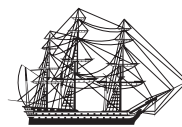


Vanguard 2011 Index Chart

Mapping the journey: endurance, risk and reward.



Vanguard[®]



Vanguard's investment philosophy

Climbing a challenging peak like Kilimanjaro is the ultimate test of human determination. It is an onerous journey that requires a strong understanding and strategy to overcome the unpredictability of Mother Nature. This monumental climb is in many ways similar to investing in capital markets, which requires an understanding of different types of risks, self-discipline, patience and a well thought-out plan to reach pre-determined financial goals.

The 2011 Vanguard Index Chart highlights key investment principles that have stood the test of time.

1. Investing for the long term

Investors often get caught up with short-term stock selection which can deliver inconsistent results. While a stock might deliver great returns one year, it is difficult to pick winning stocks every year. When it comes to investing, it generally pays to invest for the long term. A sound investment approach should start with asset allocation in consideration of the time horizon of the investment objective.

2. Take a broad approach

The index chart illustrates the benefit of investing across asset classes. Having a portfolio which holds a broad range of asset classes, sectors and securities ensures that investors are well positioned to capture market growth, while helping to moderate return volatility over time. Ultimately no one can predict the future, which is why investing based on short-term performance can be a dangerous strategy compared to a diversified long-term approach.

Although major socio-economic events have played a role in share market volatility, the historical correlation of economic growth (GDP) and share market returns is negligible. For example, during the 20th century United States GDP grew at an average rate of 3.2 per cent per annum, while in the United Kingdom GDP growth averaged only 1.9 per cent. Yet during that 100-year period, share markets in both countries had an identical annualised rate of return of 10.1 per cent. The lesson for investors: even in a low-growth economic environment, stick to a diversified portfolio, and do not chase returns.

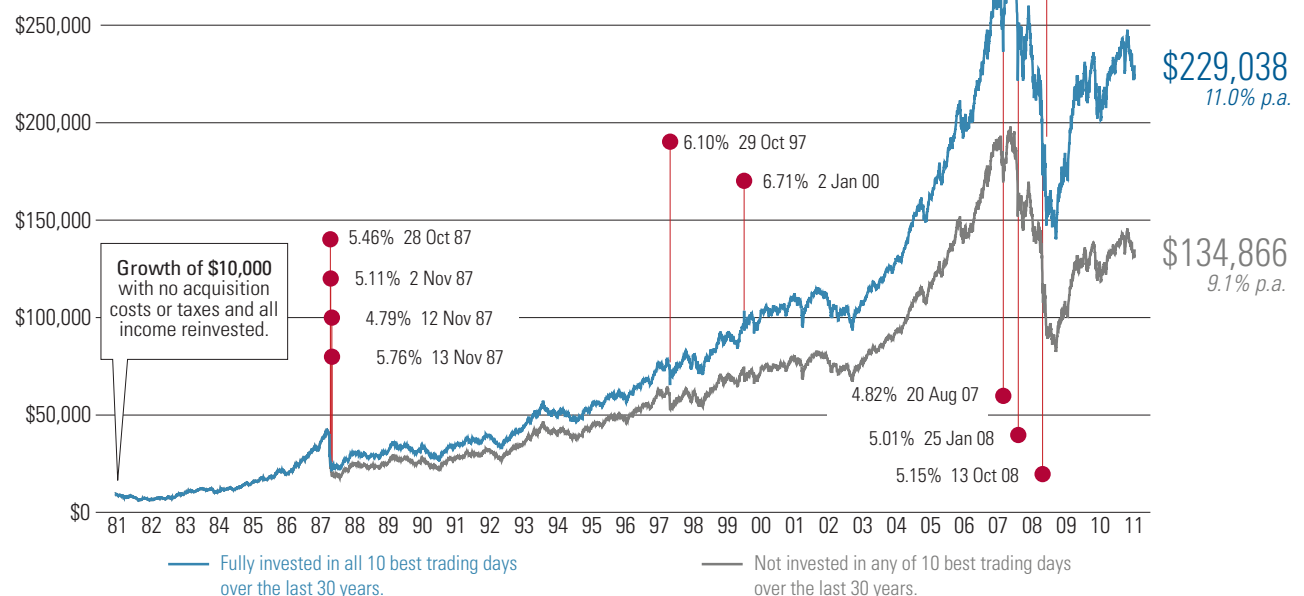
3. Understand market risk

It is important to understand that the journey and the choices made along the way are just as important as the final destination. Allowing emotions to drive investment decisions – be it overconfidence in rising markets or fear in falling markets – rarely serves investors well. History shows that long-term investors have been rewarded for being patient and disciplined around their investment strategy and diligent in rebalancing portfolios back to target asset allocation parameters.

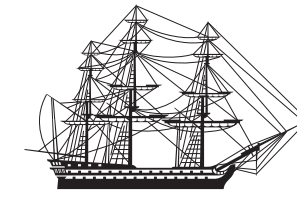
Getting market timing right is an extremely difficult task and can often mean having investible funds on the sidelines during strong return periods. For example, as illustrated in the graph below, which shows the potential return on an initial investment of \$10,000 on 1st July 1981, if an investor missed the best 10 trading days over the past 30 years, they would have reduced their final return from 11 per cent per annum to 9.1 per cent per annum. Attempting to time the market would have thereby reduced the final value of their investment by \$94,172 or 41.1 per cent.

Best 10 trading days in the last 30 years

Index used is the S&P/ASX All Ordinaries Accumulation Index

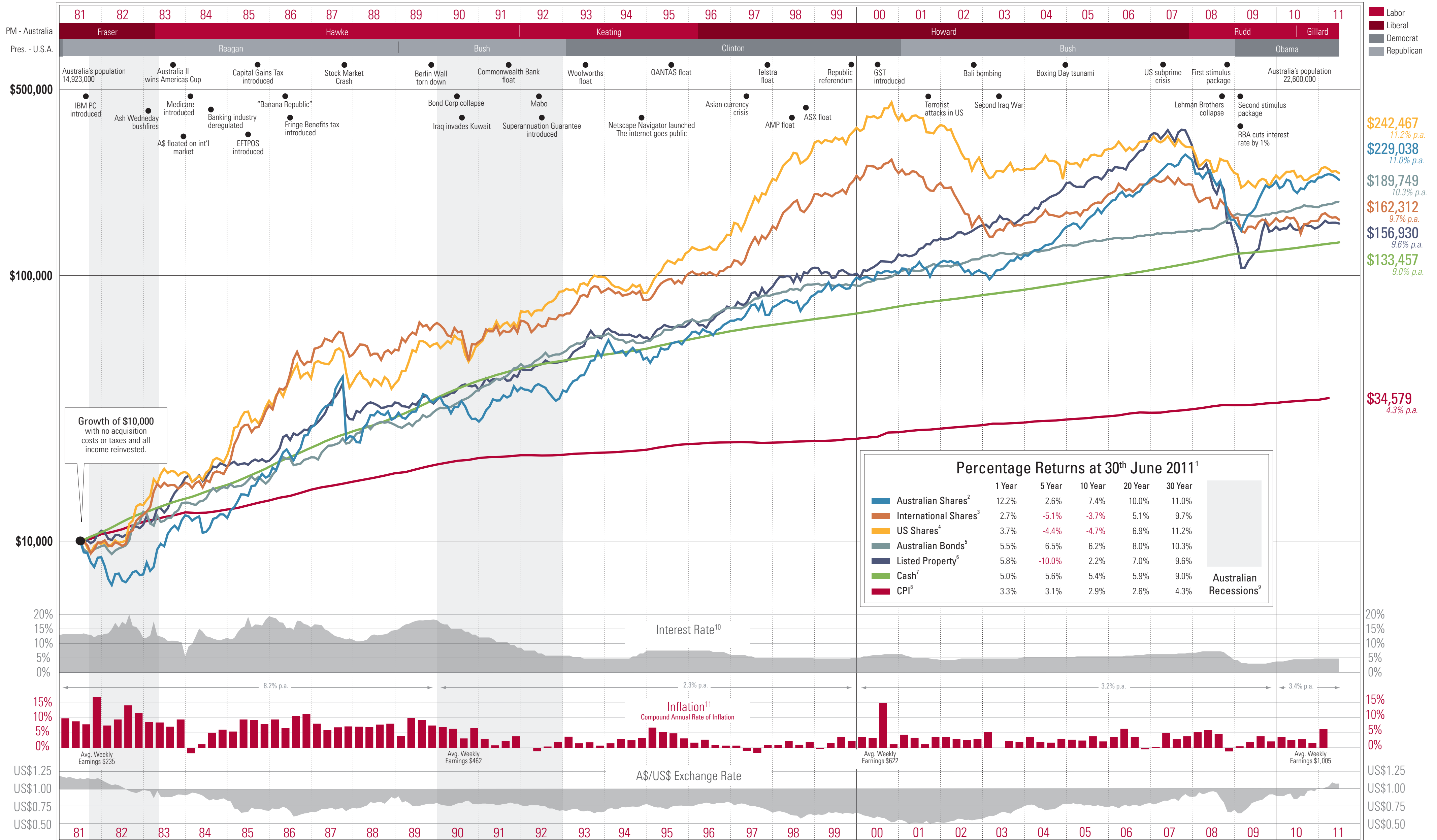


Vanguard® 2011 Index Chart



Vanguard®

Market returns - 1 July 1981 to 30 June 2011



Sources: Australian Bureau of Statistics, ASX Limited, Melbourne Institute of Applied Economic & Social Research, Commonwealth Bank of Australia, MSCI Barra, Reserve Bank of Australia, Standard & Poors, Thomson Reuters, UBS AG Australia Branch. Notes: 1. One-year returns are total returns from 1 July 2010 to 30 June 2011. Five, ten, twenty and fifty-year returns are average annual compound returns to 30 June 2011 (except CPI data which is to 31 March 2011). 2. S&P/ASX All Ordinaries Accumulation Index. 3. MSCI World ex-Australia Net Total Return Index. 4. S&P500 Total Return Index. 5. Prior to December 1989 the index is the Commonwealth Bank All Series Greater Than 10 years Bond Accumulation Index. From September 1989 the index is the UBS Composite Bond Accumulation Index. 6. S&P/ASX 200 A-REIT Accumulation Index. 7. Data prior to March 1987 supplied by Reserve Bank of Australia. From March 1987 the index is the UBS Bank Bill Accumulation Index. 8. ABS Consumer Price Index. 9. Recessions as defined by the Melbourne Institute of Applied Economic and Social Research. 10. Interest Rate prior to July 1981 is a short-term Government Bond rate. From July 1981 the interest rate is the Reserve Bank of Australia's Official Cash Rate. 11. Annualised Rate of Inflation (CPI data is to 31 March 2011). 12. Index prior to 30 June 2008 is the Citigroup World Government Bond Index AUD hedged, from 30 June 2008 the index is the Barclays Capital Global Treasury Index AUD hedged (previously: Lehman Global Treasury Index AUD hedged). 13. UBS Global Real Estate Investors Index ex-Australia (net dividends). 14. MSCI World ex-Australia Net Total Return Index (Local Currency) - represents a continuously hedged portfolio without any impact from foreign exchange fluctuations. All figures are Australian dollars. All marks are the exclusive property of their respective owners.

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Why diversification matters

Diversification is one of the most effective means of reducing risk. Increasing the number of securities within an investment portfolio through an index managed fund or Exchange Traded Fund (ETF) is one way of reducing risk within an individual asset class. However, to get true diversification it is important to also invest across asset classes.

When choosing where to invest your money, it is important to understand that the best and worst performing asset classes will often vary from one year to the next. Having a diversified mix of investments across multiple asset classes can help smooth out returns over time.

The table below shows how the best and worst performing asset classes have varied since the start of the 1982 financial year.

Financial year total returns (%) for the major asset classes

								Best	Worst
Year	Australian Shares	International Shares	International Shares (Hedged) ¹⁴	US Shares	Australian Bonds	International Bonds (Hedged) ¹²	Cash	Australian Listed Property	International Listed Property ¹³
1982	-29.0	-4.0	-10.4	-0.6	-5.1		18.1	3.6	
1983	34.7	72.7	49.6	88.4	25.6		15.5	23.7	
1984	13.5	2.3	2.0	-3.2	21.4		12.6	35.3	
1985	36.5	61.6	29.9	69.5	17.0		14.0	11.8	
1986	42.5	55.2	34.5	33.5	20.5	29.2	18.3	23.8	
1987	54.0	32.6	33.2	17.7	12.1	17.6	17.3	41.3	
1988	-8.6	-10.0	-5.3	-15.5	19.4	12.5	12.5	-2.8	
1989	3.5	18.1	18.3	26.7	3.0	16.3	15.7	-1.1	
1990	4.1	1.9	5.3	11.5	17.8	13.1	18.5	15.2	
1991	5.9	-2.0	-5.8	10.3	22.4	15.3	13.5	7.7	-15.9
1992	13.3	7.1	-3.0	16.3	22.0	15.8	9.0	14.7	6.9
1993	9.9	31.8	17.3	26.6	13.9	14.7	5.9	17.1	28.3
1994	18.5	0.0	6.7	-6.5	-1.1	2.1	4.9	9.8	8.4
1995	5.7	14.2	3.7	30.0	11.9	13.1	7.1	7.9	7.5
1996	15.8	6.7	27.7	12.9	9.5	11.2	7.8	3.6	2.4
1997	26.6	28.6	26.0	42.6	16.8	12.1	6.8	28.5	35.7
1998	1.6	42.2	22.1	58.2	10.9	11.0	5.1	10.0	25.0
1999	15.3	8.2	15.9	14.2	3.3	5.5	5.0	4.3	-6.8
2000	13.7	23.8	12.6	18.2	6.2	5.0	5.6	12.1	14.1
2001	8.8	-6.0	-16.0	0.5	7.4	9.0	6.1	14.1	38.2
2002	-4.5	-23.5	-19.3	-26.3	6.2	8.0	4.7	15.5	7.5
2003	-1.1	-18.5	-6.2	-15.2	9.8	12.2	5.0	12.1	-5.2
2004	22.4	19.4	20.2	15.4	2.3	3.5	5.3	17.2	28.7
2005	24.7	0.1	9.8	-4.1	7.8	12.3	5.6	18.1	21.2
2006	24.2	19.9	15.0	11.6	3.4	1.2	5.8	18.0	24.2
2007	30.3	7.8	21.4	5.6	4.0	5.2	6.4	25.9	3.0
2008	-12.1	-21.3	-15.7	-23.4	4.4	8.7	7.4	-36.3	-28.6
2009	-22.1	-16.3	-26.6	-12.5	10.8	11.5	5.5	-42.3	-31.2
2010	13.8	5.2	11.5	8.9	7.9	9.3	3.9	20.4	31.3
2011	12.2	2.7	22.3	3.7	5.5	5.7	5.0	5.8	9.2
Best	54.0 (4)	72.7 (3)	49.6 (3)	88.4 (6)	25.6 (3)	29.2 (3)	18.5 (2)	41.3 (2)	38.2 (4)
Worst	-29.0 (2)	-23.5 (3)	-26.6 (3)	-26.3 (5)	-5.1 (2)	1.2 (2)	3.9 (5)	-42.3 (4)	-31.2 (4)

(X) denotes the number of times each asset class was the best/worst performer during a financial year ending between 1982 and 2011.

Note: For the sources used in the table above, please refer to source notes on previous pages. Assumes 100% reinvestment of distributions. Returns shown are before fees and taxes.

Our core belief

Since launching the first index mutual fund for individual investors in 1976, Vanguard's sole purpose has been to align our interests with those of our investors to ensure the best outcome is achieved.

In line with this philosophy, we believe a low-cost, broadly diversified investment portfolio offers investors the best possible platform from which to meet their long-term financial goals. It is our belief that portfolio construction centred on asset allocation, low investment costs and low portfolio turnover, is the key to long-term investment success.

Vanguard's interactive index chart

To see real life returns based on any time frame within the 30 year history of Australian and International investment markets go to vanguard.com.au/indexchart

Vanguard managed funds

Vanguard® Cash Reserve Fund ^{WO}
Vanguard® Cash Plus Index Fund
Vanguard® Australian Government Bond Index Fund ^{WO}
Vanguard® Australian Fixed Interest Index Fund ^{WO}
Vanguard® International Fixed Interest Index Fund (Hedged) ^{WO}
Vanguard® International Credit Securities Index Fund (Hedged) ^{WO}
Vanguard® Diversified Bond Index Fund
Vanguard® Global Infrastructure Fund ^{WO}
Vanguard® Global Infrastructure Fund (Hedged) ^{WO}
Vanguard® Australian Property Securities Index Fund
Vanguard® International Property Securities Index Fund ^{WO}
Vanguard® International Property Securities Index Fund (Hedged) ^{WO}
Vanguard® Australian Shares Index Fund
Vanguard® Australian Shares High Yield Fund
Vanguard® International Shares Index Fund
Vanguard® International Shares Index Fund (Hedged)
Vanguard® International Small Companies Index Fund ^{WO}
Vanguard® International Small Companies Index Fund (Hedged) ^{WO}
Vanguard® Emerging Markets Shares Index Fund ^{WO}
Vanguard® Conservative Index Fund
Vanguard® Balanced Index Fund
Vanguard® Growth Index Fund
Vanguard® High Growth Index Fund

Vanguard exchange traded funds (ETFs)

Vanguard® Australian Shares High Yield ETF
Vanguard® MSCI Australian Small Companies Index ETF
Vanguard® MSCI Australian Large Companies Index ETF
Vanguard® Australian Shares Index ETF
Vanguard® Australian Property Securities Index ETF
Vanguard® US Total Market Shares Index ETF
Vanguard® All-World ex-US Shares Index ETF

^{WO} Denotes wholesale fund available only.

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