

Vanguard® 30–40 Year Duration Euro 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 EUR 30–40 Year Zero Coupon Equal Notional Swaps Index, an equal-weighted notional swap index of annual euro-denominated zero coupon swaps with maturities between 30 and 40 years.

Investment strategy

The Investment Manager seeks to invest in financial derivatives instruments, principally very long duration zero coupon swap agreements, in order to replicate the performance of the index less Euribor.

Fund returns*

Vanguard 30–40 Year Duration Euro Index Fund—EUR

	Net of expenses	Gross of expenses	Institutional Shares
			Barclays Capital Euro 30-40 Year Zero Coup Eq Notional Swap Idx in EUR
1 month	0.42%	0.44%	0.49%
3 months	-16.17	-16.11	-15.77
Year to date	-5.00	-4.95	-4.71
1 year	4.63	4.95	6.41
3 years	15.23	15.58	16.77
Since inception	14.69	15.03	16.26

Total expense ratio

Administrative and other expenses	0.16%
Investment management expenses	0.14
Total expense ratio	0.30%

Fund facts

Inception date	29 August 2007
EUR	
Purchase fee	1.00%
Redemption fee	0.75%
Fund codes (EUR)	
Bloomberg	VGDEII
ISIN	IE00B246KM95
Sedol	B246KM9
Valoren	3410279
Vanguard Fund Code	VYDES
Minimum initial investment	
EUR	500,000

Domicile	Currencies
Ireland	EUR
Trading frequency	Settlement
Daily (11.00 GMT cutoff)	T+3
Total assets	Structure
USD (millions) 103	UCITS III
EUR (millions) 75	

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 2010

- In contrast to the impressive results that characterized much of 2010, fixed income markets across the globe produced negative returns during the fourth quarter as yields began to rise from historic lows. With the sovereign debt crisis continuing to loom, the impact was even greater in the Eurozone, primarily among the peripheral countries—commonly referred to as the PIIGS (Portugal, Ireland, Italy, Greece, Spain). Specifically, Ireland accepted an 85 billion euro (\$113 billion) bailout in November, making it the second country in the 16-member Eurozone to be rescued (Greece was the first).
- In this environment, the Vanguard 30–40 Year Duration Euro Index Fund posted weak absolute results, returning –17.93%, though it did slightly outperform its benchmark, the Barclays Capital EUR 30–40 Year Zero Coupon Equal Notional Swaps Index (–18.08%).
- Given the lack of demand for longer-maturity bonds, the yield of the 30-year euro bond increased 54 basis points, to 3.41%.
- For the 12 months ended 31 December, the fund slightly underperformed its benchmark (+20.57%). Because of the fund's sampling methodology, deviations in performance—whether positive or negative—can be expected. Over time, these differences should even out as a result of the advisor's refined indexing methodology and close attention to risk control.
- Investors should note that this fund is designed primarily for institutional and other investors seeking to moderate changes in the ratio of long-term assets to liabilities, and that it may exhibit substantial short-term volatility because of its enhanced interest rate risk.

All returns are based in euro.

Fund characteristics

	30-40 Year Duration Euro Index Fund	Barclays 30–40 Year Zero Coupon Equal Notional Swaps Index
Number of swaps	64	10
Number of bonds	66	0
Effective YTM	3.47	3.47
Average coupon	0.0%	0.0%
Average maturity	34.1 years	34.1 years
Average quality	Aa1	Aa1
Average duration	34.6 years	34.6 years
Cash investment	0.1%	—

Distribution by credit quality

	30-40 Year Duration Euro Index Fund
Cash & UST	16.2%
Floating Rate Notes	83.8%
AAA	32.0
AA	50.7
A	1.1
Less than A	0.0
Not Rated	0.0
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

	30-40 Year Duration Euro Index Fund
1/1/2042	11.3%
1/1/2043	10.9
1/1/2044	11.0
1/1/2045	10.1
1/1/2046	10.2
1/1/2047	9.6
1/1/2048	9.8
1/1/2049	9.2
1/1/2050	8.7
1/1/2051	9.1
Total	100.0%

Volatility

	R-Squared	Beta
Institutional Shares	1.00	0.99

R-squared and beta are calculated from trailing 36-month fund returns relative to the Barclays Capital Euro 30-40 Year Zero Coup Eq Notional Swap Idx in EUR.

For more information

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