

# Vanguard® U.K. Investment Grade Bond Index Fund

## An Index-Related Fund

28 February 2011

### Investment objective

The fund seeks to provide returns consistent with the performance of the Barclays Capital Global Aggregate U.K. Non-Government Float Adjusted 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		Spliced Barclays Capital Global Aggregate GBP Non-Gov FI Adj Ix in GBP	
	Net of expenses	Gross of expenses	Net of expenses	Gross of expenses	Income Shares	Accumulation Shares
1 month	1.04%	1.06%	1.04%	1.06%	0.94%	0.94%
3 months	0.86	0.91	0.86	0.91	0.73	0.73
Year to date	0.60	0.63	0.60	0.63	0.51	0.51
1 year	6.89	7.11	6.89	7.11	6.76	6.76
3 years	5.79	6.00	5.86	6.07	5.90	5.90
Since inception	4.81	5.03	4.08	4.31	5.04	4.19

### 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
<b>Inception date</b>		
GBP	31 October 2007	20 March 2007
<b>Purchase fee</b>	0.75%	0.75%
<b>Redemption fee</b>	0.00%	0.00%
<b>Fund codes (GBP)</b>		
Bloomberg	VANUKAI	VANUKII
ISIN	IE00B1S74W91	IE00B1S74Q32
Sedol	B1S74W9	B1S74Q3
Valoren	3489015	3018810
Vanguard Fund Code	VGUKI	VUKGS
<b>Minimum initial investment</b>		
GBP	100,000	100,000
<b>Domicile</b>		<b>Currencies</b>
Ireland		GBP
<b>Trading frequency</b>		<b>Settlement</b>
Daily (11.00 GMT cutoff)		T+3
<b>Total assets</b>		<b>Structure</b>
USD (millions) 162		UCITS III
EUR (millions) 117		

### 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.

Spliced Barclays Capital Global Aggregate GBP Non-Government Float Adjusted Bond Index: The benchmark for this portfolio was Barclays Capital Global Aggregate U.K. Non-Government Bond Index through 30 June, 2010 and Barclays Capital Global Aggregate U.K. Non-Government Float Adjusted Bond Index thereafter.

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### Quarterly fund commentary as at 31 December 2010

- During the fourth quarter, the Bank of England left interest rates unchanged at 0.5%, and, unlike the United States' Federal Reserve, decided not to initiate another round of quantitative easing. These decisions were made amidst conflicting opinions within the Bank's nine-person monetary policy committee. Specific factors influencing the differing views included surprisingly high GDP growth within the country and continued uncertainty over the global economy.
- Under these conditions, the Spliced Barclays Capital Global Aggregate U.K. Non-Government Float Adjusted Bond Index returned -2.55% for the fourth quarter. The U.K. Investment Grade Bond Index Fund performed in line with its benchmark.
- In keeping with the behavior of the majority of fixed income markets across the globe, yields backed up along the gilt curve: The 5-year gilt rose 58 basis points, to 2.19%; the 10-year gilt increased 45 basis points, to 3.40%; and the 30-year gilt increased 28 basis points, to 4.18%.
- Nine of the ten sectors in the index posted negative returns for the quarter. Among corporate issuers, financials (-3.1%) was the laggard and had the largest weighting (32%) in the index at the end of the period, while the industrial sector performed best (-1.92%) and had the second-largest weighting (21%) at the end of the period.
- For the 12 months ended 31 December, the fund performed in line with its benchmark (+8.57%) as credit spreads tightened. Returns were impressive across sectors, with asset-backed securities (+13.6%)—which represented approximately 8% of the index—leading the pack.

All returns are based in British pounds.

### Fund characteristics

	U.K. Investment Grade Bond Index Fund	Spliced Barclays Capital Global Aggregate GBP Non-Gov FI Adj Ix in GBP
Number of bonds	790	849
Effective YTM	4.74	4.77
Average coupon	5.8%	5.8%
Average maturity	14.0 years	14.1 years
Average quality	A1	A1
Average duration	7.2 years	7.2 years
Cash investment	0.0%	—

### Distribution by issuer

	U.K. Investment Grade Bond Index Fund
<b>Corporate</b>	<b>64.5%</b>
Industrial	21.8
Utility	11.1
Financial	31.6
<b>Non-Corporate</b>	<b>35.5%</b>
Sovereign	1.0
Supranational	11.0
Local Authority	0.5
Collateralized	1.4
Other	0.6
Local Agency	12.4
CMBS & Project Loans	2.9
Fixed Rate Asset Backed	5.7
<b>Cash</b>	<b>0.0%</b>
<b>Total</b>	<b>100.0%</b>

### Distribution by credit quality

	U.K. Investment Grade Bond Index Fund
AAA	26.9
AA	16.3
A	35.4
Less than A	21.4
Not Rated	0.0
Cash	0.0
<b>Total</b>	<b>100.0%</b>

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	22.7%
5 to less than 10 years	23.6
More than 10 years	53.7
<b>Total</b>	<b>100.0%</b>

### Volatility

	R-Squared	Beta
Accumulation Shares	1.00	1.01
Income Shares	1.00	1.01

R-squared and beta are calculated from trailing 36-month fund returns relative to the Spliced Barclays Capital Global Aggregate GBP Non-Gov FI Adj Ix in GBP.

For more information  
 Web: <http://global.vanguard.com>  
 Email (International): [international@vanguard.com](mailto:international@vanguard.com)  
 Email (U.K.): [uk\\_client\\_services@vanguard.co.uk](mailto:uk_client_services@vanguard.co.uk)  
 Tel (International): +1 610 669 6705  
 Tel (Europe): +353 1612 3226  
 Tel (U.K.): +44 207 489 4305

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