

**Vanguard**

Vanguard® U.S. Investment Grade Credit 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. Credit Float Adjusted Bond Index, a market-weighted bond index of U.S. dollar-denominated investment-grade credit securities.

Investment strategy

The fund employs a "passive management"—or indexing—strategy designed to track the performance of the index. This market-weighted index is designed to reflect the universe of the U.S. dollar-denominated investment-grade fixed-income securities, excluding U.S. Treasury, U.S. government-related and securitised securities. All issues have a maturity greater than one year.

Fund returns***Vanguard U.S. Investment Grade Credit Index Fund—USD**

	Institutional Shares		Spliced Barclays Capital Global Aggregate USD Credit Flt Adj Ix in USD	Institutional Shares
	Net of expenses	Gross of expenses		
1 month	0.57%	0.59%		0.61%
3 months	-0.21	-0.14		0.05
Year to date	0.79	0.83		0.92
1 year	7.44	7.77		7.50
3 years	6.56	6.88		6.49
5 years	5.98	6.30		5.95
Since inception	5.20	5.52		5.18

Vanguard U.S. Investment Grade Credit Index Fund—EUR

	Investor Shares		Spliced Barclays Capital Global Aggregate USD Credit Flt Adj Ix in EUR	Investor Shares
	Net of expenses	Gross of expenses		
1 month	-0.18%	-0.15%		-0.13%
3 months	-5.98	-5.88		-5.71
Year to date	-2.13	-2.06		-1.98
1 year	6.05	6.48		6.21
Since inception	13.12	13.58		13.22

Total expense ratio

	Investor Shares	Institutional Shares
Administrative and other expenses	0.21%	0.11%
Investment management expenses	0.19	0.19
Total expense ratio	0.40%	0.30%

Fund facts

	Investor Shares	Institutional Shares
Inception date		
USD	—	16 December 2004
EUR	06 August 2008	—
Purchase fee	0.50%	0.50%
Redemption fee	0.00%	0.00%
Fund codes (USD)		
Bloomberg	—	VANEIGU
CUSIP	—	G9318T180
ISIN	—	IE00B04GQX83
Sedol	—	B04GQX8
Valoren	—	2031536
Vanguard Fund Code	—	VGCSU
Fund codes (EUR)		
Bloomberg	VANGCIV	—
ISIN	IE00B04GQT48	—
Sedol	B04GOT4	—
Valoren	2031683	—
Vanguard Fund Code	VGCV E	—
Minimum initial investment		
USD/EUR	100,000	500,000
Domicile	Ireland	Currencies USD, EUR
Trading frequency	Daily (16.00 GMT cutoff)	Settlement T+3
Total assets		Structure UCITS III
USD (millions)	1,828	
EUR (millions)	1,324	

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 2008.
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. Credit Float Adjusted Index: Barclays Capital Global Aggregate U.S. Credit Bond Index through 31 October, 2006, Barclays Capital U.S. Credit Bond Index (incl 144A & Eurodollar) through 30 June 2010 and Barclays Capital Aggregate U.S. Credit Float Adjusted Bond Index (incl 144A & Eurodollar) thereafter.

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Quarterly fund commentary as at 31 December 2010

- In the fourth quarter, the Fed initiated its second round of quantitative easing through purchases of government bonds. With yields at low levels, investors' appetite for riskier fixed income securities increased, causing corporate bonds, which returned -1.5%, to outperform Treasuries (-2.6%). The Barclays Capital Global Aggregate U.S. Credit Float Adjusted Bond Index returned -1.54%. The fund slightly outperformed its benchmark owing to its sampling approach.
- The yield curve steepened during the quarter, with intermediate and long portions of the curve increasing the most; intermediate-term yields rose by 78 basis points, and long-term yields increased by 65 basis points. The yields at the short end remained relatively flat, decreasing by only 3 basis points.
- The credit spread, or added yield corporate bonds offer over Treasuries of comparable maturities, is viewed as a measurement of the perceived risk of a security. Spreads continued to narrow in the fourth quarter from 175 basis points at the end of September to 156 basis points at the end of December, as investors became more comfortable with the risk of corporates.
- Within the index, bonds issued by financial institutions (-0.6%) outperformed the industrials (-2.0%) and utilities (-2.6%) sectors for the quarter. The index also includes securitized credit; asset-backed securities were flat, with a return of 0.01%, and commercial mortgage-backed securities returned 0.5%.
- For the 12 months ended 31 December, lower-quality corporate bonds (+9.1%) outperformed Treasuries (+5.9%). The fund tracked its benchmark, which returned 8.97% for the period.

All returns are based in U.S. dollars.

Fund characteristics

	U.S. Investment Grade Credit Index	Spliced Barclays GA U.S. Credit Index
Number of bonds	2,703	5,240
Effective YTM	3.67	3.69
Average coupon	5.3%	5.3%
Average maturity	9.5 years	9.2 years
Average quality	A2	A2
Average duration	5.6 years	5.5 years
Cash investment	0.2%	—

Distribution by issuer

	U.S. Investment Grade Credit Index
Corporate	67.0%
Industrial	33.4
Utility	6.6
Financial	27.0
Non-Corporate	32.8%
Sovereign	5.6
Supranational	5.0
Asset Backed Security	0.6
Commercial Mortgage Backed Security	6.0
Other	2.6
Local Agency	10.3
Local Authority	1.6
European Collateralized	1.1
Cash	0.2%
Total	100.0%

Distribution by credit quality

	U.S. Investment Grade Credit Index
Industry & Utility	40.3%
AAA	0.4
AA	3.6
A	16.2
Less than A	20.1
Not Rated	0.0
Finance	27.0%
AAA	0.4
AA	8.3
A	13.3
Less than A	5.0
Not Rated	0.0
Non-Corporate	25.7%
AAA	12.8
AA	4.8
A	3.5
Less than A	4.6
ABS	0.6%
AAA	0.6
AA	0.0
A	0.0
Less than A	0.0
Not Rated	0.0
CMBS	5.9%
AAA	4.4
AA	0.4
A	0.9
Less than A	0.2
Not Rated	0.0
Cash & UST	0.5%
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

	U.S. Investment Grade Credit Index
Less than 5 years	46.0%
5 to less than 10 years	32.7
More than 10 years	21.3
Total	100.0%

Volatility

	R-Squared	Beta
Institutional Shares	0.99	0.95

R-squared and beta are calculated from trailing 36-month fund returns relative to the Spliced Barclays Capital Global Aggregate USD Credit Fit Adj Ix in USD.

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