Vanguard®

Investing 101: A guide to understanding mutual funds

OneBeacon INSURANCE®

Your OneBeacon 401(k) Savings and Employee Stock Ownership Plan

Your OneBeacon 401(k) Savings and Employee Stock Ownership Plan offers mutual funds that can be part of your long-term investing strategy. Like many people, you may be putting away money to achieve specific goals, such as saving for retirement, paying for your child's education, or purchasing a home.

Knowing *why* you need to save is easy; deciding *where* to invest your money is a bit more complex.

Getting a grasp on mutual funds

Whether you are new to the OneBeacon 401(k) Savings and Employee Stock Ownership Plan or have been participating for years, this newsletter can help you answer the following questions:

- Do I really know how mutual funds work?
- What mutual funds are available in my Plan?
- How do I choose the right funds for me?
- Is there investment advice available to help me?

How do mutual funds work?

The idea behind a mutual fund is simple. People with similar goals invest their money in a fund. The fund manager chooses investments that he or she believes will help the fund achieve its objective. Investors in the fund share in any gains or losses that the investments may produce.

Why buy funds?

Mutual funds offer advantages you may not be able to get by investing in individual stocks and bonds, such as:

Simplicity. Investing in mutual funds is easy. You can invest through your OneBeacon 401(k) Savings and Employee Stock Ownership Plan. Regular payroll deductions make saving automatic.

Professional management. Mutual funds are managed by professional advisors who decide which investments to buy and sell for the fund. Relying on professionals may be a real plus if you don't have the time or expertise to select individual stocks and bonds on your own.

Diversification. Mutual funds own many investments. If one investment performs especially poorly, only a small portion of the fund is affected. That makes mutual fund investing less risky than investing in individual stocks and bonds. Be aware, though, that all investing is subject to risk and that diversification does not ensure a profit or protect against a loss in a declining market.

How funds are sold

Mutual funds are sold in shares. Share prices fluctuate daily depending on the total change in the value of the investments held by the fund. At the end of each trading day, the fund manager determines the market value of all the securities and cash it holds. Then any accrued expenses are deducted. This net value is divided by the total number of shares outstanding on that day. The result is called the fund's net asset value (NAV), which is the dollar value of a single fund share.

Basic fund categories

Most mutual funds fit into one of the three major asset classes: Short-term reserves, bonds, or stocks.

- **Short-term reserves**, as the name implies, are short-term investments, such as money market or stable value funds. Generally, these funds provide stability, as well as interest income, but little growth potential.

  Short-term investments seek to preserve the original investment and appear to be a no-risk option—but don't overlook that hidden risk: inflation. The rise in the cost of living can outpace the limited returns you receive from so-called "safe" investments.

- **Bonds** are IOUs. The issuer agrees to repay the loan by a specific date (the maturity) and, commonly, to make regular fixed interest payments until that date. Bonds provide higher interest income but offer less potential growth than stocks.

  Bonds can gain or lose value with changes in the economy, interest rates, or the credit worthiness of the bond issuer. Bond issuers include governments (U.S., foreign, state, and local), government agencies, and corporations.

  Investments in bond funds are subject to interest rate, credit, and inflation risk. U.S. government backing of Treasury or agency securities applies only to the underlying securities and does not prevent share-price fluctuations.

- **Stocks** represent shares of ownership in a company. As an owner, a shareholder is entitled to a proportionate share of the growth (or decline) in the value of company shares and any dividend distributions. Historically, stocks offer the highest potential returns over time from dividends and capital gains but come with substantial short-term risks. Stock prices move unpredictably based on the issuing company's performance, market swings, and the state of the economy.

Balanced funds

Rather than investing in a single asset class, balanced funds invest in a mix of short-term reserves, bonds, and stocks. They seek to provide a combination of growth, income, and conservation of principal (the money you originally invested). Balanced funds may be an appropriate option for investors seeking a mix of investments in a single fund.

Index vs. actively managed funds

The OneBeacon 401(k) Savings and Employee Stock Ownership Plan offers both index and actively managed funds.

An index fund, also called a passively managed fund, attempts to track the performance and returns of a specified part of the stock or bond market. There is no attempt to use "active" management techniques to outperform the market. Index funds seek simply to mirror the market index they track.

An index fund buys and sells shares less frequently than actively managed funds and, consequently, costs less to run, which leaves more of the fund's return to be passed on to investors.

On the other hand, an **actively managed fund** seeks to beat the average returns of the financial markets (or a specific market segment) by relying on research, market forecasts, and the fund manager's judgment and experience in selecting securities to buy or sell.

Remember that although an actively managed fund attempts to earn better returns than an index, it will not automatically perform well simply because the index performs well; nor will it always perform poorly if the index is in decline.

Your Plan's fund lineup

Your Plan provides two different investment strategies so you can create a portfolio that fits your needs, no matter how much investing experience you have.

Strategy 1: Vanguard Target Retirement Funds

Each Target Retirement Fund is intended as a one-fund portfolio for your total savings in the Plan. You may want to consider investing in just one Target Retirement Fund. Depending on your needs, a single Target Retirement Fund could give you the diversification you want and is designed to keep your assets invested appropriately for someone in your stage of life, up to and including your retirement years.

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments (stocks) to more conservative ones (bonds and short-term reserves) based on its target date. An investment in a Target Retirement Fund is not guaranteed at any time, including on or after the target date.

Keep in mind that although Target Retirement Funds can simplify investment selection, all investing is subject to risk. Each Target Retirement Fund invests in up to seven broadly diversified Vanguard funds. Investments in bond funds are subject to interest rate, credit, and inflation risk.

Strategy 2: Core funds

If you have some investing experience and the time to research your Plan's fund options, consider creating a diversified portfolio of core funds. These are funds of various asset classes that, when used in combination, can provide the diversification you want.

Want to learn more about your Plan's investment options?

Visit **onebeacon.vanguard-education.com** for your complete lineup of investment options and access to fund fact sheets.

If you need help determining the right asset mix for your needs, consider completing Vanguard's "Investor questionnaire" at **vanguard.com/investor**.

Your investment mix

Your long-term investment returns are more dependent on how you spread your money among short-term reserves, bonds, and stocks, rather than the specific funds you select. This combination of investments—known as your asset mix—should be based on your financial goals, how long you have to invest, and your risk tolerance.

Need investment advice?

Not sure how to invest in your Plan? Good news: Vanguard offers you the following investment advice services, designed to help you better manage your account.

Personal Online Advisor

Personal Online Advisor, powered by Financial Engines, is a groundbreaking retirement forecasting and advice tool. This service provides specific personal investment advice to help you decide which investments are best for your portfolio.

You will receive unbiased, personal, and ongoing fund allocation recommendations for your Plan as well as assets you may hold outside of Vanguard. This powerful online service is made available at no cost to you by OneBeacon and Vanguard.

To access Personal Online Advisor:

- Log on to your account at **Vanguard.com**.
- Click **Get help choosing investments or planning for retirement**.
- Select **Do It Yourself**.

If you have multiple accounts at Vanguard, you may need to select **Employer plans** after you log on. If you haven't already registered for secure online access, go to **vanguard.com/register**, You'll need your Plan number (**092133**).

Vanguard Managed Account Program

Don't have the time, interest, or expertise to actively manage your retirement accounts? Then let a team of experts go to work for you by enrolling in the Vanguard Managed Account Program, powered by Financial Engines.

For a small fee, this service will provide ongoing professional management of your retirement savings, from fund selection to periodic rebalancing. You will receive personalized advice based on your specific circumstances, including your intended retirement age, tolerance for investment risk, and consideration of other investments. The service can also consider money you've saved outside your retirement Plan when developing your personalized investment strategy.

For more information, call a Managed Account specialist at **800-310-9228**.

Vanguard Financial Planning Services

Are you on track for retirement? Have you saved enough? Are you investing correctly? How much can you spend each month in retirement? Find out with a complimentary financial plan from Vanguard.

If you are age 55 or older, you can get expert, unbiased answers to these questions and many others from a Certified Financial Planner™ professional from Vanguard—at no cost. During a one-on-one phone consultation, your planner can discuss how to meet health care costs, ways to stretch the cash flow from your retirement Plan account, and when to start Social Security payments.

In addition to receiving your personal financial plan, you'll also be eligible for a free annual checkup to help you stay on track.

Note: For participants under age 55, Vanguard offers this service for a fee based on your total Vanguard balance.

To find out if a Vanguard Financial Plan is right for you, call **800-862-9996**.

For more information about Vanguard's advice services, visit **onebeacon.vanguard-education.com.**

Connect with Vanguard®

retirementplans.vanguard.com > 800-523-1188

For more information about any fund, including investment objectives, risks, charges, and expenses, call The Vanguard Group at 800-523-1188 to obtain a prospectus. The prospectus contains this and other important information about the fund. Read and consider the prospectus information carefully before you invest. You can also download Vanguard fund prospectuses at vanguard.com.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in such a fund. An investment in a stable value fund is neither insured nor guaranteed by the U.S. government. There is no assurance that the fund will be able to maintain a stable net asset value, and it is possible to lose money by investing in the fund.

The Vanguard Group has partnered with Financial Engines to provide subadvisory services to the Vanguard Managed Account Program and Personal Online Advisor. Financial Engines is an independent, registered investment advisor that does not sell investments or receive commission for the investments it recommends. All advisory services are provided by Vanguard Advisers, Inc. (VAI), a federally registered investment advisor and an affiliate of The Vanguard Group, Inc. (Vanguard). Vanguard is owned by the Vanguard funds, which are distributed by Vanguard Marketing Corporation, a registered broker-dealer affiliated with VAI and Vanguard. Neither Vanguard nor Financial Engines guarantees future results.

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