



Vanguard® U.S. Mortgage Backed Securities Bond Index Fund

An Index-Related Fund

30 June 2010

Investment objective

The fund seeks to provide returns consistent with the performance of the Barclays Capital Global Aggregate U.S. Mortgage Backed Securities Index, a market-weighted bond index of U.S. mortgage backed securities.

Investment strategy

The fund employs a "passive management"—or indexing—strategy designed to track the performance of the index, which is designed to reflect the total universe of the U.S. dollar denominated mortgage backed fixed-income securities, all with maturities greater than one year.

Fund returns*

Vanguard U.S. Mortgage Backed Securities Bond Index Fund—USD

	Institutional Shares	Spliced Barclays Capital Global Agg U.S. Mortgage-Backed Sec in USD	Institutional Shares
	Net of expenses	Gross of expenses	
1 month	1.24%	1.25%	1.15%
3 months	3.15	3.20	2.93
Year to date	4.70	4.80	4.59
1 year	7.88	8.10	7.64
3 years	8.32	8.54	8.36
5 years	6.13	6.34	6.28
Since inception	5.95	6.16	6.09

Total expense ratio

	Institutional Shares
Administrative and other expenses	0.06%
Investment management expenses	0.14
Total expense ratio	0.20%

Fund facts

	Institutional Shares
Inception date	16 December 2004
USD	
Purchase fee	0.10%
Redemption fee	0.00%
Fund codes (USD)	
Bloomberg	VANESBU
CUSIP	G9318T206
ISIN	IE00B04GR134
Sedol	B04GR13
Vanguard Fund Code	VSBSU
Minimum initial investment	
USD	500,000

Domicile	Currencies
Ireland	USD
Trading frequency	Settlement
Daily (16.00 GMT cutoff)	T+3
Total assets	Structure
USD (millions) 125	UCITS III
EUR (millions) 102	

Investment Manager

The Vanguard Group, Inc. (Vanguard)

Gregory Davis, CFA, Principal, Head of Bond Index Group
Portfolio manager.
Advised the fund since 2005.
Worked in investment management since 1999.
B.S., Pennsylvania State University.
M.B.A., The Wharton School of the University of Pennsylvania.

William D. Baird
Portfolio manager.
Advised the fund since 2009.
Worked in investment management since 1988.
B.A., Rutgers College.
M.B.A., New York University Stern School of Business.

*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 U.S. MBS Index: The benchmark for this portfolio was Barclays Capital U.S. Securitised Bond Index through 31 October, 2006, and Barclays Capital Global Aggregate U.S. Mortgage Backed Securities Index thereafter. The characteristic data noted above for the index is reflective of the Barclays Capital U.S. Mortgage Backed Securities Index.

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Quarterly fund commentary as at 30 June 2010

- Global financial markets came to a screeching halt in the quarter, reversing the recent equity rally and reviving fears of a double-dip recession. Although the Federal Reserve's \$1.25 trillion Mortgage Backed Securities Purchase Program officially ended in the first quarter, mortgage rates remained at their lowest level in decades. For the quarter, the U.S. Mortgage Backed Securities Bond Index Fund slightly outperformed the 2.93% return of the Barclays Capital Global Aggregate U.S. Mortgage Backed Securities Float Adjusted Index.
- Investors reduced their tolerance for risk in the second quarter, abandoning stocks amid uncertainty regarding the European debt crisis and a slowing global recovery and turning to the perceived safety of fixed income securities. Prices of U.S. Treasury securities rose as the Treasury yield curve shifted downward, particularly at the intermediate and long portions of the curve.
- Mortgage-backed securities generated positive returns as the spreads for these securities hovered around 11 basis points during the quarter.
- Mortgage-backed securities outperformed asset-backed securities but lagged investment-grade corporates for the period. Issues from Fannie Mae and Freddie Mac returned 2.7% and 3.1%, respectively. Ginnie Mae debt (+3.3%) also posted a positive return.
- For the 12 months ended 30 June, the fund tracked the return of the index (+7.64%), which was led by mortgage-backed securities issued by Ginnie Mae (+8.3%) and Freddie Mac (+7.7%). Fannie Mae debt (+7.4%) also posted a positive return for the period but slightly lagged its counterparts.

All returns are based in U.S. dollars.

Fund characteristics

	US Mortgage Backed Securities Bond Index Fund	Spliced Barclays GA U.S. MBS
Number of bonds	188	399
Effective YTM	2.02	2.15
Average coupon	5.1%	5.3%
Average maturity	2.7 years	2.7 years
Average quality	AAA	AAA
Average duration	1.8 years	1.8 years
Cash investment	-1.1%	—

Distribution by maturity

	US Mortgage Backed Securities Bond Index Fund
Less than 5 years	99.1%
5 to less than 10 years	0.9
More than 10 years	0.0
Total	100.0%

Volatility

	R-Squared	Beta
Institutional Shares	0.99	1.01

R-squared and beta are calculated from trailing 36-month fund returns relative to the Spliced Barclays Capital Global Agg U.S. Mortgage-Backed Sec in USD.

For more information

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