

**Vanguard**[®]

Vanguard[®] U.K. Investment Grade Bond Index Fund

An Index-Related Fund

28 February 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	-0.29%	-0.27%	-0.29%	-0.28%	-0.31%	-0.31%
3 months	0.82	0.87	0.83	0.88	0.83	0.83
Year to date	2.22	2.25	2.22	2.25	2.22	2.22
1 year	18.57	18.81	18.68	18.91	18.12	18.12
Since inception	3.92	4.15	3.14	3.38	4.31	3.33

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	1.00%	1.00%
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) 55		UCITS III
EUR (millions) 40		

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 31 December 2009

- Despite signs of a recovering U.K. economy, the Bank of England (BoE) maintained the official bank rate paid on commercial bank reserves at 0.5%, an all-time low established earlier in 2009. In addition, the BoE continued to buy government bonds as part of its quantitative easing policy. Amid these conditions, the Barclays Capital Global Aggregate U.K. Non-Government Bond Index returned 0.23% for the fourth quarter. The U.K. Investment Grade Bond Index Fund tracked its benchmark for the period.
- Although the index's sector returns were relatively muted, the financial sector, which represented 33% of the index at the quarter end, led the way with a 1.6% return. Noncorporate bonds, which consist of sovereign and supranational bonds and represented the index's second-largest sector, at 28% of capitalization, returned -1.1%. The industrial sector, which accounted for 20% of the index, gained 0.5%.
- The index returned 11.03% for the 12 months ended 31 December, as credit spreads tightened during the period. The financial sector was the primary contributor, returning 14.4%, as a result of its large weighting in the index. The fund slightly outperformed the index. 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.

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	541	815
Effective YTM	4.77	4.81
Average coupon	5.8%	5.8%
Average maturity	13.6 years	13.6 years
Average quality	A1	A1
Average duration	7.0 years	7.0 years
Cash investment	0.4%	—

Distribution by issuer

	U.K. Investment Grade Bond Index Fund
Corporate	63.2%
Industrial	20.9
Utility	9.8
Financial	32.5
Non-Corporate	36.8%
Sovereign	1.0
Supranational	11.8
Local Authority	0.3
Collateralized	0.8
Other	0.5
Local Agency	14.5
Commercial Mortgage Backed Security & Project Loans	2.2
Fixed Rate Asset Backed	5.7
Total	100.0%

Distribution by credit quality

	U.K. Investment Grade Bond Index Fund
AAA	29.1
AA	17.0
A	34.2
Less than A	19.3
Not Rated	0.0
Cash	0.4
Total	100.0%

Distribution by maturity

	U.K. Investment Grade Bond Index Fund
Less than 5 years	24.4%
5 to less than 10 years	24.7
More than 10 years	50.9
Total	100.0%

For more information

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