic range. The team also modified its 14% nonagency mortgage stake by swapping low-dollar-priced bonds that rallied the most in 2012 for marginally better-quality bonds with less downside risk.

Nonagencies, especially issues backed by subprime and option ARM collateral, provided some oomph to the fund this year, helping offset the drag from its short duration profile as long-term Treasury rates have fallen. The team has maintained a cautious stance on interest-rate risk since 2011, even as the long-end of the yield curve rallied, another testament to its conviction and patience. Such dogged ways have led to bouts of underperformance, but this team's smart, valuation-driven moves have resulted in excellent risk-adjusted results over the long haul. The team's success across multiple strategies and reasonable fees also fortify the case for its Morningstar Analyst Rating of Gold.

Process Pillar: Positive
This fund is run by value investors looking to buy bonds when they're fundamentally cheap and sell them when they get expensive. It's benchmarked against the Barclays U.S. Aggregate Bond Index, but its managers actively adjust the fund's duration relative to that bogy and have the flexibility to invest outside the index; high-yield corporates and nonagency residential mortgages have figured prominently here. That can result in a more aggressive credit profile than the category norm. The team also employs credit default swaps to gain or reduce exposure to sectors or companies. The value orientation works partly because it's rooted in fundamental research, particularly in areas where other managers aren't looking. For instance, the team has invested heavily in the data and tools necessary to evaluate nonagency RMBS, even as others have steered clear of the sector's junk credit ratings.

The managers dial risk up and down in predictable fashion here. When yield spreads offered by corporate bonds over U.S. Treasuries reached historic lows in 2007, for example, they reduced the fund's corporate stake to an all-time low of 7% by early 2008, then reversed course as spreads widened in 2008. Similarly, their pessimism about the economy caused them to lengthen the fund's duration before the financial crisis; since the 10-year Treasury dropped below 2% in 2011, they've kept it shorter than the index's.

Following the financial crisis, this fund's portfolio has emphasized credit--including corporate bonds from the financial sector and nonagency mortgages--and downplayed U.S. Treasuries. After taking full advantage of a strong rebound among credit-sensitive bonds in 2012, this fund's team has focused on risk reduction since early 2013.

Morningstar's Take

Morningstar Analyst Rating: Gold

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	—	—

Metropolitan West Total Return Bond I MWTIX

Analysis

Citing the backdrop of low volatility and late-stage credit cycle dynamics, the management team has maintained a cautious stance toward interest-rate risk. As a result, the fund's duration has been roughly one year short of the Barclays U.S. Aggregate Index (4.7 years as of June 30, 2014). The team has also kept corporate exposure more muted than in the past; at 14% it was less than half the index weight and down from 17% a year ago. Within that sector, they've mostly avoided industrials over fears of releveraging, while taking more senior positions in financial companies' capital structures and maintaining a focus on utilities firms.

Meanwhile, the fund's nonagency MBS stake has come down from roughly 16% over the past year to 14%, and the team significantly changed its composition by selling more volatile low-dollar-priced bonds and buying better-quality issues. In turn, the fund's overall high-yield exposure has come down by a couple percentage points to 10.5%.

Performance Pillar: Positive

This fund's management team stands by its analysis through trying times. That was the case in 2011, when the fund's short duration and more credit-sensitive holdings weighed on its returns compared with other intermediate-term bond funds. The team didn't capitulate on those bets and even increased risk in areas such as nonagency mortgages, which helped the fund rocket back in 2012. A commitment to a cautious interest-rate stance paid off when rates shot up in 2013, but it's worked against the fund again so far in 2014. That said, good selection within its corporate holdings, financials in particular, and the continued strength of its nonagency stake have picked up some of the slack.

Over time the team has made bigger moves into unloved areas of the market, but it's also made adjustments to temper the effects of such boldness. For example, it bought battered nonagency mortgages early in 2008, although exposure to long U.S. Treasuries and credit default swap protection purchased against commercial mortgages helped keep the fund from going off the rails on a relative basis that year. As a result, this fund's long-term risk-adjusted results are topnotch. Its total returns over the trailing 10 and 15 years through September 2014 are among the best in the category and handily beat the Barclays U.S. Aggregate Bond Index. And its risk-adjusted metrics such as the Sharpe ratio rank near the category's best.

People Pillar: Positive

The fund's three named portfolio managers' working partnership goes back more than two decades. Steve Kane, Laird Landmann, and Tad Rivelle managed portfolios together at Hotchkis & Wiley in the early 1990s (Landmann and Rivelle co-directed the fixed-income department there) before leaving to found MetWest in 1996. Before that, the trio worked together at West Coast rival PIMCO. The specialist ranks, which are each supported by a large squad of experienced analysts, have also been stable. Mortgage specialists Mitch Flack and Bryan Whalen have been with MetWest since 2001 and 2004, respectively. Credit research director Jamie Farnham joined in 2002, while government and rates specialist Bret Barker joined in 1997.

Rivelle serves as TCW's fixed-income CIO, but the process has long revolved around teamwork rather than one or two stars. The generalist managers formulate the team's investment outlook, including deciding how much and what types of risk they want to take in any given environment, and the sector specialist teams, made up of analysts, traders, and portfolio managers, handle the day-to-day management of securities in the fund. No group is an island, though. For example, the nonagency mortgage team's detailed work on the sector’s fundamentals has informed the generalists' macroeconomic thinking as well as the corporate team's view of mortgage risk on banks' balance sheets.

Parent Pillar: Neutral

In a transaction that closed in February 2013, TCW was bought by private equity funds managed by the Carlyle Group, in combination with TCW management, from Societe Generale. The firm's management team maintains 40% of the company, but the transition to majority ownership by private equity funds does raise some uncertainty. While neither TCW nor Carlyle has divulged concrete plans, many such transactions are followed by efforts to cut costs, increase margins, and streamline businesses in order to make them more-attractive candidates for IPOs or other sale down the line.

While it may not be directly related to the transition, the firm has had several noteworthy non-investment-team departures over the past year. Most recently that included the firm's chief compliance officer and chief risk officer. While those high-level departures raise some concern, the investment team has remained very stable. At the time of the deal, key portfolio managers, including the MetWest founders, signed five-year contacts. The firm has also put a greater emphasis on awarding equity ownership, which should help ensure key team members stay put.

Meanwhile, other factors keep the fund firm's stewardship profile from being above average. Unfortunately, manager ownership across the fund complex is very poor. And while fees for some of the firm's largest fixed-income offerings are competitive, overall fees are average.

Price Pillar: Positive

Roughly two thirds of this fund's assets reside in the Institutional share class, which comes with a 0.40% expense ratio that is 13 basis points cheaper than the typical institutional intermediate-term bond fund and falls in the comparison group's cheapest quintile. The fund's no-load shares, which account for most of the remaining assets, charge 0.62%, which is just a bit cheaper than the median levy for no-load share classes in this category. Both of the fund's fees have ticked slightly lower since 2010 as the fund has received inflows.