



Vanguard® U.S. Discoveries Fund

28 February 2011

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	3.88%	3.95%	5.88%
3 months	12.20	12.44	13.28
Year to date	3.50	3.64	5.29
1 year	47.39	48.65	36.33
3 years	13.84	14.81	8.61
5 years	5.08	5.97	4.56
Since inception	8.45	9.37	6.94

Vanguard U.S. Discoveries Fund—GBP

	Investor Shares		Russell 2000 Growth Index in GBP
	Net of expenses	Gross of expenses	Investor Shares
1 month	2.30%	2.37%	4.47%
3 months	7.43	7.65	8.63
Year to date	-0.37	-0.24	1.02
1 year	37.94	39.12	27.83
3 years	21.75	22.78	16.10
Since inception	11.88	12.84	9.50

*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.

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
Valoren	1900018
Vanguard Fund Code	VUSDU
Fund codes (GBP)	
Bloomberg	VANUDVS
ISIN	IE00B1L8DT90
Sedol	B1L8DT9
Valoren	2849949
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) 11	Structure	UCITS III
	EUR (millions) 8		

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

John J. Granahan, CFA, Founder and President
Portfolio manager and lead analyst for consumer stocks.
Advised the fund since 2004.
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.
Advised the portfolio since 2004.
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.
Advised the portfolio since 2004.
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.
Advised the portfolio since 2004.
Worked in investment management since 1980.
B.A., Boston University.

Vanguard® U.S. Discoveries Fund

Quarterly fund commentary as at 31 December 2010

- In the fourth quarter, global equity markets retained their third-quarter momentum, as resurfacing European sovereign debt fears were more than offset by positive signs of an economic recovery in the United States. Positive global growth revisions and renewed investor optimism were driven in part by the extension of U.S. tax cuts, as well as the Federal Reserve Bank's announcement of a second round of quantitative easing. The U.S. Discoveries Fund returned 15.73% for the quarter, lagging the 17.11% return of its benchmark, the Russell 2000 Growth Index.
- Selections in health care, industrials and information technology—the three largest weightings in the portfolio at the end of the period—drove much of the positive return. Four biotech firms were among the fund's leading relative contributors: SciClone Pharmaceuticals (+58%), VIVUS Inc. (+40%), Questcor Pharmaceuticals (+49%), and Spectrum Pharmaceuticals (+65%) all had significant gains.
- Despite strong stock selection in and an overweight to health care during the period, positions in Alkermes Inc. (-16%), LeMaitre Vascular Inc. (-4%), and Nektar Therapeutics (-13%) offset some of the portfolio's gains.
- For the 12 months ended 31 December, the U.S. Discoveries Fund returned 45.51%, exceeding the benchmark's return of 29.09% and successfully capping a second consecutive year of double-digit returns. The outperformance resulted not only from the fund's overweight and excellent stock selection within the health care sector, but also from its natural bias toward small-cap stocks relative to its benchmark.

All returns are based in U.S. dollars.

Fund characteristics

	U.S. Discoveries Fund	Russell 2000 Growth Index
Number of stocks	81	1,256
Median market cap	\$0.4B	\$1.3B
Price/earnings ratio	56.3x	31.9x
Price/book ratio	2.1x	3.7x
Return on equity	3.3%	11.3%
Earnings growth rate	4.8%	8.8%
Non-U.S. holdings	6.7%	0.0%
Cash investments	8.2%	—
Turnover rate	77%	—
Equity yield (dividend)	0.5%	0.5%

The PTR (Portfolio Turnover Rate) 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 at 31 December 2010.

Sector diversification (% of common stock)

	U.S. Discoveries Fund	Russell 2000 Growth Index
Consumer Discretionary	7.6%	16.8%
Consumer Staples	0.8	2.8
Energy	0.0	5.7
Financials	12.1	4.9
Health Care	38.4	18.4
Industrials	19.1	16.6
Information Technology	15.7	28.7
Materials	6.3	4.9
Telecommunication Service	0.0	1.1
Utilities	0.0	0.1
Total	100.0%	100.0%

Volatility

	R-Squared	Beta
Investor Shares	0.94	0.99

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

Ten largest stocks as % of total net assets

	U.S. Discoveries Fund
Safeguard Scientifics Inc.	3.2%
Dusa Pharmaceuticals Inc.	2.3
Harris & Harris Group Inc.	2.2
Modine Manufacturing Co.	2.2
Ceco Environmental Corp.	2.2
Titan Machinery Inc.	2.1
Kaman Corp.	2.1
Sucampo Pharmaceuticals Inc. Class A	2.0
Sciclone Pharmaceuticals Inc.	1.8
OM Group Inc.	1.8
Total	21.9%

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