

**Vanguard®**

Vanguard® U.K. Investment Grade Bond Index Fund

An Index-Related Fund

30 June 2010

Investment objective

The fund seeks to provide returns consistent with the performance of the Barclays Capital Global Aggregate U.K. Non-Government Bond Index, a market-weighted bond index of the pound sterling, investment-grade bond market, excluding government bonds with an intermediate-term weighted average maturity.

Investment strategy

The fund employs a “passive management”—or indexing—strategy designed to track the performance of the index. This market-weighted index is designed to reflect the total universe of the pound sterling denominated investment-grade fixed-income securities excluding government and government related-securities. All issues have a maturity of greater than one year.

Fund returns***Vanguard U.K. Investment Grade Bond Index Fund—GBP**

	Income Shares		Accumulation Shares		Barclays Capital Global Aggregate GBP Non-Government in GBP	
	Net of expenses	Gross of expenses	Net of expenses	Gross of expenses	Income Shares	Accumulation Shares
1 month	0.97%	0.98%	0.97%	0.98%	0.99%	0.99%
3 months	1.65	1.70	1.65	1.70	1.71	1.71
Year to date	5.96	6.06	5.96	6.06	6.02	6.02
1 year	15.92	16.15	15.95	16.18	16.02	16.02
3 years	—	—	5.39	5.62	5.58	5.58
Since inception	4.83	5.05	3.95	4.18	5.19	4.14

Total expense ratio

	Income Shares	Accumulation Shares
Administrative and other expenses	0.06%	0.06%
Investment management expenses	0.14	0.14
Total expense ratio	0.20%	0.20%

Fund facts

	Income Shares	Accumulation Shares
Inception date		
GBP	31 October 2007	20 March 2007
Purchase fee	0.75%	0.75%
Redemption fee	0.00%	0.00%
Fund codes (GBP)		
Bloomberg	VANUKAI	VANUKII
ISIN	IE00B1S74W91	IE00B1S74Q32
Sedol	B1S74W9	B1S74Q3
Valoren	3489015	3018810
Vanguard Fund Code	VGUKI	VUKGS
Minimum initial investment		
GBP	100,000	100,000
Domicile		Currencies
Ireland		GBP
Trading frequency		Settlement
Daily (11.00 GMT cutoff)		T+3
Total assets		Structure
USD (millions) 69		UCITS III
EUR (millions) 56		

Investment Manager**The Vanguard Group, Inc. (Vanguard)**

Gregory Davis, CFA, Principal, Head of Bond Index Group
Portfolio manager.
Advised the fund since 2007.
Worked in investment management since 1999.
B.S., Pennsylvania State University.
M.B.A., The Wharton School of the University of Pennsylvania.

Didier Haenecour, Head of Europe Bond Index Group
Portfolio manager.
Advised the fund since 2009.
Worked in investment management since 1993.
B.S., HEC Saint Louis, Brussels.
M.S., South Bank University, London.

*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.

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Quarterly fund commentary as at 30 June 2010

- Similar to many central banks across the globe, the Bank of England (BoE) continues to balance the danger of contagion from Europe's sovereign debt crisis and its potential impact on global economic growth against the impending threat of inflation. Though the vote was not unanimous, the BoE's Monetary Policy Committee decided to maintain the official bank rate paid on commercial bank reserves at 0.5%—an all-time low established in March 2009.
- Given these conditions, the Barclays Capital Global Aggregate U.K. Non-Government Bond Index returned 1.71% for the second quarter. The U.K. Investment Grade Bond Index Fund closely tracked its benchmark for the period.
- Though eight of the ten sectors in the index posted positive returns for the period, results were tempered by the performance of financials (-0.1%)—the index's largest weighting at 32% of assets. The industrial sector, the second-largest weighting at 21% of the index, gained 2.6%. Given its low weighting in the index (8% of assets), the overall impact of the best-performing sector—asset-backed securities (+5.4%)—was minimal.
- For the 12 months ended 30 June, the fund's return closely tracked that of its index (+16.02%), as credit spreads tightened during the period. The financial sector was the primary contributor, returning 22.3%.
- Small deviations in performance are expected after accounting for the fund's sampling methodology and expense ratio. Over time, the differences in returns between the fund and index should be minimized because of the manager's sophisticated sampling methodology.

All returns are based in British pounds.

Fund characteristics

	U.K. Investment Grade Bond Index Fund	Barclays GA GBP Non-Gov't Bond Index
Number of bonds	612	814
Effective YTM	4.62	4.63
Average coupon	5.9%	5.8%
Average maturity	13.8 years	13.8 years
Average quality	A1	A1
Average duration	7.2 years	7.2 years
Cash investment	0.1%	—

Distribution by issuer

	U.K. Investment Grade Bond Index Fund
Corporate	63.8%
Industrial	21.1
Utility	10.5
Financial	32.1
Non-Corporate	36.2%
Sovereign	1.1
Supranational	11.5
Local Authority	0.5
Collateralized	0.5
Other	0.0
Local Agency	13.6
CMBS & Project Loans	2.5
Fixed Rate Asset Backed	6.5
Cash	0.1%
Total	100.0%

Distribution by credit quality

	U.K. Investment Grade Bond Index Fund
AAA	26.7
AA	16.9
A	36.6
Less than A	19.7
Not Rated	0.0
Cash	0.1
Total	100.0%

Credit-quality ratings for each issue are obtained from Barclays Capital using ratings derived from Moody's Investors Service, Fitch Ratings, and Standard & Poor's. When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Distribution by maturity

	U.K. Investment Grade Bond Index Fund
Less than 5 years	22.0%
5 to less than 10 years	25.3
More than 10 years	52.7
Total	100.0%

For more information

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