

# Vanguard® U.S. Mortgage Backed Securities Bond 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 Global Aggregate U.S. Mortgage Backed Securities Float Adjusted 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 US Mortgage Backed Securities Float Adjusted Index in USD	Institutional Shares
	Net of expenses	Gross of expenses	
1 month	0.20%	0.21%	0.28%
3 months	-0.18	-0.13	-0.11
Year to date	0.27	0.30	0.35
1 year	4.42	4.62	4.30
3 years	6.05	6.26	6.08
5 years	6.17	6.38	6.31
Since inception	5.50	5.71	5.63

### 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
<b>Inception date</b>	
USD	16 December 2004
<b>Purchase fee</b>	0.10%
<b>Redemption fee</b>	0.00%
<b>Fund codes (USD)</b>	
Bloomberg	VANESBU
CUSIP	G9318T206
ISIN	IE00B04GR134
Sedol	B04GR13
Valoren	2031530
Vanguard Fund Code	VSBSU
<b>Minimum initial investment</b>	
USD	500,000

<b>Domicile</b>	<b>Currencies</b>
Ireland	USD
<b>Trading frequency</b>	<b>Settlement</b>
Daily (16.00 GMT cutoff)	T+3
<b>Total assets</b>	<b>Structure</b>
USD (millions) 117	UCITS III
EUR (millions) 85	

### 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 U.S. Mortgage Backed Securities Float Adjusted Index: The benchmark for this portfolio was Barclays Capital U.S. Securitised Bond Index through 31 October, 2006; Barclays Capital Global Aggregate U.S. Mortgage Backed Securities Index through 30 June 2010, and Barclays Capital Global Aggregate U.S. Mortgage Backed Securities Float Adjusted Index thereafter.

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## Quarterly fund commentary as at 31 December 2010

- Bonds suffered in the fourth quarter as the market digested improving economic reports and the United States' expansion of monetary and fiscal stimulus, which caused yields to increase and prices to decline. Although the Federal Reserve's \$1.25 trillion Mortgage Backed Securities Purchase Program officially ended in the first quarter of 2010, the Fed continues to purchase government securities in its second round of quantitative easing, which focuses on the intermediate part of the yield curve. The Treasury curve steepened during the quarter and mortgage rates ticked higher, although they remain close to historically low levels.
- For the quarter, the U.S. Mortgage Backed Securities Bond Index Fund slightly outperformed the 0.44% return of its index, the Barclays Capital Global Aggregate U.S. Mortgage Backed Securities Float Adjusted Index. The outperformance was due to the fund's sampling approach.
- During the period, mortgage-backed securities generated moderately positive returns, as spreads for these securities narrowed from 85 basis points to 42 basis points. Mortgage-backed securities outperformed asset-backed securities and investment-grade corporates. Issues from Fannie Mae and Freddie Mac returned 0.3% and 0.2%, respectively. Ginnie Mae debt also notched a positive return, at 0.3%.
- For the 12 months ended 31 December, the fund slightly outperformed the index (+5.56%), which was led by mortgage-backed securities issued by Ginnie Mae (+6.7%). Fannie Mae debt (+5.3%) and Freddie Mac debt (+5.1%) also posted positive returns for the period but lagged asset-backed securities and corporate bonds.

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	233	390
Effective YTM	2.91	2.99
Average coupon	4.9%	5.0%
Average maturity	4.4 years	4.4 years
Average quality	Govt	Govt
Average duration	3.3 years	3.3 years
Cash investment	0.3%	—

## Distribution by maturity

	US Mortgage Backed Securities Bond Index Fund
Less than 5 years	68.5%
5 to less than 10 years	31.0
More than 10 years	0.5
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 US Mortgage Backed Securities Float Adjusted Index in USD.

For more information

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