

# **Butler Family Foundation Investment Committee**

## **Conference Call**

**February 9, 2018 at 2:00 p.m. CT**

- I. Welcome
- II. Election of Committee Chair
- III. Approval of Minutes
- IV. Year in Review
- V. Portfolio and Performance Update
  - A. Portfolio Summary Statement
  - B. Overall Foundation Performance
  - C. Individual Manager Performance
  - D. Summary of Fees and Managers
- VI. Update on Potential Investments
- VII. Other Business

---

### Attachments:

- a. Minutes of August 15<sup>th</sup> Investment Committee
- b. Economist Article from October 7, 2017
- c. Wells Fargo Portfolio Summary Statement
- d. Historical Portfolio Performance
- e. Individual Manager Performance
- f. Summary of Fees and Managers
- g. Memo to Investment Committee from December 6<sup>th</sup>, 2017
- f. Vanguard and FranklinTempleton Factsheets

**MINUTES OF THE AUGUST 15, 2017  
INVESTMENT COMMITTEE MEETING  
OF THE  
PATRICK AND AIMEE BUTLER FAMILY FOUNDATION**

The Investment Committee meeting of the Patrick and Aimee Butler Family Foundation was held on Tuesday, August 15, 2017, at 4:00 p.m. Central Time via conference call.

The meeting was called to order by Bridget McElroy, Chair of the Investment Committee. John K. Butler acted as recording Secretary of the meeting.

Upon call of the Secretary, the following Committee members were present: Bridget McElroy, Brigid Butler, Patrick Butler Jr. and Patrick O'Brien. Also present was John Butler. Peter K. Butler was absent.

The Chair called for consideration of the minutes of the February 17, 2017 meeting of the Investment Committee, which had been previously circulated to the Committee members. Upon motion duly made, seconded and unanimously carried, the minutes of the February 17, 2017 Investment Committee meeting were approved, ratified and confirmed. The Committee then had a short discussion regarding the current process for approval of the minutes. There were no changes proposed and the Committee will continue to follow the process used by the Board.

The Chair called on Mr. John Butler, Chief Investment Officer, to review the current holdings of the portfolio and summarize any major changes since December 31, 2016. Mr. Butler began by reviewing the Wells Fargo Summary Statement. Mr. Butler then reviewed Individual Manager performance and any asset allocation changes. While all asset classes generally remain within the target ranges, U.S. equities have been reduced to the low-end of the range and International equities have been increased to the upper-end. Given the strong performance of most asset classes year-to-date, the Foundation portfolio has performed well on an absolute basis, but has lagged on a relative basis due to a more conservative posture. The long-term performance of the portfolio remains strong, and the Foundation outperformed in 2016 by a slighter wider margin than previously predicted.

The Committee next reviewed the Investment Policy Statement. The current statement was adopted by the Board of Trustees on October 3, 2014, and the Investment Committee Charter notes that it will be reviewed by the Committee each year at the August meeting. Mr. Butler recommended two modest changes to the Policy regarding reporting to the Foundation Trustees. After review and discussion, it was decided to recommend that these changes be approved by the Board of Trustees at the Fall meeting.

Mr. Butler then provided the Committee with an update on any new investments or any significant changes to current investments. He began by asking if there were any questions regarding the June 29<sup>th</sup> memo on Non-Core Limited Partnerships. There were none. Mr. Butler then discussed the Templeton Global Return Fund, which the Foundation is evaluating, but has not yet used. As the name implies, this is a fixed income fund managed by well-known fund manager, Michael Hasenstab. The Fund invests worldwide, and generates returns from interest

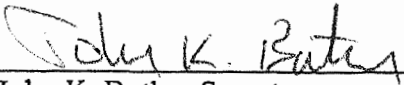
income, capital appreciation, and currency gains. The Fund has been used by both MFO and the Mott Foundation.

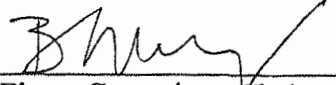
Mr. Butler then discussed the topic of "The Disappearing Public Company". He noted that the number of publicly traded companies in the U.S. has dropped from more than 7,000 20 years ago to less than 4,000 now. This has made the stock market more efficient and has made it more difficult to find appealing small-cap companies. Mr. Butler noted that he has been thinking of alternative ways for the Foundation's to maintain its small-cap exposure, which would likely involve using an outside small-cap or private equity manager. Mr. Butler also included an article on Crocus Hill Partners, a new small-cap firm owned by a long-time acquaintance, Beth Lilly.

Finally, Brigid Butler discussed the importance of evaluating the effectiveness of the Committee. She will provide materials and articles to Committee members at a later date.

The next Committee meeting will be in February, 2018. The meeting will be scheduled in January and materials for the meeting will be sent one week prior to the meeting.

The meeting adjourned at 5:00 p.m. Central Time.

  
John K. Butler, Secretary

ATTEST:   
Bridget McElroy, Committee Chair

# The bull market in everything

Prices are high across a range of assets. Is it time to worry?



IN HIS classic, "The Intelligent Investor", first published in 1949, Benjamin Graham, a Wall Street sage, distilled what he called his secret of sound investment into three words: "margin of safety". The price paid for a stock or a bond should allow for human error, bad luck or, indeed, many things going wrong at once. In a troubled world of trade tiffs and nuclear braggadocio, such advice should be especially worth heeding. Yet rarely have so many asset classes—from stocks to bonds to property to bitcoins—exhibited such a sense of invulnerability.

Dear assets are hardly the product of euphoria. No one would mistake the bloodless run-up in global stockmarkets, credit and property over the past eight years for a reprise of the "roaring 20s", or even an echo of the dotcom mania of the late 1990s. Yet only at the peak of those two bubbles has America's S&P 500 been higher as a multiple of earnings measured over a ten-year cycle. Rarely have creditors demanded so little insurance against default, even on the riskiest "junk" bonds. And rarely have property prices around the world towered so high. American house prices have bounced back since the financial crisis and are above their long-term average relative to rents. Those in Britain are well above it. And in Canada and Australia, they are in the stratosphere. Add to this the craze for exotica, such as cryptocurrencies (see *Free exchange*), and the world is in the throes of a bull market in everything.

## Where's the beef?

Asset-price booms are a source of cheer, but also anxiety. There are two immediate reasons to worry. First, markets have been steadily rising against a backdrop of extraordinarily loose monetary policy. Central banks have kept short-term interest rates close to zero since the financial crisis of 2007-08 and have helped depress long-term rates by purchasing \$1trn-worth of government bonds through quantitative easing. Only now are they starting to unwind these policies. The Federal Reserve has raised rates twice this year and will soon start to sell its bondholdings. Other central banks will eventually follow. If today's asset prices have been propped up by central-bank largesse, its end could prompt a big correction. Second, signs are appearing that fund managers, desperate for higher yields, are becoming increasingly incautious. Consider, for instance, investors' recent willingness to buy Eurobonds issued by Iraq, Ukraine and Egypt at yields of around 7%.

But look carefully at the broader picture, and there is some logic to the ongoing rise in asset prices. In part it is a response to an improving world economy. In the second quarter of this year global GDP grew at its fastest pace since 2010, as a recovery in emerging markets added impetus to longer-standing upswings in Europe and America. As our special report this week argues, emerging-market economies have come out of testing times in far more resilient shape.

More significant still is the behaviour of long-term interest rates. They have fallen steadily since the 1980s and remain

close to historic lows. And that underpins all sorts of other asset prices (see page 23). A widespread concern is that the Fed and its peers have grossly distorted bond markets and, by extension, the price of all assets. Warren Buffett, the most famous disciple of Ben Graham, said this week that stocks would look cheap in three years' time if interest rates were one percentage-point higher, but not if they were three percentage points higher. But if interest rates and bond yields were unjustifiably low, inflation would take off—and puzzlingly it hasn't. This suggests that factors beyond the realm of monetary policy have been a bigger cause of low long-term rates. The most important is an increase in the desire to save, as ageing populations set aside a larger share of income for retirement. Just as the supply of saving has risen, demand for it has fallen. Stagnant wages and the lower price of investment goods mean companies are flush with cash. All this suggests that interest rates will stay low by historical standards.

## Beware of the bull

Still the most dangerous, anti-Graham motto of investing is "this time is different". It would be daft to assume that asset prices must remain high come what may. Many hazards could derail the economy and financial markets, from a debt crisis in China to an American-led trade war or an outbreak of fighting on the Korean peninsula. And when the next recession comes, policymakers have less fiscal and monetary ammunition to fight it than they had in previous downturns. Prudence therefore suggests caution.

One option is for central bankers to raise rates more enthusiastically and less predictably, to jolt financial markets and remind investors that the world is volatile. Yet there are obvious perils with this course. The tightening might prove excessive, tipping economies into recession. And with inflation in most big economies below central bankers' target, sharply higher rates are hard to square with their mandate.

Instead, caution calls for gradualism. To minimise disruption, the reversal of quantitative easing should be stretched out. The Federal Reserve has set a good precedent by proposing to reduce its bondholdings at a leisurely pace and flagging the change well in advance. When the time comes, its peers should follow suit. Of these, the European Central Bank faces the trickiest challenge, because it has acted as, in effect, the backstop to euro-zone bond markets, a mechanism that otherwise the currency bloc still lacks.

But the main safety valve lies elsewhere, with banks and investors. Bitter experience has shown that debt-funded assets can magnify losses, causing financial crises. For this reason banks must be able to withstand any reversal of today's high asset prices and low defaults. That means raising bank capital in places where it is too low, especially the euro zone, and not backsliding on strenuous "stress tests" as America's Treasury proposes. In the end, however, there may be no escape for investors from the low future returns and even losses that high asset prices imply. They and regulators should take a leaf out of "The intelligent Investor", and make sure that they have a margin of safety. ■



	<u>COST</u>	<u>MARKET VALUE</u>	<u>ACCRUED INCOME</u>	<u>%GAIN (LOSS)</u>	<u>% MKI</u>	<u>ESTIMATED ANNUAL INCOME</u>	<u>CURRENT YIELD</u>
SETTLED CASH	0.00	0.00	0.00	.0	.0	0.00	.00
RECEIVABLES	155,996.62	155,996.62		.0	.1		
NET CASH	<u>155,996.62</u>	<u>155,996.62</u>		<u>.0</u>	<u>.1</u>		
CASH EQUIVALENTS	15,272,775.60	15,272,775.60	10,940.95	.0	13.9	153,763.17	1.01
SHORT TERM FUNDS	<u>15,272,775.60</u>	<u>15,272,775.60</u>	<u>10,940.95</u>	<u>.0</u>	<u>13.9</u>	<u>153,763.17</u>	<u>1.01</u>
CASH EQUIVALENTS	13,875,918.24	3,755,683.02	18,299.21	(3.1)	3.4	207,830.44	5.53
FIXED INCOME	1,272,587.55	1,278,079.88	781.07	.4	1.2	74,842.80	5.86
GOVERNMENT AND AGENCIES	1,332,267.76	1,335,351.23	16,287.14	.2	1.2	54,426.18	4.08
BOND FUNDS	6,317,069.50	6,344,510.60	65,439.38	.4	5.8	250,643.05	3.95
MUNICIPAL BONDS	599,200.07	624,493.16	1,165.99	4.2	.6	23,482.00	3.76
CORPORATE BONDS	408,490.44	392,899.26	1,202.88	(3.8)	-.4	15,504.96	3.95
ASSET-BACKED SECURITIES							
COLLATERALIZED MTG-BACKED							
FIXED INCOME	<u>13,805,533.56</u>	<u>13,731,017.15</u>	<u>103,175.67</u>	<u>(.5)</u>	<u>12.5</u>	<u>626,729.43</u>	<u>4.56</u>
PREFERRED STOCK	229,280.00	229,620.00	0.00	.1	-.2	11,995.00	5.22
PREFERRED STOCK MISC							
PREFERRED STOCK	<u>229,280.00</u>	<u>229,620.00</u>	<u>0.00</u>	<u>.1</u>	<u>-.2</u>	<u>11,995.00</u>	<u>5.22</u>
COMMON STOCK	2,836,534.07	6,673,490.00	10,720.00	135.3	6.1	154,560.00	2.32
HEALTH CARE	3,225,224.29	7,048,814.11	7,500.00	118.6	6.4	159,027.48	2.26
FINANCIALS	1,089,673.74	2,354,000.00	0.00	116.0	2.1	68,230.00	2.90
CONSUMER STAPLES	584,618.32	2,299,240.00	0.00	293.3	2.1	58,240.00	2.53
CONSUMER DISCRETIONARY	1,087,538.28	2,222,610.00	2,460.00	104.4	2.0	40,800.00	1.84
MATERIALS	1,531,843.53	2,330,020.00	0.00	52.1	2.1	31,560.00	1.35
ENERGY	2,503,689.44	5,343,440.00	0.00	113.4	4.9	129,600.00	2.43
INFORMATION TECHNOLOGY	3,485,751.59	6,757,180.00	6,000.00	93.9	6.2	162,420.00	2.40
INDUSTRIALS	597,175.30	952,740.00	0.00	59.5	.9	42,480.00	4.46
TELECOMMUNICATION SERVICE	3,476,458.75	4,428,607.00	15,200.00	27.4	4.0	148,342.00	3.35
ADR'S							
COMMON STOCK	<u>20,418,527.31</u>	<u>40,410,141.11</u>	<u>41,880.00</u>	<u>97.9</u>	<u>36.8</u>	<u>995,259.48</u>	<u>2.46</u>



FD433  
 SUMMARY STATEMENT  
 OF INVESTMENT HOLDINGS  
 BY SECURITY CATEGORIZATION

PATRICK AND AIMEE BUTLERFAMILY FOUNDATION  
 CONSOLIDATED ACCOUNT  
 BASE CURRENCY: USD

PAGE 7  
 25007299  
 AS OF DECEMBER 31, 2017

	<u>COST</u>	<u>MARKET VALUE</u>	<u>ACCRUED INCOME</u>	<u>%GAIN (LOSS)</u>	<u>% MKI</u>	<u>ESTIMATED ANNUAL INCOME</u>	<u>CURRENT YIELD</u>
EQUITY FUNDS							
MUTUAL EQUITY FUNDS	5,316,096.04	4,044,452.68	0.00	(23.9)	3.7	120,544.60	2.98
EQUITY FUNDS	<u>5,316,096.04</u>	<u>4,044,452.68</u>	<u>0.00</u>	<u>(23.9)</u>	<u>3.7</u>	<u>120,544.60</u>	<u>2.98</u>
MISCELLANEOUS							
OTHER MISCELLANEOUS	360.00	360.00	0.00	.0	.0	0.00	.00
MISCELLANEOUS	<u>360.00</u>	<u>360.00</u>	<u>0.00</u>	<u>.0</u>	<u>.0</u>	<u>0.00</u>	<u>.00</u>
VENTURE/LMTD PART/CLS HLD							
VENTURE CAPITAL	29,586,105.05	35,869,507.00	0.00	21.2	32.7	0.00	.00
VENTURE/LMTD PART/CLS HLD	<u>29,586,105.05</u>	<u>35,869,507.00</u>	<u>0.00</u>	<u>21.2</u>	<u>32.7</u>	<u>0.00</u>	<u>.00</u>
NET ASSETS	<u>84,784,674.18</u>	<u>109,713,870.16</u>	<u>155,996.62</u>	<u>29.4</u>	<u>100.0</u>	<u>1,908,291.68</u>	<u>1.74</u>

**Patrick and Aimee Butler Family Foundation - Historical Portfolio Performance**

	Butler Family Foundation					Foundation Average					Market Benchmark (65/35)				
	<u>YR</u>	<u>TOTAL</u>	<u>5-YR</u>	<u>10-YR</u>	<u>ITD</u>	<u>YR</u>	<u>TOTAL</u>	<u>5-YR</u>	<u>10-YR</u>	<u>ITD</u>	<u>YR</u>	<u>TOTAL</u>	<u>5-YR</u>	<u>10-YR</u>	<u>ITD</u>
2000	12.8%	12.8%			12.8%	3.1%	3.1%			3.1%	-1.5%	-1.5%			-1.5%
2001	4.9%	18.3%			8.7%	-2.1%	0.9%			0.5%	-5.1%	-6.5%			-3.3%
2002	-1.0%	17.1%			5.3%	-5.7%	-4.8%			-1.6%	-9.9%	-15.8%			-5.5%
2003	16.6%	36.5%			8.1%	12.5%	7.1%			1.7%	19.5%	0.6%			0.2%
2004	11.6%	52.3%	8.8%		8.8%	11.4%	19.3%	3.6%		3.6%	7.9%	8.6%	1.7%		1.7%
2005	4.7%	59.4%	7.2%		8.1%	8.2%	29.1%	4.6%		4.4%	4.0%	12.9%	2.8%		2.1%
2006	12.7%	79.7%	8.7%		8.7%	13.7%	46.8%	7.8%		5.6%	11.7%	26.2%	6.2%		3.4%
2007	6.3%	91.0%	10.3%		8.4%	10.3%	61.9%	11.2%		6.2%	6.2%	34.0%	9.7%		3.7%
2008	-21.2%	50.5%	2.0%		4.6%	-25.9%	19.9%	2.3%		2.0%	-22.1%	4.4%	0.7%		0.5%
2009	16.1%	74.7%	2.8%	5.7%	5.7%	20.5%	44.5%	3.9%	3.8%	3.8%	18.8%	24.0%	2.7%	2.2%	2.2%
2010	11.6%	94.9%	4.1%	5.6%	6.3%	12.5%	62.6%	4.7%	4.7%	4.5%	12.1%	39.0%	4.2%	3.5%	3.0%
2011	1.7%	98.1%	2.0%	5.3%	5.9%	-0.7%	61.5%	1.9%	4.8%	4.1%	4.4%	45.1%	2.8%	4.5%	3.2%
2012	12.6%	123.2%	3.2%	6.7%	6.4%	12.0%	80.8%	2.2%	6.6%	4.7%	12.3%	63.0%	4.0%	6.8%	3.8%
2013	18.6%	164.6%	12.0%	6.8%	7.2%	15.6%	109.1%	11.8%	6.9%	5.4%	20.4%	96.2%	13.5%	6.9%	4.9%
2014	5.0%	177.9%	9.7%	6.2%	7.1%	6.1%	121.8%	8.9%	6.4%	5.5%	11.0%	117.8%	11.9%	7.2%	5.3%
2015	0.7%	179.7%	7.5%	5.8%	6.6%	0.0%	121.8%	6.4%	5.6%	5.1%	0.9%	119.8%	9.6%	6.9%	5.0%
2016	9.5%	206.3%	9.1%	5.5%	6.8%	6.4%	136.0%	7.9%	4.9%	5.2%	8.8%	139.1%	10.5%	6.6%	5.3%
2017	12.0%	243.1%	9.0%	6.0%	7.1%	10.0%	159.6%	7.5%	4.8%	5.4%	15.4%	175.9%	11.1%	7.5%	5.8%

**All returns are net of fees  
Any returns in *italics* are estimates**

**Patrick and Aimee Butler Family Foundation - Individual Manager Performance**

<u>Asset Class</u>	<u>Allocation - December 31, 2017</u>				<u>Performance Data - December 31, 2017</u>			
	<u>Assets</u>	<u>Wgt</u>	<u>Target</u>	<u>Range</u>	<u>1 YR</u>	<u>5 YR</u>	<u>ITD</u>	<u>Incep. Date</u>
<b>Cash</b>	\$14.9	14%	5%	0-10%	0.5%	NA	NA	NA
<b>Fixed Income</b>								
Sit Investment Assoc.	\$14.6	13%	15%	10-20%	5.4%	3.2%	3.7%	12/31/2011
Barclays Aggregate					3.5%	2.1%	2.4%	
<b>U.S. Equities</b>								
Internally Managed	\$40.4	37%	45%	40-50%	12.5%	13.9%	8.4%	12/31/1999
S&P 500					21.8%	15.8%	5.4%	
<b>International Equities</b>								
Mondrian Investment Group	\$27.6	25%	20%	15-25%	23.3%	7.1%	6.5%	6/30/2004
MSCI All-Country World					27.2%	6.8%	5.7%	
<b>Alternative Investments</b>								
Miscellaneous	\$12.7	12%	15%	10-20%	0.8%	1.7%	1.9%	NA
HFRI FOF Composite					8.0%	2.6%	2.6%	
<b>Total Foundation</b>	<b>\$110</b>	<b>100%</b>	<b>100%</b>		<b>12.0%</b>	<b>9.0%</b>	<b>7.1%</b>	

Notes:

Domestic Equities managed by same individual while at Mairs and Power prior to September 2013  
Mondrian fund was changed from International Equity Fund to All Countries World in January 2012  
Performance for Alternative Investments is an estimation due to manager changes and time lags



# Patrick & Aimee Butler Family Foundation

## Summary of Fees, Managers and Custodians - December 31, 2017

<u>Asset Class</u>	<u>SMA or Fund</u>	<u>Custodian</u>	<u>Manager</u>	<u>Assets</u>	<u>Fee</u>	<u>Est. Costs</u>
<u>Cash</u>						
Stock Account	SMA	Wells Fargo	Internal	\$6.0	0	\$0
Misc. Account	SMA	Wells Fargo	Internal	\$8.9	0	\$0
<u>Fixed Income</u>						
Sit Investment	SMA	Wells Fargo	Sit Investment	\$14.6	32	\$47
<u>Equities</u>						
Domestic	SMA	Wells Fargo	Internal	\$40.4	0	\$0
International	Fund	JP Morgan	Mondrian	\$27.6	67	\$185
<u>Alternatives</u>						
Debt Partnerships	Fund	Wells/US Bank	Northstar	\$3.4	200	\$68
Infrastructure Part.	Fund	NA	Morgan Stanley	\$0.9	200	\$18
Global Real Estate	Fund	NA	Morgan Stanley	\$3.3	200	\$66
Commodities Fund	Fund	State Street Bank	Invesco	\$3.9	100	\$39
Wasterwater Opp.	Fund	NA	Equilibrium Cap.	\$0.6	200	\$12
Limited Partnerships	Fund	NA	NA	\$0.1	100	\$1
				\$110		
<b>Estimated Investment Fees (Direct &amp; Imbedded)</b>						\$436
<b>Custodial Costs</b>						\$42
<b>Internal Investment Costs</b>						\$85
<b>Estimated Total Investment Costs</b>						\$563
<b>Percent of Assets</b>						51 bp
<b>Average for Foundations</b>						90-120 bp

### Notes:

SMA is seperately managed account

All SMA custodied at Wells Fargo

Fees are stated in basis points (1/100 of 1%)

---

---

**PATRICK AND AIMEE BUTLER FAMILY FOUNDATION**

---

---

**TO:** INVESTMENT COMMITTEE  
**FROM:** JOHN BUTLER  
**SUBJECT:** UPDATE ON POTENTIAL US EQUITY SMALL-CAP MANAGER  
**DATE:** DECEMBER 6, 2017

---

Dear Investment Committee Members:

You may remember that on our August conference call I discussed “The Disappearing Public Company” and noted that the number of publicly traded companies in the U.S. has dropped from more than 7,000 20 years ago to less than 4,000 now. I further commented that because much of this reduction has occurred among small-cap companies, it has become more difficult to find appealing candidates in this space (as a note Butler Family Foundation has always had a multi-cap approach to U.S. equities). Finally, I mentioned that I had been thinking of alternative ways for the Foundation to maintain its small-cap exposure, which would likely involve using an external small-cap manager for public equities or even a move into private equity.

Because the Foundation would be funding any external manager from the current U.S. equity portfolio, and because valuations in the private equity market are extremely expensive, the logical first step is to hire a dedicated small-cap equity manager. Over the past several months I have been looking at both active and passive managers in the U.S. small-cap space. After evaluating performance, potential risk and fit with the existing portfolio, I have decided that a passive investment (ie an index fund) makes the most sense. It is extremely difficult to hire a manager capable of outperforming their benchmark in U.S. equities over the long-term, which is why so many investors are flocking to index funds. An index fund eliminates this risk of under-performance (as well as the potential for outperformance), and accomplishes the most important goal, which is to get exposure to the small-cap universe.

While there are several major firms that provide index funds, Vanguard is the clear leader and one the Foundation has used successfully in the past. Vanguard does offer a small-cap core index product (VSMAX), which would fit the Foundation’s needs well. I have attached some background material on the Fund. One question that may arise in looking at this material is the Fund’s benchmark, which is the CRSP US Small Cap Index. Vanguard switched to this benchmark in 2013, which is produced by the Center for Research in Security Prices at the University of Chicago. While not as well-known as the Russell 2000, the CRSP US Small Cap is a legitimate benchmark and one that has outperformed the Russell 2000 over time.

My intent is to make an initial investment in the Vanguard Small-Cap Index Fund of \$5 million, a modest investment given an overall U.S. equity portfolio of approximately \$40-45 million. When combined with the Foundation’s existing equity portfolio, this would bring the small-cap allocation to roughly 20%, which in turn is the approximate weight of small-cap stocks in the overall US market. The timing of this purchase will likely be sometime in early 2018, as it will take some time to rebalance the portfolio and complete the paperwork.

As always, please let me know if you have any questions or comments.

# Vanguard Small-Cap Index Fund

Domestic stock fund | Admiral™ Shares

Risk level Low ← → High					Total net assets	Expense ratio as of 04/27/17	Ticker symbol	Turnover Rate	Inception date	Fund number
1	2	3	4	5	\$33,801 MM	0.06%	VSMAX	14.3%	11/13/00	0548

## Investment objective

Vanguard Small-Cap Index Fund seeks to track the performance of a benchmark index that measures the investment return of small-capitalization stocks.

## Investment strategy

The fund employs an indexing investment approach designed to track the performance of the CRSP US Small Cap Index, a broadly diversified index of stocks of smaller U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

For the most up-to-date fund data, please scan the QR code below.



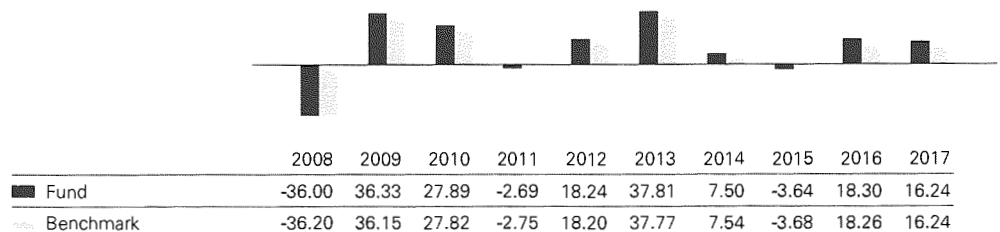
## Benchmark

Spliced Small Cap Index

Growth of a \$10,000 investment : January 31, 2008—December 31, 2017



## Annual returns



## Total returns

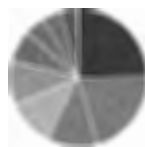
Periods Ended December 31, 2017

	Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	5.10%	16.24%	16.24%	9.84%	14.44%	9.68%
Benchmark	5.10%	16.24%	16.24%	9.81%	14.43%	9.61%

**The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).**

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

## Top sector holdings—Stocks



■ Financials	24.6%	■ Consumer Goods	7.4
■ Industrials	20.8	■ Oil & Gas	4.9
■ Consumer Services	12.0	■ Basic Materials	4.6
■ Technology	11.2	■ Utilities	3.8
■ Health Care	10.3	■ Telecommunications	0.4

Sector categories are based on the Industry Classification Benchmark ("ICB"), except for the "Other" category (if applicable), which includes securities that have not been provided an ICB classification as of the effective reporting period.

# Vanguard Small-Cap Index Fund

Domestic stock fund | Admiral™ Shares

## Ten largest holdings\*

1	Diamondback Energy Inc.	
2	XPO Logistics Inc.	
3	Broadridge Financial Solutions Inc.	
4	CDW Corp.	
5	IDEX Corp.	
6	Spirit AeroSystems Holdings Inc.	
7	Leidos Holdings Inc.	
8	Atmos Energy Corp.	
9	Steel Dynamics Inc.	
10	Nektar Therapeutics	
Top 10 as % of Total Net Assets		3.0%

\* The holdings listed exclude any temporary cash investments and equity index products.

Connect with Vanguard® > [vanguard.com](http://vanguard.com)

### Plain talk about risk

An investment in the fund could lose money over short or even long periods. You should expect the fund's share price and total return to fluctuate within a wide range, like the fluctuations of the overall stock market. The fund's performance could be hurt by:

**Stock market risk:** The chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising stock prices and periods of falling stock prices. The fund's target index may, at times, become focused in stocks of a particular sector, category, or group of companies. Because the fund seeks to track its target index, the fund may underperform the overall stock market.

**Investment style risk:** The chance that returns from small-capitalization stocks will trail returns from the overall stock market. Historically, small-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently.

### Note on frequent trading restrictions

Frequent trading policies may apply to those funds offered as investment options within your plan. Please log on to Vanguard.com for your employer plans or contact Participant Services at 800-523-1188 for additional information.

### For more information about Vanguard funds or to obtain a prospectus, see below for which situation is right for you.

If you receive your retirement plan statement from Vanguard or log on to Vanguard's website to view your plan, visit [vanguard.com](http://vanguard.com) or call **800-523-1188**.

If you receive your retirement plan statement from a service provider other than Vanguard or log on to a record keeper's website that is not Vanguard to view your plan, please call **855-402-2646**.

**Visit [vanguard.com](http://vanguard.com) to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.**

**Financial advisor clients: For more information about Vanguard funds, contact your financial advisor to obtain a prospectus.**

Investment Products: Not FDIC Insured • No Bank Guarantee • May Lose Value



**FRANKLIN TEMPLETON  
INVESTMENTS**

**Templeton Global Total Return  
Fund**

Fixed Income  
December 31, 2017

Fund Fact Sheet | Share Class: Advisor

**Fund Description**

The fund seeks total investment return consisting of a combination of interest income, capital appreciation and currency gains. The fund primarily invests in fixed and floating-rate debt securities and debt obligations of governments, government-related or corporate issuers worldwide and regularly enters into various currency-related and other transactions involving derivative instruments.

**Fund Overview**

**Total Net Assets [All Share Classes]** \$5,511 million  
**Fund Inception Date** 9/30/2008  
**Dividend Frequency** Monthly  
**Number of Holdings** 196

**Share Class Information**

Share Class	CUSIP	NASDAQ Symbol
Advisor	880 208 855	TTRZX
A	880 208 889	TGTRX
C	880 208 871	TTRCX
R	880 208 863	FRRGX
R6	880 208 764	FTTRX

**Fund Management**

	Years with Firm	Years of Experience
Michael Hasenstab, PhD	18	22
Sonal Desai, PhD	8	23

**Maximum Sales Charge**

**Advisor Class:** None

**Total Annual Operating Expenses**

Share Class	With Waiver	Without Waiver
Advisor	0.83%	0.86%

**30-Day Standardized Yield**

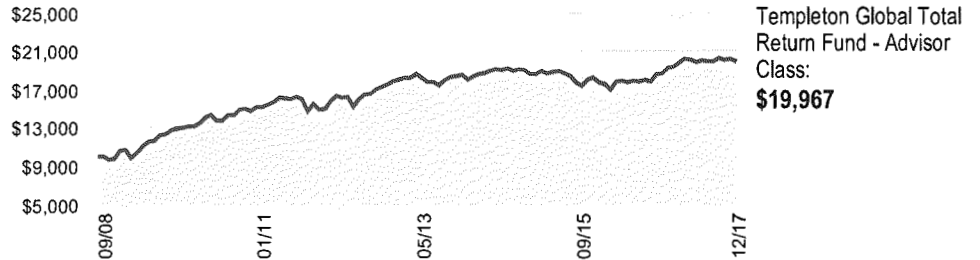
Share Class	With Waiver	Without Waiver
Advisor	5.38%	5.32%

**Asset Allocation (%)**

Fixed Income	78.23
Cash & Cash Equivalents	21.75
Equity	0.01

**Performance**

**Growth of a \$10,000 Investment (from 09/30/2008-12/31/2017)**



**Total Returns % (as of 12/31/2017)**

Share Class	YTD	AVERAGE ANNUAL				Since Inception	Inception Date
		1 Yr	3 Yrs	5 Yrs			
Advisor	3.09	3.09	2.22	2.21	7.76	9/30/2008	

**Calendar Year Total Returns %**

Share Class	2017	2016	2015	2014	2013	2012	2011	2010	2009
Advisor	3.09	8.66	-4.64	0.62	3.81	19.31	-0.91	15.31	24.18

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal values will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit [franklintempleton.com](http://franklintempleton.com) for the most recent month-end performance.

Advisor Class shares do not have sales charges or 12b-1 fees and are offered only to certain eligible investors as stated in the prospectus.

The fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through April 30, 2018. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

**Fund Measures**

Average Duration	-0.51 Years
Average Weighted Maturity	3.29 Years
Standard Deviation (3 Yrs) - Advisor Class	6.69%

**Morningstar Rating™—Advisor Class**

**Overall Morningstar Rating™**



As of December 31, 2017 the fund's Advisor Class shares received a 4 star overall Morningstar Rating™, measuring risk-adjusted returns against 271 and 243 U.S.-domiciled World Bond funds over the 3- and 5-year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

**Composition of Fund**

■ Templeton Global Total Return Fund ■ Bloomberg Barclays Multiverse Index

Geographic	% of Total
Mexico	14.95 / 0.67
Brazil	12.83 / 0.89
India	11.37 / 0.10
Indonesia	7.92 / 0.45
United States	5.34 / 38.40
South Korea	4.80 / 1.33
Ghana	4.60 / 0.01
Colombia	4.58 / 0.21
ST Cash and Cash Equivalents	23.27 / 0.00
Others	10.32 / 57.87

Currency	% of Total
U.S. Dollar	111.13 / 45.77
Mexican Peso	22.88 / 0.25
Brazilian Real	13.62 / 0.56
Indian Rupee	12.93 / 0.00
Indonesian Rupiah	10.57 / 0.27
South Korean Won	-5.88 / 1.16
Australian Dollar	-9.37 / 1.30
Japanese Yen	-35.39 / 15.21
Euro	-38.97 / 24.78
Others	18.50 / 10.70

Sector	% of Total
Local Curr. Govt/Agency Bonds: Investment Grade	46.09 / 42.01
Local Curr. Govt/Agency Bonds: Non-Investment Grade	24.66 / 0.65
US Treasuries/Agencies	5.48 / 14.71
Convertibles	1.06 / 0.00
Non-Local Curr. Sovereign Bonds: Non-Investment Grade	0.99 / 1.21
Corporate Bonds: Non-Investment Grade	0.10 / 3.64
Corporate Bonds: Investment Grade	0.00 / 17.86
Derivatives	-0.17 / 0.00
Cash & Cash Equivalents	21.75 / 0.00
Others	0.01 / 19.93

**Important Information About Portfolio Data**

Asset Allocation, Average Duration, Average Weighted Maturity, Geographic and Currency figures reflect certain derivatives held in the portfolio (or their underlying reference assets). Sector Exposure figures are intended to estimate the portfolio's exposure, including any hedged or increased exposure through certain derivatives held in the portfolio (or their underlying reference assets). The portfolio breakdown percentages may not total 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

**What Are the Risks**

All investments involve risks, including possible loss of principal. Derivatives, including currency management strategies, involve costs and can create economic leverage in the portfolio which may result in significant volatility and cause the fund to participate in losses on an amount that exceeds the fund's initial investment. The fund may not achieve the anticipated benefits, and may realize losses when a counterparty fails to perform as promised. The markets for particular securities or types of securities are or may become relatively illiquid. Reduced liquidity will have an adverse impact on the security's value and on the fund's ability to sell such securities when necessary to meet the fund's liquidity needs or in response to a specific market event. Foreign securities involve special risks, including currency fluctuations (which may be significant over the short term) and economic and political uncertainties; investments in emerging markets involve heightened risks related to the same factors. Sovereign debt securities are subject to various risks in addition to those relating to debt securities and foreign securities generally, including, but not limited to, the risk that a government entity may be unwilling or unable to pay interest and repay principal on its sovereign debt, or otherwise meet its obligations when due. Investments in lower-rated bonds include higher risk of default and loss of principal. Bond prices generally move in the opposite direction of interest rates. As the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. These and other risks are discussed in the fund's prospectus.

**Glossary**

**Average Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

**Average Weighted Maturity:** An estimate of the number of years of maturity, taking the possibility of early payments into account, for the underlying holdings.

**Standard Deviation:** A measure of the degree to which a fund's return varies from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that a fund's performance will fluctuate from the average return.

**Important Information**

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.*

Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change.

Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

**Performance:** The fund offers other share classes subject to different fees and expenses, which will affect their performance.

**30-Day Standardized Yield:** The fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

**Morningstar Rating™:** Source: Morningstar®, 12/31/17. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The Fund's Advisor Class shares received a Morningstar Rating of 3 and 4 star(s) for the 3- and 5-year periods, respectively. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics.

**Past performance is not an indicator or a guarantee of future performance.** Source: ©Morningstar. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).