

**Vanguard®**

Vanguard® U.S. Discoveries Fund

31 January 2010

Investment objective

The fund seeks to provide long-term capital growth.

Investment strategy

The fund employs an "active management" strategy to invest mainly in U.S. stocks. The fund invests in stocks of small companies that tend to be unseasoned but are considered by the fund's Sub-Investment Manager, Granahan Investment Management, Inc., ("Granahan"), to have superior growth potential. Also, these companies often provide little or no dividend income.

Fund returns***Vanguard U.S. Discoveries Fund—USD**

	Investor Shares		Russell 2000 Growth Index
	Net of expenses	Gross of expenses	Investor Shares
1 month	-2.35%	-2.28%	-4.47%
3 months	8.43	8.66	6.91
Year to date	-2.35	-2.28	-4.47
1 year	48.59	49.86	39.03
3 years	-6.16	-5.35	-6.03
5 years	0.80	1.67	0.88
Since inception	1.93	2.80	1.70

Vanguard U.S. Discoveries Fund—GBP

	Investor Shares		Russell 2000 Growth Index GBP
	Net of expenses	Gross of expenses	Investor Shares
1 month	-1.59%	-1.52%	-3.66%
3 months	11.54	11.78	9.77
Year to date	-1.59	-1.52	-3.66
1 year	33.70	34.84	25.57
3 years	0.33	1.19	0.56
Since inception	1.71	2.57	1.38

Total expense ratio

	Investor Shares
Administrative and other expenses	0.45%
Investment management expenses	0.40
Total expense ratio	0.85%

Fund facts

	Investor Shares
Inception date	
USD	01 July 2004
GBP	19 December 2006
Purchase fee	0.00%
Redemption fee	0.00%
Fund codes (USD)	
Bloomberg	VANUDVU
CUSIP	G9318R499
ISIN	IE0034156459
Sedol	3415645
Vanguard Fund Code	VUSDV
Fund codes (GBP)	
ISIN	IE00B1L8DT90
Sedol	B1L8DT9
Vanguard Fund Code	VUSDD
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) 6	Structure	UCITS III
	EUR (millions) 4		

Investment Manager**Granahan Investment Management, Inc.**

John J. Granahan, CFA, Founder and President
Portfolio manager and lead analyst for consumer stocks.
Worked in investment management since 1960.
B.A., Saint Joseph's University.
Graduate Fellow, Catholic University of America.

Robert F. Granahan, CFA, Vice President
Portfolio manager.
Worked in investment management since 1995.
B.A., Tufts University.
M.B.A., New York University.

Gary C. Hatton, CFA, Executive Vice President
Portfolio manager.
Worked in investment management since 1982.
B.S., University of Rhode Island.
M.S., University of Wisconsin.

Jane M. White, Executive Vice President
Portfolio manager.
Worked in investment management since 1980.
B.A., Boston University.

*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. Discoveries Fund

Quarterly fund commentary as at 31 December 2009

- Equity markets advanced during the fourth quarter, finishing a strong year for stock investors worldwide. Despite a backdrop of elevated unemployment, U.S. stocks were no exception, as investors continued to focus on favorable trends such as improving home prices and forecasts for positive GDP growth in 2010. The U.S. Discoveries Fund returned 1.13% for the quarter, underperforming the 4.14% return of its benchmark, the Russell 2000 Growth Index.
- While the portfolio and its benchmark differ significantly in sector weightings, most of the fund's underperformance for the quarter resulted from poor stock selection, primarily in the consumer discretionary, materials, and information technology sectors. Specialty retailer A.C. Moore Arts & Crafts (-44%) was a top detractor for the quarter, as the company announced a larger-than-expected quarterly loss and a drop in same-store sales. Within information technology, stock selection was noticeably weak in the semiconductors and semiconductor equipment industry. Both DSP Group (-31%) and PMC-Sierra (-9%) declined after reporting lower revenue in the third quarter versus a year ago.
- Strong stock selection in the energy sector did not offset the fund's large underweighting in the sector. Top performer, CARBO Ceramics (+33%), was the fund's lone energy holding during the quarter. The company gained after reporting a better-than-expected third quarter profit despite a decline in its worldwide sales.
- For the 12 months ended 31 December, the U.S. Discoveries Fund returned 40.61%, exceeding the benchmark's return of 34.47%. The outperformance resulted from favorable stock selection in the health care and financial sectors. The fund's strong relative results were partially offset by weak stock selection in and an underweighted position in the information technology sector.

All returns are based in U.S. dollars.

Fund characteristics

	U.S. Discoveries Fund	Russell 2000 Growth Index
Number of stocks	80	1,273
Median market cap	\$0.5B	\$0.9B
Price/earnings ratio	-75.4x	65.0x
Price/book ratio	1.9x	2.7x
Return on equity	5.2%	12.5%
Earnings growth rate	7.7%	12.5%
Foreign holdings	5.8%	0.0%
Cash investments	0.5%	—
Turnover rate	115%	—
Equity yield (dividend)	0.6%	0.5%

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

Parexel International Corp.	3.4%
Alkermes Inc.	2.7
Ladish Co. Inc.	2.6
LeMaitre Vascular Inc.	2.5
FirstService Corp.	2.4
Regeneron Pharmaceuticals Inc.	2.2
Impax Laboratories Inc.	2.2
Titan Machinery Inc.	2.2
Nektar Therapeutics	2.2
Healthcare Services Group Inc.	2.2
Total	24.6%

Russell is a trademark of The Frank Russell Company.

Sector diversification (% of common stock)

	U.S. Discoveries Fund	Russell 2000 Growth Index
Consumer Discretionary	6.0%	16.2%
Consumer Staples	0.0	4.2
Energy	0.5	4.3
Financials	4.8	6.0
Health Care	42.9	24.7
Industrials	23.0	14.5
Information Technology	17.1	26.1
Materials	5.7	2.3
Telecommunication Services	0.0	1.5
Utilities	0.0	0.2
Total	100.0%	100.0%

Volatility

	R-Squared	Beta
Investor Shares	0.94	1.00

R-squared and beta are calculated from trailing 36-month fund returns relative to the Russell 2000 Growth Index.

For more information

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