# Vanguard® 2012 Index Chart

## Timeless lessons for long-term investing

Vanguard®

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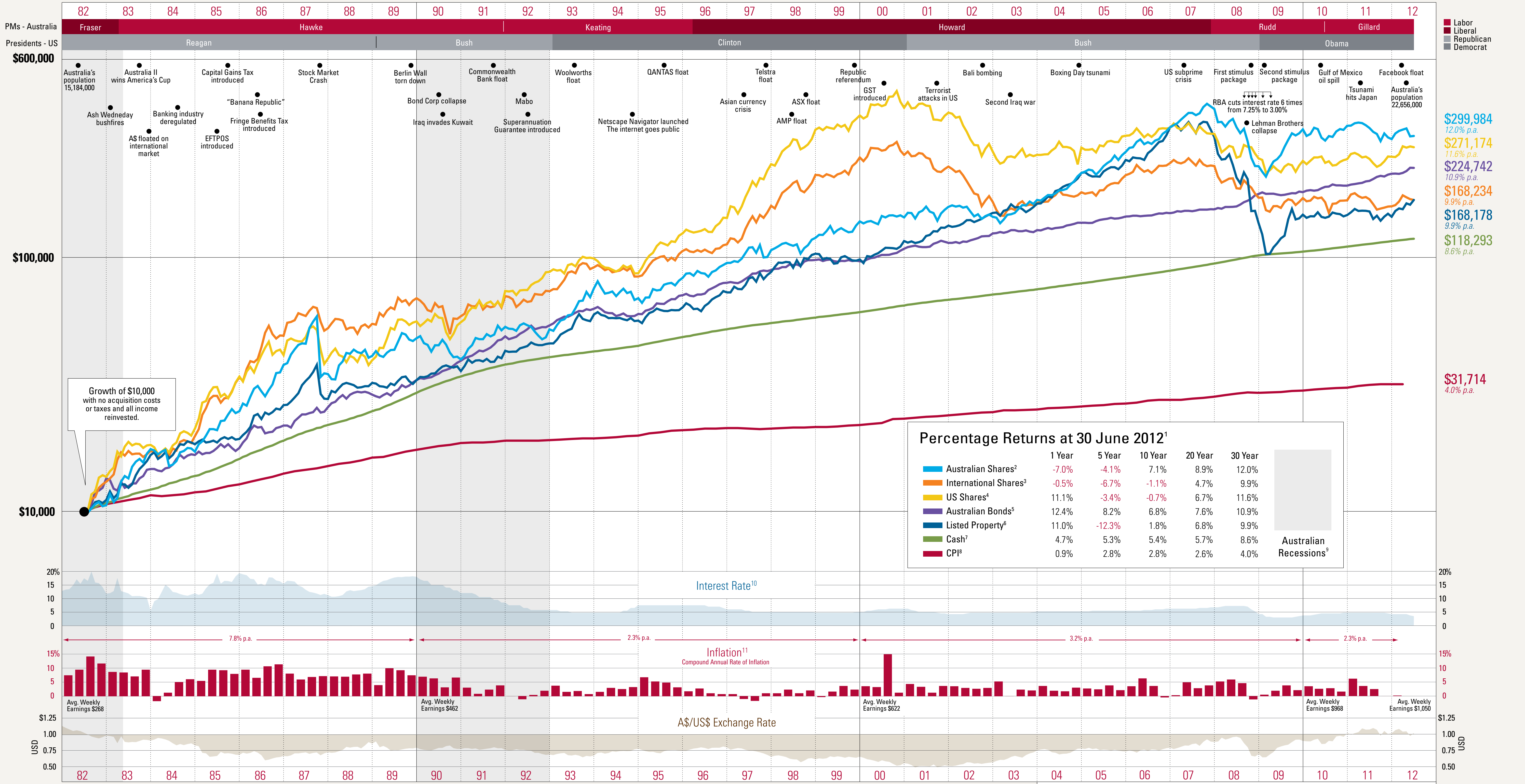
Market returns - 1 July 1982 to 30 June 2012




## Percentage Returns at 30 June 2012[1]

| | 1 Year | 5 Year | 10 Year | 20 Year | 30 Year |
|---|---|---|---|---|---|
| Australian Shares[2] | -7.0% | -4.1% | 7.1% | 8.9% | 12.0% |
| International Shares[3] | -0.5% | -6.7% | -1.1% | 4.7% | 9.9% |
| US Shares[4] | 11.1% | -3.4% | -0.7% | 6.7% | 11.6% |
| Australian Bonds[5] | 12.4% | 8.2% | 6.8% | 7.6% | 10.9% |
| Listed Property[6] | 11.0% | -12.3% | 1.8% | 6.8% | 9.9% |
| Cash[7] | 4.7% | 5.3% | 5.4% | 5.7% | 8.6% |
| CPI[8] | 0.9% | 2.8% | 2.8% | 2.6% | 4.0% |

Australian Recessions[9]

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Andex Charts Pty Ltd. 1800 242 787 www.andex.com.au

**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, Thompson Reuters, UBS AG Australia Branch. Notes: 1. One-year returns are total returns from 1 July 2011 to 30 June 2012. Five, ten, twenty and thirty-year returns are annualised returns to 30 June 2012 (except CPI data which is to 31 March 2012). 2. S&P/ASX All Ordinaries Accumulation Index. 3. MSCI World ex-Australia Net Total Return Index. 4. S&P500 Total Return Index (converted to AUD using the RBA quoted rate which is the WM Reuters 4pm Sydney fix). 5. Prior to September 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. Prior to July 2002 the index is the ASX Property Trust Accumulation Index. From July 2002 the index is the S&P/ASX 200 A-REIT Accumulation Index. 7. Prior to March 1987 the index is calculated by the RBA using 90 day bank bills. 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 is the Reserve Bank of Australia's Official Cash Rate. 11. Annualised Rate of Inflation (CPI data is to 31 March 2012). All figures are Australian dollars. All marks are the exclusive property of their respective owners.

# Five lessons that stand the test of time

Like anything in life, investment markets go through phases. What's fashionable one year can easily become passé the next. In fact, it often does.

For investments to truly stand the test of time, it pays to ignore the fads and focus on the things that are really important. That's what makes some investment lessons simply timeless.

## 1. Do not try to time the market

Assessing the markets for the best time to invest is easier said than done. Intuition tells us that the best time to buy is when prices are down, and the best time to sell is when prices are up. However, trying to pick the top and the bottom of the market is extremely difficult and it increases the risk of being out of the market when it rallies.

Successful long-term investing isn't about chasing the hottest performance. It's about taking a long-term view and staying the course. While this doesn't provide protection from market downturns, it does ensure investors benefit during times of market growth.

## 2. Diversification – the best protection against risk

History has shown that no single asset class outperforms year after year. Spreading a portfolio across a range of investments helps create a smoother and more consistent return and is one of the best ways to reduce risk.

While portfolio diversification often starts with investing across different asset classes, it also includes holding a spread of investments within an asset class across a range of companies, industries and even countries; and also investing with a combination of fund managers, for example, blending active with index managers.

## 3. Use dollar cost averaging

The discipline of investing money at regular intervals allows investors to capture the best and worst of market movements, plus everything in between.

While this strategy can be effective across many different market conditions, possibly the real value of dollar cost averaging is that the structure of such a disciplined investment program helps overcome the behavioural bias that often turns investors into market timers.

## 4. Rebalance annually

When establishing the initial asset class weightings for a portfolio, alignment with an investor's risk and return profile is front of mind. And while better returns from faster growing assets are always welcome, this can often mean asset weightings have deviated from the original target mix.

Rebalancing a portfolio, or adjusting investments to match the target mix, ensures the level of risk in a portfolio is suited to an investor's goals and objectives leaving them better positioned to ride out more volatile periods.

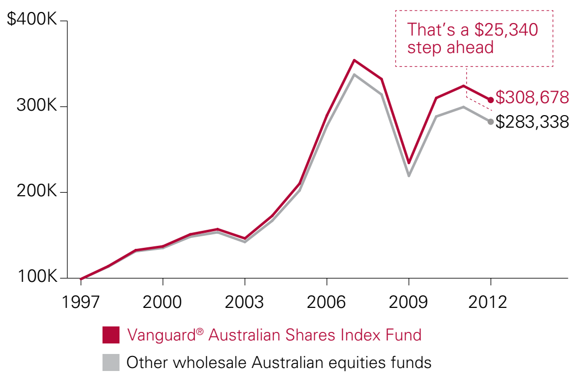
## 5. Costs matter

One part of successful investing is to keep the costs of investing low. All else being equal, investments with consistently low management fees and transaction costs can mean a head start in achieving competitive returns. Management fees create a drag on returns that can make it more difficult for a fund manager to add value. High fund turnover can lower a fund's tax efficiency and also drive up transaction costs.

The chart below illustrates the significant impact costs can have on portfolio returns. It compares the Vanguard Australian Shares Index Fund to other wholesale Australian equities funds. Over the past 15 years, for every $100,000 invested in the Vanguard fund, investors could have saved $25,340 in fees simply by choosing the low-cost option.

Ultimately, lower fees mean more investment returns are passed on to investors, which positions them for greater long-term financial success.

**The impact of costs on returns over 15 years***




* Vanguard research based on Morningstar and S&P data as at 30 June 2012. Vanguard pays a subscription fee for this data. Calculation assumes both Vanguard fund and fund with the industry average fee earn the annual historical return of the S&P/ASX 300 Index over 15 years commencing 30 April 1997. Returns are calculated net of management fee and assume all distributions are reinvested with no capital withdrawals and take no account of entry and exit fees and taxes. The industry average fee is calculated by Vanguard using Morningstar Direct data and definition of "wholesale fund" and is the average fee for wholesale Australian equities funds minus Vanguard's fund for the period 30 April 1997 to 30 April 2012. The fee used for Vanguard's fund is 0.34% p.a. The calculation assumes all other things are equal. The results would be different if an alternative index was chosen or if the survey of managers considered different or more funds. Past performance is not an indication of future performance.

# Putting yearly returns into perspective

The table below highlights the best and worst performing asset classes over the past 30 financial years and illustrates the benefits of holding a broadly diversified portfolio.

Ultimately no one can predict the future, which is why making investment decisions based on short-term performance, or the return of just one year, can be a risky strategy compared to a diversified long-term approach.

Having a portfolio that is invested across a range of asset classes, sectors and securities ensures an investor is well positioned to capture broad market growth, while helping to moderate return volatility over time.

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

| Year | Australian Shares | International Shares | International Shares (Hedged)[1] | US Shares | Australian Bonds | International Bonds (Hedged)[2] | Cash | Australian Listed Property | International Listed Property[3] |
|---|---|---|---|---|---|---|---|---|---|
| 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 | 8.6 | 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 |
| 2012 | -7.0 | -0.5 | -2.1 | 11.1 | 12.4 | 11.9 | 4.7 | 11.0 | 7.5 |
| **Best** | **54.0 (4)** | **72.7 (3)** | **49.6 (3)** | **88.4 (6)** | **25.6 (4)** | **29.2 (3)** | **18.5 (1)** | **41.3 (2)** | **38.2 (4)** |
| **Worst** | **-22.1 (2)** | **-23.5 (3)** | **-26.6 (3)** | **-26.3 (5)** | **-1.1 (2)** | **1.2 (2)** | **3.9 (5)** | **-42.3 (4)** | **-31.2 (4)** |

Best Worst

(X) denotes the number of times each asset class was the best/worst performer during a financial year ending between 1983 and 2012.
Source: Andex Charts Pty Ltd.
Notes: 1. MSCI World ex-Australia Net Total Return Index (Local Currency) - represents a continuously hedged portfolio without any impact from foreign exchange fluctuations. 2. Index prior to 30 June 2008 is the Citigroup World Government Bond Index AUD hedged, from 30 June 2008 the index is the Barclays Global Treasury Index AUD hedged (previously: Lehman Global Treasury Index AUD hedged). 3. UBS Global Real Estate Investors Index ex Australia (net dividends).
Returns shown are before fees and taxes.

# What makes Vanguard different?

Rather than being publicly traded or privately owned, The Vanguard Group is owned by Vanguard's US-domiciled funds. Those funds, in turn, are owned by their investors. This unique structure aligns our interests with our investors who, in turn, benefit from our stability and experience, low costs, and client focus.

## Stability and experience

Vanguard is able to leverage the scale, experience and resources of our global business, which occupies a rare position of strength and stability. Because of our ownership structure, clients can be assured that the company they invest with today will continue to serve them well into the future.

## Low costs

Providing low-cost investments isn't just a short-term strategy for us. It's how we do business. As we build scale and assets under management the benefits are returned to our investors in the form of lower fees.

## Client focus

Because Vanguard is not privately held or publicly traded anywhere, it means we can truly focus on what's best for our investors. From rigorous risk management and transparent pricing to plain talk communications, we put our clients' interests first. Everything we do at Vanguard is designed to give them the best chance for investment success.

## Vanguard's interactive index chart

To view returns based on any time frame over the past 30 years 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® Australian Inflation-Linked Bond Index Fund WO
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 Government Bond Index ETF
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

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