

How Expenses and Stars Predict Success

Broad Group	Expense Ratio Quintile Begin Year	Total Return	Total Return Success Ratio	3yr Rating as of 31-March End Year	5yr Rating as of 03/10/2010	Star Rating	Total Return	TR Success Ratio	3yr Rating	5yr Rating	Winner Expense Ratio vs. Star Success Ratio
2005 5yr Domestic Equity	1	3.35	47.83	3.24	3.23	★★★★★	2.79	46.60	3.09	2.96	1.23 expense ratio
	5	2.02	23.39	2.66	2.66	★	1.60	20.44	2.53	2.60	
	Difference	1.33	24.44	0.58	0.57	Difference	1.19	26.16	0.56	0.36	-1.72 stars
International Equity	1	6.46	48.03	3.27	3.27	★★★★★	5.74	52.59	3.18	3.10	-4.56 stars
	5	5.25	29.63	2.62	2.70	★	6.53	13.01	2.35	2.45	
	Difference	1.21	18.40	0.65	0.57	Difference	-0.79	39.58	0.83	0.65	-21.18 stars
Balanced	1	3.76	49.55	3.30	3.17	★★★★★	3.87	57.89	3.24	3.03	-8.34 stars
	5	2.87	30.26	2.48	2.52	★	3.70	13.33	2.12	2.91	
	Difference	0.89	19.29	0.82	0.65	Difference	0.17	44.56	1.12	0.12	-25.27 stars
Taxable Bond	1	5.11	63.54	3.55	3.34	★★★★★	5.36	72.43	3.43	3.47	-8.89 stars
	5	3.82	22.82	2.11	2.30	★	3.74	21.27	2.24	2.30	
	Difference	1.29	40.72	1.44	1.04	Difference	1.62	51.16	1.19	1.17	-10.44 stars
Municipal Bond	1	3.83	67.18	3.78	3.74	★★★★★	3.39	65.29	3.62	3.49	1.89 expense ratio
	5	2.75	9.69	1.95	1.86	★	3.00	12.00	1.93	1.83	
	Difference	1.08	57.49	1.83	1.88	Difference	0.39	53.29	1.69	1.66	4.20 expense ratio
2006 4yr Domestic Equity	1	-0.27	49.40	3.13		★★★★★	-0.76	37.19	2.77		12.21 expense ratio
	5	-1.66	25.86	2.77		★	-1.09	24.18	2.92		
	Difference	1.39	23.54	0.36		Difference	0.33	13.01	-0.15		10.53 expense ratio
International Equity	1	1.47	47.44	3.24		★★★★★	-0.17	39.84	2.36		7.60 expense ratio
	5	-0.11	26.68	2.68		★	0.90	24.86	2.96		
	Difference	1.58	20.76	0.56		Difference	-1.07	14.98	-0.60		5.78 expense ratio
Balanced	1	2.01	41.40	3.00		★★★★★	2.83	50.00	2.69		-8.60 stars
	5	1.05	26.48	2.83		★	1.10	18.40	3.19		
	Difference	0.96	14.92	0.17		Difference	1.73	31.60	-0.50		-16.68 stars
Taxable Bond	1	5.51	60.10	3.20		★★★★★	5.62	54.84	2.67		5.26 expense ratio
	5	4.27	27.05	2.34		★	4.26	24.20	2.51		
	Difference	1.24	33.05	0.86		Difference	1.36	30.64	0.16		2.41 expense ratio
Municipal Bond	1	3.87	55.43	3.44		★★★★★	2.81	30.34	2.47		25.09 expense ratio
	5	2.70	14.67	2.18		★	3.22	24.82	2.63		
	Difference	1.17	40.76	1.26		Difference	-0.41	5.52	-0.16		35.24 expense ratio
2007 3yr Domestic Equity	1	-3.15	52.45	3.14		★★★★★	-3.50	45.47	2.87		6.98 expense ratio
	5	-4.65	29.79	2.75		★	-4.85	26.94	2.70		
	Difference	1.50	22.66	0.39		Difference	1.35	18.53	0.17		4.13 expense ratio
International Equity	1	-3.98	49.86	3.25		★★★★★	-5.51	49.19	2.85		0.67 expense ratio
	5	-5.52	34.62	2.71		★	-4.97	28.67	2.71		
	Difference	1.54	15.24	0.54		Difference	-0.54	20.52	0.14		-5.28 stars
Balanced	1	-0.49	49.29	2.94		★★★★★	-1.36	38.46	2.51		10.83 expense ratio
	5	-1.29	35.06	2.59		★	-0.97	30.08	2.92		
	Difference	0.80	14.23	0.35		—	-0.39	8.38	-0.41		5.85 expense ratio
Taxable Bond	1	4.96	64.15	3.20		★★★★★	4.60	57.14	3.10		7.01 expense ratio
	5	3.58	34.05	2.42		★	3.94	33.63	2.33		
	Difference	1.38	30.10	0.78		Difference	0.66	23.51	0.77		6.59 expense ratio
Municipal Bond	1	3.51	70.89	3.62		★★★★★	1.55	43.22	2.67		27.67 expense ratio
	5	2.21	26.54	2.10		★	2.86	35.38	2.22		
	Difference	1.30	44.35	1.52		Difference	-1.31	7.84	0.45		36.51 expense ratio

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Broad Group	Expense Ratio Quintile Begin Year	Total Return	Total Return Success Ratio	3yr Rating as of 31-March End Year	5yr Rating as of 03/10/2010	Star Rating	Total Return	TR Success Ratio	3yr Rating	5yr Rating	Winner Expense Ratio vs. Star Success Ratio
Domestic Equity	1	-1.85	49.93			★★★★★	-2.85	39.35			10.58 expense ratio
	5	-3.13	30.34			★	-2.28	33.07			
	Difference	1.28	19.59			Difference	-0.57	6.28			13.31 expense ratio
International Equity	1	-6.72	52.65			★★★★★	-6.94	52.70			-0.05 stars
	5	-8.01	35.34			★	-7.44	39.35			
	Difference	1.29	17.31			Difference	0.50	13.35			3.96 expense ratio
Balanced	1	-0.04	54.21			★★★★★	0.33	65.96			-11.75 stars
	5	-1.13	39.04			★	-1.04	31.75			
	Difference	1.09	15.17			Difference	1.37	34.21			-19.04 stars
Taxable Bond	1	5.37	59.33			★★★★★	6.18	78.31			-18.98 stars
	5	4.41	39.43			★	1.99	17.97			
	Difference	0.96	19.90			Difference	4.19	60.34			-40.44 stars
Municipal Bond	1	4.69	70.72			★★★★★	5.04	82.56			-11.84 stars
	5	3.72	22.15			★	3.27	15.48			
	Difference	0.97	48.57			Difference	1.77	67.08			-18.51 stars

This table shows how the lowest- and highest-cost quintiles in each category fared from a point in time forward through March 2010. We then subtract the results from the priciest quintile from the cheapest quintile to see what the difference was. A positive figure indicates that lower expense ratios performed better than higher expense ratios. Total return figures are annualized. We did the same for the star rating, with 5 stars on top and 1 star below. Again, a positive figure indicates that 5-star funds performed better than 1-star funds. Finally, on the far right we compare 5-star funds with cheapest-quintile funds and say which did better. We also compare the differences in success ratio of 5- and 1-star funds and cheap and expensive funds to see which measure did a better job of separating winners from losers. For example, you can see that for the class of 2005 domestic equity, cheap funds did slightly better than star ratings. However, the gap in success from 5-star and 1-star funds was greater than that for expense ratios, so it did a better job of separating winners from losers. Overall, you can see that the star rating fared better in the periods beginning in 2005 and 2008 but expenses were the better guide in 2006 and 2007.