

MEMORANDUM

To: Select Committee on Deferred Compensation
Milwaukee County
From: Laurel Nicholson
Date: July 22, 2008

Re: Vanguard International Index Funds

Summary

The Milwaukee County Savings Plan (the Plan) currently offers the Vanguard Total International Stock Fund (the Total International Fund) as an investment option for participants. As of June 30, 2008, the Total International Fund held \$6.1 million of participant's assets. The Total International Fund offers participants diversified, low-cost exposure to the international equity markets.

Recently, Vanguard announced that they have removed the 0.25% purchase fee from the FTSE All-World ex-U.S. Index Fund (the FTSE Fund), thereby making it a viable option for the Milwaukee County Plan. This memo will serve to compare and contrast the two Funds in order to help the Committee determine if the FTSE Fund would be a better investment option for the Plan than the Total International Fund.

Essentially, we believe that both Funds offer broad, diversified exposure to the international markets. The advantages of the FTSE fund are the lower expense ratio (once the Plan's assets surpass \$5 million in the Fund), and its exposure to Canada, which the current investment option does not have.

Fund Comparison

The Vanguard Total International Stock Fund invests in three underlying Vanguard mutual funds; the European Stock Index Fund, the Pacific Stock Index Fund, and the Emerging Markets Stock Index Fund. By investing in these three funds in the appropriate amounts, the Fund offers exposure to most of the international markets in an index-like manner. The one exception is the Canadian market, which is not included in the Total International Fund. Canada represents approximately 7% of the MSCI All Country World Ex-U.S. Index; therefore the Fund's lack of exposure to Canada does create some tracking error between the Fund and the MSCI All Country World Ex-U.S. Index. The expense ratio on the Total International Fund is 0.27%.

The FTSE Fund does not invest in underlying mutual funds as does the Total International Fund, but rather directly invests in the stocks included in the FTSE All-World ex-U.S. Index using a sampling approach. The FTSE Fund does not include exposure to Jordan, which the Total International Fund does, but as Jordan is a very small market (only 0.02% of the MSCI All Country World Ex-U.S. Index), this exclusion has a very small impact on performance of the Fund.

The expense ratio on the institutional shares of the FTSE Fund is 0.15%. The minimum purchase in the institutional shares is \$5,000,000. Thus, in order to have access to the institutional shares, the total combined assets in the Fund would need to be at least \$5,000,000. For an initial minimum purchase of less than \$5,000,000, the investors shares would apply, which have an expense ratio of 0.40%.

To illustrate the difference in fees, if a participant has a \$10,000 balance, their annual fee would be \$27 in the Total International Fund, but \$15 for the same investment in the institutional shares of the FTSE Fund. Small differences in fees can accumulate to big differences over a long period of time.

It should be noted that either Fund cannot be used as part of a custom asset allocation fund due to the 2.0% 60 day redemption fee applied by Vanguard. Vanguard does not waive this fee for any instance and thus if the Fund were part of an asset allocation fund, participants would be assessed the fee whenever the asset allocation fund was rebalanced within 60 days of a prior rebalance or withdrawal. Currently, the County does not offer custom asset allocation funds; however, custom asset allocation funds are of interest to the Committee and will be evaluated later this year.

The table on the following page compares the country allocations of the Total International Fund and the FTSE Fund.

Country Allocations as of 6/30/08

	Vanguard Total International Stock Index Fund	Vanguard FTSE All-World ex- U.S. Fund
Argentina	0.2%	0.1%
Australia	5.6	5.2
Austria	0.5	0.4
Belgium	0.8	0.7
Brazil	3.3	3.7
Canada		6.2
Chile	0.2	0.3
China	3.1	2.2
Colombia		0.1
Czech Republic	0.2	0.2
Denmark	0.8	0.8
Egypt		0.1
Finland	1.2	1.0
France	8.5	7.8
Germany	7.2	6.6
Greece	0.5	0.5
Hong Kong	1.8	2.4
Hungary	0.2	0.2
India	1.2	1.7
Indonesia	0.4	0.3
Ireland	0.5	0.4
Israel	0.6	0.5
Italy	3.0	2.9
Japan	17.6	14.7
Korea	2.6	2.8
Luxembourg		0.7
Malaysia	0.5	0.6
Mexico	1.1	1.2
Netherlands	2.0	1.9
New Zealand	0.1	0.1
Norway	0.9	0.8
Peru	0.2	0.1
Philippines	0.1	0.1
Poland	0.4	0.3
Portugal	0.2	0.3
Russia	1.6	2.1
Singapore	1.0	0.9
South Africa	1.5	1.5
Spain	3.2	3.3
Sweden	1.7	1.6
Switzerland	5.6	5.0
Taiwan	2.2	2.2
Thailand	0.2	0.3
Turkey	0.3	0.2
United Kingdom	16.6	15.3
United States	0.8	0.0
Emerging Markets	17.6%	18.3%

The table below summarizes other important portfolio characteristics of each Fund.

	Vanguard Total International Stock Index Fund	Vanguard FTSE All-World ex-U.S. Fund (Inst. Shares)
Ticker	VGTSX	VFWSX
Structure	Invests in three underlying Vanguard Index Funds; European Stock Index, Pacific Stock Index, and Emerging Market Stock Index	Directly invests in stocks held in the FTSE All-World ex-U.S. Index
Style/Capitalization	Large Blend	Large Blend
Total Assets in the Fund	\$29.5 billion	\$2.6 billion
Average Market Cap	\$30.5 billion	\$30.5 billion
Total Number of Holdings	2,235	2,097
Total Number of Countries	47	47
Number of Emerging Countries	25	24
Emerging Market Exposure (%)	17.6%	18.3%
Significant Countries Excluded	Canada	--
Expense Ratio	0.27%	0.15%
Redemption Fee	2.0% on assets held less than 2 months	2.0% on assets held less than 2 months
Minimum Investment	\$3,000	\$5.0 million

Source: Morningstar and Vanguard

Performance

The table on the following page shows the historical and trailing period performance of both Funds. As shown, the performance experience has been similar.

Historical Return
Trailing Periods Ending 6/30/08

	Vanguard Total International Stock Index Fund	Vanguard FTSE All-World ex- U.S. Fund (Inst. Shares)*
1997	-0.8%	0.7%
1998	15.6	15.4
1999	29.9	32.4
2000	-15.6	-14.4
2001	-20.1	-19.8
2002	-15.1	-14.4
2003	40.3	41.4
2004	20.8	21.6
2005	15.6	17.1
2006	26.6	27.9
2007	15.5	21.7
Year-to-Date	-10.9%	-10.0%
Trailing 3-Year	14.9	17.8
Trailing 5-Year	18.3	20.7
Trailing 10-Year	6.9	8.4

*Returns prior to the Fund's inception date of 3/31/07, are FTSE All-World ex-U.S. Index returns minus the Fund's annual fee, 0.15%.

Conclusion

The Vanguard Total International Stock Index Fund and the Vanguard FTSE All-World ex-U.S. Index Fund both offer diversified, low-cost exposure to the international markets. The lower expense ratio of the FTSE Fund institutional shares, as well as the Fund's exposure to Canada, make it a more compelling investment option than the Total International Fund. We recommend that the Committee consider replacing the Total International Fund with the FTSE Fund.