



Vanguard® U.S. Fundamental Value Fund

31 January 2010

Investment objective

The fund seeks to provide long-term capital growth by investing mainly in large companies whose stocks are considered undervalued.

Investment strategy

The fund employs an "active management" strategy to invest mainly in U.S. large-capitalisation stocks. The fund's Sub-Investment Manager, Pzena Investment Management, LLC ("Pzena"), uses a disciplined, research-driven process to invest in deeply undervalued stocks. Pzena seeks to invest in companies with sustainable fundamental strength whose stock prices are cheap due to investors' overreactions to temporary factors.

Fund returns*

Vanguard U.S. Fundamental Value Fund—USD

	Investor Shares		Russell 1000 Value Index
	Net of expenses	Gross of expenses	Investor Shares
1 month	-1.64%	-1.56%	-2.81%
3 months	3.99	4.24	4.48
Year to date	-1.64	-1.56	-2.81
1 year	54.36	55.84	31.44
3 years	-13.95	-13.12	-10.20
Since inception	-3.54	-2.62	-0.54

Vanguard U.S. Fundamental Value Fund—GBP

	Investor Shares		Russell 1000 Value Index GBP
	Net of expenses	Gross of expenses	Investor Shares
1 month	-0.88%	-0.80%	-1.99%
3 months	6.96	7.22	7.27
Year to date	-0.88	-0.80	-1.99
1 year	38.87	40.19	18.71
3 years	-7.81	-6.93	-3.91
Since inception	-7.00	-6.11	-3.34

Total expense ratio

	Investor Shares
Administrative and other expenses	0.45%
Investment management expenses	0.50
Total expense ratio	0.95%

Fund facts

	Investor Shares
Inception date	
USD	03 May 2005
GBP	19 December 2006
Purchase fee	0.00%
Redemption fee	0.00%
Fund codes (USD)	
Bloomberg	VANUSFD
CUSIP	G9318T388
ISIN	IE0034156905
Sedol	3415690
Vanguard Fund Code	VUFVD
Fund codes (GBP)	
ISIN	IE00B1L8DW20
Sedol	B1L8DW2
Vanguard Fund Code	VUFFD
Minimum initial investment	
USD/GBP	100,000

Domicile	Ireland	Currencies	USD, GBP
Trading frequency	Daily (16.00 GMT cutoff)	Settlement	T+3
Total assets	USD (millions) 47	Structure	UCITS III
	EUR (millions) 34		

Investment Manager

Pzena Investment Management, LLC

Richard S. Pzena, Managing Principal, CEO and Founder
Portfolio manager.

Advised the fund since 2005.

Worked in investment management since 1984.

B.S., University of Pennsylvania.

M.B.A., Wharton School of the University of Pennsylvania.

John P. Goetz, Managing Principal, Research
Portfolio manager.

Advised the fund since 2005.

Worked in investment management since 1996.

B.A., Wheaton College.

M.B.A., Kellogg School at Northwestern University.

Antonio DeSpirito, III, Portfolio manager.

Advised the fund since 2005.

Worked in investment management since 1996.

With Pzena since 2005.

B.S., University of Pennsylvania.

J.D., Harvard Law School.

*Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions.

Vanguard® U.S. Fundamental Value Fund

Quarterly fund commentary as at 31 December 2009

- The global equity markets, as measured by the MSCI All Country World Index (+4.63%), continued their climb during the fourth quarter to cap off a strong 2009 and provide a much needed reprieve for investors still feeling the pain of 2008 losses. U.S. equity markets, continuing the intense rally that began in early March, returned 5.92% for the fourth quarter, as measured by the MSCI US Investable Market 2500 Index.
- For the fourth quarter, the fund underperformed its benchmark, the Russell 1000 Value Index, primarily because of poor stock selection and an overweight position in the underperforming financials sector. Top relative detractors for the period included Citigroup (-32%) and UBS (-15%).
- The fund's returns for the 12 months ended 31 December easily outpaced those of its benchmark. The fund benefited from overweight positions in outperforming sectors such as information technology and consumer discretionary, along with excellent stock selection in the consumer discretionary and energy sectors.
- In information technology, the top relative contributors for the fund for the 12 months were communication equipment companies Alcatel-Lucent (+60%) and Motorola (+75%). In the consumer discretionary sector, overweight positions in Magna International (+72%), Whirlpool (+103%), and J.C. Penney (+39%) made strong contributions to the fund's relative performance. In addition, the fund benefited from a significantly underweighted position in Exxon Mobil (-13%), the index's largest holding.

All returns are based in U.S. dollars.

Fund characteristics

	U.S. Fundamental Value Fund	Russell 1000 Value Index
Number of stocks	48	678
Median market cap	\$12.9B	\$30.1B
Price/earnings ratio	101.1x	31.1x
Price/book ratio	1.4x	1.5x
Return on equity	15.7%	16.4%
Earnings growth rate	-6.7%	0.4%
Foreign holdings	9.8%	0.0%
Cash investments	1.1%	—
Turnover rate	86%	—
Equity yield (dividend)	1.8%	2.3%

The PTR approach considers the total security purchases and sales, the total subscriptions and redemptions and the average net assets of the fund to calculate the turnover figure. Data as of 31 December 2009.

Ten largest holdings

Northrop Grumman Corp.	4.4%
JC Penney Co. Inc.	4.0
Tyco Electronics Ltd.	3.8
Boeing Co.	3.7
Torchmark Corp.	3.5
Allstate Corp.	3.4
Omnicom Group Inc.	3.3
CA Inc.	3.1
Magna International Inc. Class A	2.9
Axis Capital Holdings Ltd.	2.6
Total	34.7%

Sector diversification (% of common stock)

	U.S. Fundamental Value Fund	Russell 1000 Value Index
Consumer Discretionary	16.4%	9.8%
Consumer Staples	4.6	5.7
Energy	9.7	18.4
Financials	32.9	24.5
Health Care	7.2	9.6
Industrials	11.1	11.0
Information Technology	14.0	4.8
Materials	0.0	3.9
Telecommunication Services	0.0	5.3
Utilities	4.1	6.9
Total	100.0%	100.0%

Volatility

	R-Squared	Beta
Investor Shares	0.92	1.29

R-squared and beta are calculated from trailing 36-month fund returns relative to the Russell 1000 Value Index.

For more information

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