

INVESTMENT OBJECTIVES BY ASSET CLASS

Large Growth This asset class holds companies with very large market capitalizations that exhibit growth characteristics. This wedge typically holds between 60 and 80 companies, which account for more than 60% of the market capitalization of the total US equity market.

The *State Street Dow Jones US Large Cap Growth Fund (ELG)* seeks to invest in an effective representation of the US large growth segment of the equity market. The largest US stocks by float-adjusted market capitalization are selected each year in order to create the large cap universe. After the initial list of eligible large caps stocks is determined a six-factor model is used to identify the growth stocks within the large cap universe. These measures include price-to-earnings (P/E), projected earnings growth, trailing P/E, trailing earnings growth, price-to-book (P/B), and dividend yield.

Large Value This asset class holds companies with large market capitalizations that exhibit value characteristics. This wedge typically holds between 150 and 200 companies in the largest 90% of total US equity market.

The *DFA U.S. Large Cap Value Portfolio (DFLVX)* is designed to capture the returns and diversification benefits of a broad cross-section of U.S. value companies, on a market cap-weighted basis. After identifying the 90% of aggregate market capitalization, a value screen is applied to the universe. Value stocks must have book-to-market (BtM) ratios in the upper 10th percentile of the value-weighted universe ranked by BtM. This BtM sort excludes firms with negative or zero book values. This methodology is based on studies conducted by Professors Eugene Fama at the University of Chicago and Kenneth French at the Massachusetts Institute of Technology established that three economic factors—size, book-to-market, and the performance of the market as a whole—explain most of the variation of equity portfolio average returns. DFA's value strategies incorporate the Fama/French research in multifactor portfolios designed to capture the return premiums associated with high book-to-market ratios and market capitalization.

Mid Cap Growth This asset class intends to hold U.S. companies whose market capitalization is defined as mid-cap. We have chosen to follow the S&P MidCap 400/Barra Growth Index Fund for this wedge as it measures the performance of the mid-size company segment of the U.S. market, this index is used by over 95% of U.S. managers and pension plan sponsors. More than \$25 billion is indexed to the S&P MidCap 400.

The *Barclay's iShare S&P Midcap 400/Barra Growth Index Fund (IJK)* seeks investment results that correspond to the performance of those companies with the highest P/B ratios within the S&P 400 Index.

Mid/Small Cap Value This asset class holds U.S. companies which fall within the smallest 15% of the total U.S. equity market. This wedge will have a Weighted Average Market Cap of approximately less than \$1 billion and will typically hold 1,500 securities.

The *DFA US Targeted Value Portfolio (DFFVX)* is designed to capture the returns and diversification benefits of a broad cross-section of U.S. mid and small value companies, on a market cap-weighted basis. The portfolio invests in securities of US companies smaller than the 500th largest company in the market universe. After identifying the aggregate market capitalization break, a value screen is applied to the universe. Securities are considered based on a high book value in relation to their market value (BtM). Firms with negative or zero book values are excluded. In assessing value, additional factors such as price to cash flow or price to earnings ratios may be considered, as well as economic conditions and developments in the issuer's industry.

Small Cap Growth This asset class holds companies with small market capitalizations that exhibit growth characteristics. This wedge typically holds between 300 and 500 companies, which represent approximately 8% - 10% of the market capitalization of the total U.S. equity market.

The *State Street Dow Jones US Small Cap Growth Fund (DSG)* seeks to invest in an effective representation of the US small cap growth segment of the equity market. The smallest US stocks by float-adjusted market capitalization are selected each year in order to create the small cap universe. After the initial list of eligible small caps stocks is determined a six-factor model is used to identify the growth stocks within the small cap universe. These measures include P/E, projected earnings growth, trailing P/E, trailing earnings growth, P/B, and dividend yield.

International Large This asset class holds stocks of companies in major markets in Europe, Australia, and the Far East. Its inclusion in the portfolio is to provide diversification away from the U.S. equity market.

The *iShares MSCI EAFE Index Fund (EFA)* seeks to replicate as closely as possible, before expenses, the total return of the Morgan Stanley Capital International (MSCI) EAFE Index. The MSCI EAFE Index has been developed as an equity benchmark for international stock performance. It is a capitalization-weighted index that aims to capture 85% of the (publicly available) total market capitalization.

To match the risk and return characteristics of the EAFE Index as closely as possible, the Fund uses a representative sampling indexing strategy. This is a statistical sampling technique that selects stocks for the Fund so that industry weightings, market capitalizations and fundamental characteristics closely match that of the securities in the Index. The Fund typically invests at least 90% of its assets in stocks of companies included in the EAFE Index and in derivative instruments, such as futures contracts, options, and forward currency exchange contracts, that provide exposure to the stocks of companies in the EAFE Index.

International Small This asset class holds stocks of small companies in Europe, Japan, Pacific Rim and the United Kingdom. This wedge provides exposure to more than 4,000 individual companies.

The *DFA International Small Company Portfolio* (DFISX) invests in small companies with a weighted average market cap of only \$705 million and median market cap of \$161 million. The Portfolio currently invests in companies in Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and United Kingdom.

International Real Estate This asset class holds shares of equity in the real estate industry, including developed and emerging markets, with a focus on non-US real estate investment trusts (REITs). This asset class that has historically provided significant diversification benefits to both the U.S. and Foreign equity markets.

The *DFA International Real Estate Securities Portfolio* (DFITX) is designed to achieve long-term capital appreciation. It is well diversified with respect to both geography and property type. It is currently authorized to invest in the following countries: Australia, Belgium, Canada, China, France, Germany, Greece, Hong Kong, Japan, the Netherlands, New Zealand, Singapore, South Africa, Taiwan and the United Kingdom. Other countries may be authorized for investment in the future. The fund typically will hold 150+ securities with a Weighted Average Market Cap of \$2.9 billion.

Domestic Real Estate This asset class holds shares of equity and hybrid Real Estate Investment Trusts to provide exposure to the U.S. real estate market. Real Estate, like international stocks, has historically provided significant diversification benefits in comparison to the U.S. equity market.

The *DFA Real Estate Securities Portfolio* (DFREX) is designed to achieve long-term capital appreciation. The Portfolio invests in all eligible securities traded on the NYSE, AMEX, and NASDAQ. The Portfolio does not currently purchase shares of healthcare REITs. The Portfolio is well diversified with respect to both geography and property type.

Intermediate-Term Bond (Taxable) This asset class holds fixed income instruments in tax-deferred accounts, primarily intermediate-term bonds, to provide diversification in comparison to equities. The Fund typically holds between 400 and 500 bonds.

The *Scudder US Bond Index Fund* (BTUSX) seeks to replicate as closely as possible, before expenses, the investment performance of the Lehman Brothers Aggregate Bond Index which emphasizes government mortgage-backed securities and corporate investment-grade securities. To attempt to match the risk and return characteristics of the Lehman Bond Index as closely as possible, the Fund invests in a statistically selected sample of the securities found in the Lehman Bond Index. The Fund's securities are weighted to attempt to make the Fund's total investment characteristics similar to those of the Lehman Bond Index as a whole.

Inflation-Linked Bond This asset class holds inflation-linked bonds issued primarily by the U.S. Treasury to provide added fixed income diversification.

The *DFA Inflation-Protected Securities Portfolio* (DIPSX) seeks to provide inflation protection and earn current income consistent with preservation of capital. Ordinarily, the Portfolio will invest at least 80% of its net assets in inflation-protected securities issued by the US government and its agencies and instrumentalities. Generally, the Portfolio will purchase securities with maturities of between five and twenty years. The Portfolio will not short the maturity of its investments in anticipation of interest rate movements and ordinarily will have an average weighted maturity of between three and twelve years.

Short-term Bond This asset class provides additional diversification benefits while providing stable real value of capital with a minimum of risk.

The *DFA One-Year Fixed Income Portfolio* (DFIHX) acquires high quality obligations which mature within one year from the date of settlement. However, when greater returns are available, substantial investments may be made in securities maturing within two years from the date of settlement as well.

Tax Managed Funds will be used as replacements for certain funds above when we believe they will achieve higher after tax returns. The equity funds share the same investment objective but provide more latitude for the managers to hold securities for longer periods to achieve long-term capital gain treatment, to manage around dividend declarations, and to sell holdings to offset capital gains. The fixed income funds utilize municipal bonds in lieu of taxable bonds. The tax-managed funds and the asset classes where they are used are as follows:

<u>Asset Class</u>	<u>Taxable Account</u>	<u>Tax-Deferred Account</u>
Large US Value	DFA Tax-Managed US Marketwide Value Portfolio (DTMMX)	DFA US Large Cap Value (DFLVX)
Mid & Small US Value	DFA Tax-Managed US Small Value Portfolio (DTMVX)	DFA US Targeted Value Portfolio (DFFVX)
Intermediate Term Bond	Vanguard Intermediate term Tax-Exempt Fund (VWITX)	Scudder US Bond Index (BTUSX)
Short Term Bond	DFA Short Term Municipal Bond Portfolio (DFSMX)	DFA One Year Fixed Income Portfolio (DFIHX)