



Measuring Up to the Benchmark

Using market indices as benchmarks
to rate your investment fund performance

Whenever you evaluate a person, place or thing, you'll likely make use of some kind of benchmark, which is a generally accepted measurement standard. Benchmarking gives you a way to compare and contrast features and performance. For instance, a baseball player might use Babe Ruth as a benchmark of homerun-hitting ability. Or an upstart package delivery service probably would use UPS as a benchmark for speed and reliability and a host of other factors.

Look it up in the index

Investment fund performance is measured against benchmarks called market indices. A market index is a hypothetical basket of securities all belonging to the same asset class or investment category – such as large company U.S. stocks, or bonds, to name two. By grouping like securities together and calculating their collective performance from day-to-day, a market index provides investors with valuable information about how particular market segments are performing.

A market index provides a very broad performance snapshot. Take the S&P 500 Index, which consists of 500 of the largest, most influential companies spread across approximately 90 different industries. It's often used as a performance benchmark for the overall U.S. stock market. If the S&P 500 Index shows a positive gain for the day, it means that, as a whole, the market did well. It does not mean that every large company U.S. stock was up.

Index funds mirror the indices

Most of the funds in the Teamster-UPS National 401(k) Tax Deferred Savings Plan (except for the Government Short-term Investment Fund, the Stable Value Fund, and the Fidelity Magellan Fund) are index funds. An index fund simply mimics a particular index (usually by investing in the exact same securities in the same proportion as the index) and attempts to match its performance. Index funds are called passively-managed funds because their investment makeup is altered only if there is a change in the corresponding index, i.e., if a new company or security is added to or deleted from the index. In contrast, an actively-managed fund like the Magellan Fund utilizes research to invest in specific stocks the fund manager feels may have the potential to perform better than the relevant index.

Generally, over time index funds nearly mirror their corresponding index. They sometimes underperform the index *slightly* because the fund must subtract fees and expenses from its return (published indices aren't "managed" and you can't invest in an index directly so there are no expenses to subtract). The objective of actively-managed funds is to outperform a particular index. But actively-managed funds also have the potential to underperform the index by a wider margin because their returns depend on the performance of the funds' specific stock selections, which may vary quite a bit from the index.

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Investing

An index provides an excellent way to determine if your funds are performing satisfactorily. For more information about the market indices mentioned in this article, visit these Web sites:

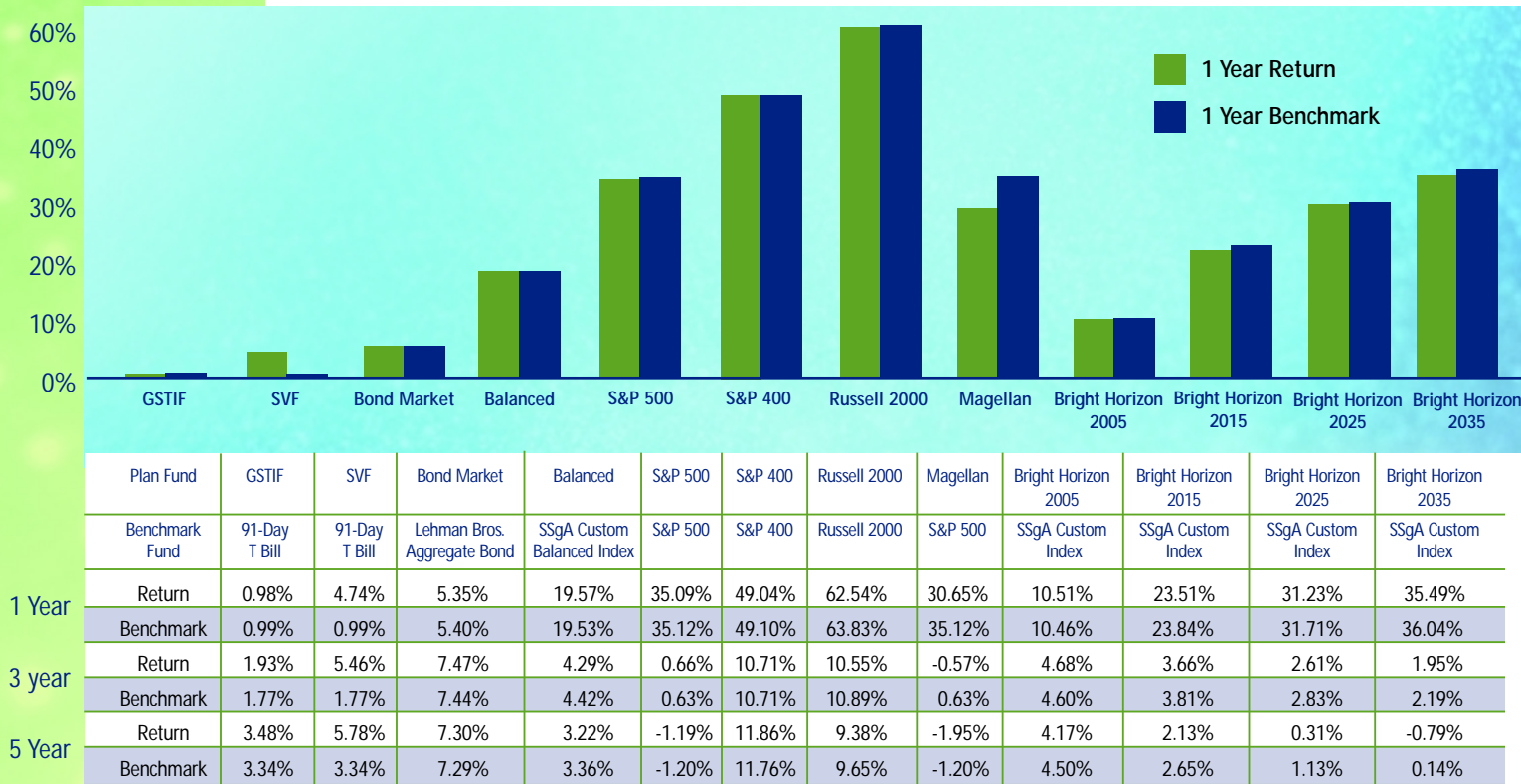
- www.standardandpoors.com
- www.russell.com
- www.lehman.com
- www.msci.com

Another thing to keep in mind: fees and expenses generally are more expensive for actively-managed funds than for index funds because the fund managers are researching, buying and selling stocks all the time. You pay more in fees in an actively-managed fund because the fund is supposed to provide better performance, although that has not always been the case. (For more on fees, see the accompanying article "Paying for the Plan.")

Time to measure up

The chart below compares the 1-, 3-, and 5-year returns as of March 31, 2004 of the Teamster-UPS National 401(k) Tax Deferred Savings Plan funds with specific indices enabling you to see at a glance how your funds are measuring up. Note that the index funds are closely tracking the indices but the Fidelity Magellan Fund is significantly underperforming in the most recent period. Below the chart is a brief description of each index.

Plan Performance March 31, 2004



- ▲ **91-Day T-Bill** – Measures the interest rate for 91-day Treasury Bills which are used to track short-term interest rates.
- ▲ **Lehman Brothers Aggregate Bond Index** – Used as a benchmark for the overall U.S. bond market including corporate and government bonds.
- ▲ **SSgA Custom Balanced Index** – The S&P 500 Index is used for the equity portion and the Lehman Brothers Aggregate Bond Index is used for the fixed income portion.
- ▲ **S&P 500 Index** – Used as a benchmark for large company U.S. stocks.
- ▲ **S&P MidCap 400 Index** – A widely used index for mid-sized company U.S. stocks.
- ▲ **Russell 2000® Index** – The most common index for tracking small company U.S. stocks.
- ▲ **SSgA Custom Indices for Bright Horizon Funds** – Published indices are combined according to the asset class weighting of the underlying funds in each of the Bright Horizon Funds.

Paying for the Plan

A look at how Plan fees are calculated and who pays them

There are certain fees associated with the Teamster-UPS National 401(k) Tax Deferred Savings Plan, just as there are with all employer-sponsored retirement plans. Participants pay some of these fees and UPS pays others. You should know how the various fees are applied, how much you're paying, and how fees may affect your investment decisions.

There are three main Plan fees paid by all participants:

- ▲ Investment management fees
- ▲ Trust custody fees
- ▲ Administrative fees

In addition, you may be charged individual service fees when requesting a particular Plan service such as a hardship loan or hardship distribution, or a termination distribution.

If you have a Self-Managed Account, there is a \$50.00 maintenance fee (waived if your trading fees exceed \$50 per year) and trading fees (such as commission charges or service fees) when making certain trades.

Investment management fees

Each investment option offered by the Plan is managed by investment professionals who buy and sell securities and oversee the fund's portfolio of investments. The cost of providing this management service is covered by investment management fees and paid by Plan participants.

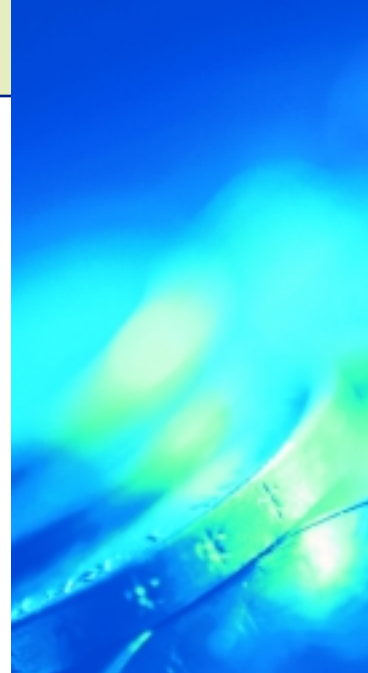
Investment management fees are calculated using a basis point system. A basis point is 1/100 of a percent. So one hundred basis points equal one percentage point. To figure the fees you pay for each fund you're invested in, simply multiply the amount you have invested in the fund by the fund's basis point rate, remembering to convert the basis points into hundredths of a percentage point. So \$10,000 invested in a fund with an investment management fee of 15 basis points (bp) would translate to a \$15.00

annualized fee ($\$10,000 \times .0015 = \15). For your total investment management fee, do the calculation for each of your funds and add together. To make it easy, investment fees are accrued daily and automatically deducted directly from your investment return, so the fund return you see on your account statement already reflects your investment fee payment.

The investment management fee for each fund is based primarily on the complexity and related expenses of managing the fund. Index funds have lower fees because there is less work involved in managing the portfolio and it's expected that the fund will simply follow the return of the index. An actively managed fund like Fidelity Magellan has a higher fee because the fund is expected to perform better than the index due to the managers compiling research data and regularly buying and selling securities. When an actively-managed fund underperforms the index, the higher costs may make the fund less desirable for investors. This is why actively-managed funds generally carry more risk and volatility compared with index funds. (For more on the difference between index funds and actively-managed funds, see the accompanying article "Measuring Up to the Benchmark.")

UPS pays fees, too

Recordkeeping costs associated with maintaining your individual account, such as recording and tracking your contribution amount and investment selections, are paid by UPS directly to CitiStreet.



Trust custody fees

Trust custody fees cover Plan accounting and cash transfer expenses, such as recording your investment selections and any changes you may make to your selections. Custody expenses are calculated by State Street and prorated across all the investment funds. The dollar amount is then translated into basis points for each fund. Like investment management fees, custody fees are accrued daily and automatically deducted from investment returns.

The table below shows an example of how the investment management fees and trust custody fees would be applied to each of the Teamster-UPS National 401(k) Tax Deferred Savings Plan investment options, assuming a \$10,000 investment in each option.

Investment Option	Invested Amount	Investment Management Basis Points	Annualized Investment Management Fee	Custody Fee Basis Points	Annualized Custody Fee	Total Fees
GSTIF	\$10,000	15 bp (.0015)	\$15.00	0.70 bp (.000070)	\$0.70	\$15.70
Stable Value Fund	\$10,000	4 bp (.0004)	\$4.00	0.70 bp (.000070)	\$0.70	\$4.70
Bond Market Index Fund	\$10,000	4 bp (.0004)	\$4.00	0.68 bp (.000068)	\$0.68	\$4.68
Balanced Fund	\$10,000	16 bp (.0016)	\$16.00	0.70 bp (.000070)	\$0.70	\$16.70
S&P 500 Equity Index Fund	\$10,000	2 bp (.0002)	\$2.00	0.70 bp (.000070)	\$0.70	\$2.70
S&P 400 Midcap Index Fund	\$10,000	3 bp (.0003)	\$3.00	0.70 bp (.000070)	\$0.70	\$3.70
Russell 2000 Index Fund	\$10,000	6 bp (.0006)	\$6.00	0.70 bp (.000070)	\$0.70	\$6.70
Magellan Fund*	\$10,000	53 bp (.0053)	\$53.00	0.70 bp (.000070)	\$0.70	\$53.70
Bright Horizon 2005 Fund	\$10,000	16 bp (.0016)	\$16.00	0.70 bp (.000070)	\$0.70	\$16.70
Bright Horizon 2015 Fund	\$10,000	16 bp (.0016)	\$16.00	0.70 bp (.000070)	\$0.70	\$16.70
Bright Horizon 2025 Fund	\$10,000	16 bp (.0016)	\$16.00	0.70 bp (.000070)	\$0.70	\$16.70
Bright Horizon 2035 Fund	\$10,000	16 bp (.0016)	\$16.00	0.70 bp (.000070)	\$0.70	\$16.70

Fees are based on 12/31/03 market values.

* The total expense ratio for the Fidelity Magellan Fund as of 12/31/03 was 0.72%. The Teamster-UPS National 401(k) Tax-Deferred Savings Plan receives a 0.25% reimbursement from Fidelity which is reinvested for the benefit of participants in the fund. The amount shown includes the rebate.

Administrative fees

The cost of providing access to your account through the Plan Web site and the Information Line, and the cost of Participant Service Representatives, along with the printing and mailing expenses for Plan communications, legal fees, and other expenses are covered by administrative fees. Every participant pays the same annual administrative fee, which is identified separately on your account statement. Over the past four years, this fee has averaged about \$22.02 per participant annually.

What's right for you?

While the annual fees in the table above may not seem like much, over the course of a savings horizon of 20-30 years or more, they can add up. So as you evaluate an investment option's performance, objectives, and risk, also take a look at the fees and determine if the costs make sense.

You can get more information on the Plan Web site at <http://teamsterups.csplans.com> or by calling the Information Line at 1-800-537-0189.