



Vanguard[®]

Vanguard[®] U.S. Investment Grade Credit 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. Credit 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 U.S. Credit Index in USD	
	Net of expenses	Gross of expenses	Institutional Shares	
1 month	1.80%	1.83%	1.83%	
3 months	3.05	3.12	2.79	
Year to date	5.92	6.08	5.73	
1 year	14.87	15.21	15.18	
3 years	7.17	7.49	6.95	
5 years	5.18	5.50	5.09	
Since inception	5.16	5.47	5.07	

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

	Investor Shares		Barclays Capital Global Aggregate U.S. Credit Index in EUR	
	Net of expenses	Gross of expenses	Investor Shares	
1 month	1.97%	2.00%	2.01%	
3 months	13.80	13.92	13.55	
Year to date	24.01	24.26	23.84	
1 year	31.41	31.94	31.89	
Since inception	23.51	24.01	23.59	

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
Vanguard Fund Code	—	VGCSU
Fund codes (EUR)		
Bloomberg	VANGCIV	—
ISIN	IE00B04GQT48	—
Sedol	B04GQT4	—
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	USD (millions) 1,834 EUR (millions) 1,497	Structure UCITS III

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 Index: The benchmark for this portfolio was Barclays Capital Global Aggregate U.S. Credit Bond Index through 31 October, 2006, and Barclays Capital U.S. Credit Bond Index (incl 144A & Eurodollar) thereafter. The characteristic data noted above for the index is reflective of the Barclays Capital U.S. Credit Bond Index (incl 144A & Eurodollar).

Vanguard® U.S. Investment Grade Credit Index Fund

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Quarterly fund commentary as at 30 June 2010

- Investment trends reversed course in the second quarter as investors avoided risk in favor of safer fixed income securities such as U.S. Treasuries, which returned 4.7%, while corporate bonds returned 3.4%. In this environment, the Barclays Capital Global Aggregate U.S. Credit Float Adjusted Bond Index gained 2.79%. The fund slightly outperformed its benchmark index because of its sampling approach.
- The Treasury yield curve shifted down during the quarter; intermediate-term yields declined by 77 basis points, and long-term yields fell 82 basis points. The yields at the short end of the curve remained relatively flat, increasing by only 2 basis points.
- The credit spread, or the added yield corporate bonds offer over Treasuries of comparable maturities, is viewed as a measurement of the perceived risk of a security. After narrowing considerably since 2008, the average credit spread for the index widened in the second quarter, from 150 basis points at the end of March to 193 basis points at the end of June, as investors sought the safety of Treasuries. (One basis point equals 1/100 of a percentage point.)
- Within the index, bonds issued by financial institutions (+1.8%) underperformed the utility (+4.4%) and industrials (+4.3%) sectors during the quarter. The index also includes securitized credit; asset-backed securities returned 2.8% and commercial mortgage-backed securities returned 3.0%.
- In contrast to the second quarter, lower-quality corporate bonds posted the highest return for the 12 months ended 30 June, returning 16.1%. The fund slightly trailed its benchmark, which returned 15.18%, primarily because of expenses.

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	2,421	4,882
Effective YTM	3.90	3.95
Average coupon	5.5%	5.5%
Average maturity	9.3 years	9.2 years
Average quality	A1	A1
Average duration	5.6 years	5.6 years
Cash investment	0.1%	—

Distribution by issuer

	U.S. Investment Grade Credit Index
Corporate	66.4%
Industrial	34.2
Utility	7.0
Financial	25.2
Non-Corporate	33.6%
Sovereign	6.0
Supranational	4.9
Asset-Backed	0.7
Commercial Mortgage-Backed	7.3
Other	2.2
Local Agency	10.2
Local Authority	1.5
European Collateralized	0.8
Total	100.0%

Distribution by credit quality

	U.S. Investment Grade Credit Index
Industry & Utility	41.2%
AAA	0.5
AA	4.0
A	16.3
Less than A	20.4
Not Rated	0.0
Finance	25.2%
AAA	0.4
AA	7.6
A	13.1
Less than A	4.1
Not Rated	0.0
Non-Corporate	25.0%
AAA	13.3
AA	4.1
A	3.6
Less than A	4.0
Not Rated	0.0
Asset-Backed	0.7%
AAA	0.7
AA	0.0
A	0.0
Less than A	0.0
Not Rated	0.0
Commercial Mortgage-Backed	7.3%
AAA	5.5
AA	0.4
A	1.2
Less than A	0.2
Not Rated	0.0
Cash & UST	0.6%
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	44.8%
5 to less than 10 years	34.7
More than 10 years	20.5
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 U.S. Credit Index in USD.

For more information

Web: <http://global.vanguard.com>
 Email (global): international@vanguard.com
 Email (Europe): client.service@vanguard.be
 Tel (global): +1 610 669 6705
 Tel (Europe): +32 (0) 2 357 3030

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