

Fund Facts

Tier III:
**Actively
Managed Fund¹**

Fund Type:
Bond

Inception Date:
5/11/1987

Total Net Assets:²
\$242.2 billion

Expense Ratio:
0.46%

Number of Holdings:
7,050

Effective Maturity:
9.0 years

Duration:
7.1 years

Interest Rate Risk:
Above Average

Yield:
2.57%

Investment Objective

The Fund seeks maximum total return, consistent with preservation of capital and prudent investment management by investing in a diversified portfolio of primarily high-quality bonds that is actively managed to maximize return in a risk controlled framework. The “total return” sought by the Fund consists of income earned on the Fund’s investments, plus capital appreciation, if any, which generally arises from decreases in interest rates, foreign currency appreciation, or improving credit fundamentals for a particular sector or security. There is no assurance that the Fund will achieve its objective. Refer to “Risks” section.

Manager

The Fund is a Pacific Investment Management Company (PIMCO) mutual fund managed by PIMCO investment professionals.

Investor Profile

Bond investments may be most appropriate for someone seeking higher potential income than with a money market investment. The Fund may be suitable for an investor who may desire to balance more aggressive investments with one providing potentially steady income.

Strategy

The Active Bond Fund invests in units/shares of the PIMCO Total Return Fund – Institutional Shares. The Fund under normal circumstances invests at least 65% of its total assets in a well-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. Fixed-income instruments include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public or private sector entities. The Fund invests primarily in investment-grade debt securities, but may invest up to 10% of its total assets in high-yield securities rated B or higher. The Fund may invest up to 30% of its total assets in securities denominated in foreign currencies, and may invest beyond this limit in U.S. dollar denominated securities of foreign issuers. The Fund may invest up to 15% of its total assets in emerging market countries. The Fund will normally limit its foreign currency exposure (from non-U.S. dollar denominated securities or currencies) to 20% of its total assets. The Fund may invest all of its assets in derivative instruments, such as options, futures, swap agreement or in mortgage or asset-backed

securities. Although the Fund does not currently participate in securities lending activities, the Fund does have the ability to do so.

Risks

There are risks involved with investing, including loss of money over short or long periods of time. Fund risks include, but are not limited to:

Interest rate risk: The risk that if interest rates rise bonds will decline in value.

Income risk: The risk that a fund’s income will decline because of falling interest rates.

Default (credit) risk: The risk that an issuer fails to pay interest or principal when due or in a timely manner or that negative perceptions of an issuer’s ability to make such payments will cause the price of the security to decline.

Call risk: The risk that the issuer of a callable bond will redeem the bond issue prior to maturity. This typically results in the bond holder reinvesting funds at a lower interest rate resulting in a decline in income and losing the opportunity for additional price appreciation associated with falling interest rates.

Liquidity risk: The risk that a fund could experience difficulties in valuing and selling illiquid securities which may result in not receiving full value for the security.

Prepayment risk: The risk associated with the early unscheduled return of principal which results in the bondholder losing income due to the early payoff of the debt and potentially having to reinvest funds at lower interest rates. This risk is typically associated with mortgage securities.

Market risk: The risk that the price of securities in a fund will rise or fall sometimes rapidly or unpredictably due to factors such as real or perceived adverse economic conditions, political developments, and/or investor sentiment generally. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously. Stocks generally have greater price volatility than bonds.

Manager risk: The risk that manager decisions can adversely affect the ability of a fund to meet its investment objectives and/or cause a fund to underperform relevant benchmarks.

Active Bond Fund

as of September 30, 2011

Performance

Current performance may be lower or higher than performance data shown. Performance data shown represents past performance and is not a guarantee or prediction of future results. For performance data current to the most recent month-end, please visit the Web site at www.varetire.org and select a Plan under the Defined Contribution Plans tab. Choose "Plan Investments" and then "Investment Performance." The investment return and principal value of an investment will fluctuate so that, when redeemed, shares/units may be worth more or less than their original cost. Investors should consider the investment objectives, risk, fees and expenses carefully before investing.

	1 Year	3 Years*	5 Years*	10 Years*
Active Bond Fund ³	0.96%	9.84%	7.81%	6.59%
Barclays Capital Aggregate Bond Index ⁴	5.26	7.97	6.53	5.66

Top Holdings

FNMA TBA 4.5% OCT	11.3%
FNMA TBA 4.0% OCT 30YR	5.8
OIS USD R FEDL01/1.00 9/19/12 B	2.7
FNMA TBA 5.0% OCT	2.5
IRS EUR R 6ME/3.5 9/21/11 BRC	1.6
U.S. Treasury Note	1.5
OIS USD R FEDL01/1.00 9/19/12 G	1.3
U.S. Treasury Inflation Prot BD	1.2
IRS USD R 3ML/3.0 10/13/11 MYC	1.1
FHLMC TBA GOLD 4.5% OCT 30YR	1.1

Sector Diversification**

Mortgage	38.0%
Government-Related	22.0
Non-U.S. Developed	20.0
Investment Grade Credit	17.0
Emerging Markets	13.0
High Yield Credit	4.0
Municipal	4.0
Euro/Yankees	1.0
Net Cash Equivalents ⁵	-19.0

Glossary

Quality Ratings: Represents bond issuers' ability to make interest payments and repay principal over time. Rating organizations such as Moody's and Standard & Poor's evaluate the credit worthiness of bonds and assign ratings accordingly. Because the financial condition of an issuer can change, rating organizations may downgrade or upgrade ratings over time. The chart to the right serves as a reference.

Duration: Measures a bond or bond portfolio's price sensitivity to changes in interest rates. The higher the duration number (expressed in years) the greater the interest rate risk.

Yield: The standardized SEC yield based on the most recent 30-day period. It approximates the annual percent returned on a bond if held to maturity.

	Moody's [†]	Standard & Poor's ^{††}
Investment Grade		
Highest Quality	Aaa	AAA
High Quality (very strong)	Aa	AA
Upper-Medium Grade Quality (strong)	A	A
Medium Grade Quality	Baa	BBB
Not Investment Grade		
Lower Medium Grade Quality (somewhat speculative)	Ba	BB
Low Grade Quality (speculative)	B	B
Poor Quality	Caa	CCC
Most Speculative	Ca	CC
Imminent Default or Default	C	C, D

[†]The ratings from Aa to Caa by Moody's may be modified by the addition of 1, 2 or 3 to show relative standing within the category with 1 ranking in the higher end and 3 ranking in the lower end of the category.

^{††}The ratings from AA to CCC by Standard & Poor's may be modified by the addition of a plus or minus sign to show relative standing within the category.

*Annualized

** May not equal 100% due to rounding.

1 An actively-managed fund tries to produce higher returns than the benchmark index. A professional portfolio manager, typically with one or more analysts, engages in regular in-depth research on the individual securities within a particular area of focus. Actively-managed investment options tend to have higher fees than those that are passively-managed because you are paying the investment manager for his or her expertise and research in deciding which securities to buy or sell and for the potential of achieving higher returns. Actively-managed investment options may also have higher fees due to more frequent trading of securities within the investment option than with a passively-managed one.

2 Total net assets shown reflect all types of shares for the fund. Net assets as of September 30, 2011 for the Institutional Shares equal \$143.2 billion.

3 The performance returns shown reflect all fund management fees and expenses, but does not reflect the Plan administrative fee, which would further reduce the returns shown. All calculations assume reinvestment of dividends and capital gains. All returns are calculated in U.S. dollars. Performance returns are provided by Pacific Investment Management Company (PIMCO).

4 You cannot invest directly in an Index. The Barclays Capital Aggregate Bond Index is an unmanaged index considered indicative of the broad domestic investment grade bond market in general and consists of government, corporate, mortgage-backed, and asset backed securities.

5 "Net Cash Equivalents" equals the sum of cash and cash equivalent securities (investment grade securities of one year or less in duration) less liabilities. Liabilities include the amount of futures, forwards and unsettled trades. The reason for using forwards, such as mortgage TBAs (to be announced) is to get more efficient exposure to the mortgage sector. PIMCO backs futures, forwards and unsettled trades by holding assets (cash and cash equivalents) with minimal potential for price changes to ensure that the obligations will be met. While net cash is typically a positive number, negative net cash arises when futures and forward exceed cash equivalent holdings.

Plan Administrative Fee – ING Institutional Plan Services ("ING"), the Plans' record keeper, will deduct an annual record keeping and communication services fee of 18 basis points (0.18%) capped at \$130,000 from your combined account balance on a quarterly basis (0.045% per quarter).