

Vanguard[®]

Vanguard[®] Diversified Bond Index Fund Product Disclosure Statement

7 November 2011

This Product Disclosure Statement (PDS) is issued by Vanguard Investments Australia Limited ABN 72 072 881 086 AFSL 227 263 (Vanguard), the responsible entity of the Vanguard Diversified Bond Index Fund ARSN 147 937 728 ABN 90 633 012 411 APIR[®] Code VAN0042AU (Fund).

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This PDS is a summary of significant information you need to make a decision about the Fund. It includes references to other important information that is taken to form part of this PDS. These references begin with an exclamation mark **!** and are in *italics*. You should also consider this other important information before making your decision.

The information provided in this PDS is general only and does not take into account your personal financial situation or needs. You should therefore consider obtaining financial advice that is tailored to your financial circumstances from a licensed financial adviser.

Information in this PDS may change from time to time and where the changes are not materially adverse to investors, the information may be updated on the Vanguard website at www.vanguard.com.au. A paper copy of any updated information is available free of charge on request.

All dollar amounts are in Australian dollars unless otherwise indicated. This PDS does not constitute an offer or invitation in any jurisdiction other than in Australia. For the avoidance of doubt, units in the Fund are not intended to be sold to US Persons as defined under Regulation S of the US federal securities laws.

None of The Vanguard Group, Inc. (including Vanguard Investments Australia Limited) or any of their related entities, directors or officers guarantee the repayment of capital or the performance of the Fund. Members of The Vanguard Group, Inc. may invest in, lend to or provide other services to the Fund.

If you would like to request a printed copy of this PDS or any of the other important information that forms part of this PDS, please contact us on **1300 655 102**.

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1. About Vanguard

Vanguard Investments Australia Limited is a wholly owned subsidiary of The Vanguard Group, Inc., which is based in the United States and currently manages nearly US\$1.9 trillion (A\$2 trillion) for nearly 25 million institutional and personal investor accounts as at 30 June 2011.

Over the past 35 years, The Vanguard Group, Inc. has grown to be one of the world's largest and most respected investment management companies. The Vanguard Group, Inc. now has a global presence with offices in the United States, Australia, Asia and Europe.

In Australia, Vanguard has been helping investors meet their long-term financial goals with low cost indexing solutions for nearly 15 years.

Vanguard is the responsible entity of the Fund. As responsible entity, Vanguard is solely responsible for the management and administration of the Fund. Vanguard is also the investment manager for the Fund. Vanguard has appointed JP Morgan Chase Bank (ABN 43 074 112 011) to act as an independent custodian and hold the assets of the Fund.

2. How the Fund works

The Fund is a registered managed investment scheme. When you contribute money to a registered managed investment scheme, your money is pooled together with other people's money. Vanguard invests that money and manages the assets of the Fund on behalf of all scheme members. The Australian Securities & Investment Commission (ASIC) has a website www.moneysmart.gov.au that has more information on managed investment schemes.

The Fund is divided into units. A unit represents a beneficial interest in the assets of the Fund as a whole (but not to any particular asset). Under the Fund's constitution, Vanguard is permitted to establish different classes of units. This PDS relates to the wholesale class of units.

Unit prices

The value of a unit is determined by dividing the net asset value for that class of units (total assets for the class less total liabilities for the class) by the number of units on issue for that class. Units are usually valued daily, except on public holidays or if the market or Fund is closed for a particular reason. The value of units will change from time to time as the market value of the assets for a class of units rises or falls. The price you pay when contributing to the Fund (buying units) or receive when withdrawing from the Fund (selling units) is calculated as follows:

- Buy price = net asset value per unit plus the buy spread cost
- Sell price = net asset value per unit minus the sell spread cost

The buy/sell spread cost for the Fund is Vanguard's reasonable estimate of the transaction costs that the Fund may incur to buy and sell assets when investing contributions and funding withdrawals. The buy/sell spread costs are paid to the Fund to meet these expenses and are not received by Vanguard.

For information on unit prices visit www.vanguard.com.au or contact Client Services on 1300 655 102.

Applications and withdrawals

Subject to the minimum requirements in the table below, you can increase your investment at any time by buying more units and decrease your investment by selling or transferring some of your units.

Initial investment	\$500,000
Additional investment	\$5,000
Withdrawal	\$1,000
Transfer	\$500,000
Account balance	Nil

Vanguard may accept a lesser amount at its discretion. Vanguard may impose a minimum account balance in the future.

In some circumstances, Vanguard may permit investments via BPAY®.

Withdrawals from the Fund are normally paid within four business days.

There may be some circumstances when withdrawals are suspended, such as when units cannot be accurately priced or if the Fund becomes illiquid.

Subject to certain minimum requirements, Vanguard may allow you to transfer your units in the Fund to another person in Australia.

Income distributions


The Fund may earn income such as dividends or interest. The Fund may also realise capital gains or losses on the sale of investments. Distributable income and net realised capital gains (if any) will be determined quarterly, as at 31 March, 30 June, 30 September and 31 December each year, and will normally be paid within 10 business days. The amount of distributions will vary from period to period and there may be periods in which no distribution is made. Distributions are calculated on a per unit basis and will be paid to investors based on the number and class of units held as at the end of the distribution period. If the number of units on issue increases before the end of a distribution period, this could decrease the level of distributable income per unit that might otherwise have been payable. In some circumstances, Vanguard may allocate income as part of the withdrawal price of a unit, for example where a significant withdrawal is made, in order to ensure a fair and reasonable allocation among investors.

You can choose to have your distributions of income:

- reinvested in additional units; or
- paid directly to a nominated Australian bank account.

If you don't make a choice, income distributions will be automatically reinvested in additional units. Where your distributions are reinvested, the units you receive will be issued to you without a buy spread being added. Vanguard reserves the right to reinvest any distributions following the death of the investor even if the investor or the investor's representative requests the distributions to be credited to an Australian bank account.

You may change your choice for distribution payments by notifying Vanguard in writing at least 5 business days before the end of the distribution period, and this will apply to all subsequent distributions.

 *You should read the important information about unit pricing, applications and withdrawals (including Bpay and transfers) in the Vanguard Wholesale Funds Reference Guide before making a decision. Go to page 3 of the Vanguard Wholesale Funds Reference Guide located at www.vanguard.com.au/offerdocuments. The material relating to unit pricing, applications and withdrawals in the Vanguard Wholesale Funds Reference Guide may change between the time you read this PDS and the day when you sign the Application Form.*

3. Benefits of investing in the Fund

Investing in the Fund offers you a range of benefits. You may have access to certain investments that you would not otherwise be able to access, your transaction costs may be reduced, and you also have access to the knowledge and skill of Vanguard as a specialist investment manager.

Investment approach

Vanguard employs an investment approach whereby a fund is designed to track the returns of a chosen index (also known as a benchmark) – an index fund. This is achieved by holding all of the securities included in the index or a representative sample of these securities.

The benefits of Vanguard's investment approach include:

- **Competitive long-term performance** - Vanguard's investment approach provides investors with an efficient way to capture long-term market performance. Historically the returns of index funds have been competitive with the returns of active funds over the long term. However, past performance is not a reliable indicator of future performance.
- **Diversification** - The Fund provides a diversified portfolio of securities, which means the Fund is less exposed to the performance fluctuations of individual securities. This moderates the volatility of the portfolio and 'smooths out' investment returns over time. The Fund invests in a wide selection of available securities in the relevant index, generally holding significantly more securities than most active funds with the same benchmark. From time to time, however, the number of securities in a given index may reduce due to factors such as index rebalancing.
- **Low cost investing** - The Fund has low ongoing fees as we strive to minimise the costs of managing and operating the Fund. The Fund typically has low portfolio turnover resulting in low trading costs such as brokerage and other transaction costs.

Investor communication

You can obtain up-to-date information about the Fund by visiting the Vanguard website at www.vanguard.com.au

As an investor in the Fund, we'll keep you up to date regarding your investment. Email is Vanguard's preferred means of sending you information. Please ensure that you provide us with your email address on the Application Form.

We will meet our continuous disclosure obligations by disclosing new material information on the Vanguard website. Copies of documents lodged with ASIC may be obtained from or inspected at an ASIC office.

Vanguard can also provide you with a copy (free of charge) of:

- the Annual Financial Report most recently lodged with ASIC;
- any half-yearly Fund financial reports lodged with ASIC; and
- any continuous disclosure notices given for the Fund after the lodgement of an annual report.

! *You should read the important information about investor communication in the Vanguard Wholesale Funds Reference Guide before making a decision. Go to page 8 of the Vanguard Wholesale Funds Reference Guide located at www.vanguard.com.au/offerdocuments The material relating to investor communication in the Vanguard Wholesale Funds Reference Guide may change between the time you read this PDS and the day when you sign the Application Form.*

Indirect investors

You may invest in the Fund offered in this PDS through a master trust, wrap account, a nominee or a custody service, or investor directed portfolio service (collectively referred to as an 'IDPS'). An IDPS provides an administration and reporting service that offers access to a range of underlying wholesale investments.

If you invest in this manner you are an indirect investor in the Fund and certain information in this PDS is not relevant to you such as: applications and withdrawals; income distributions; investor communication; fees and costs; how to open an account; cooling off; and complaints. You should consult the offer document or client agreement of the IDPS.

4. Risks of managed investment schemes

All investments have some level of risk. It is important to keep in mind one of the principles in investing: the higher the potential reward, the higher the risk of losing money. The reverse is also generally true: the lower the risk, the lower the potential reward. Different investment strategies carry different levels of risk, depending on the assets that make up the investment strategy.

It is important to understand that:

- the value of the investments may go up and down;
- investment returns are not guaranteed and investors may lose some of their money;
- the level of returns may vary and future returns may differ from past returns; and
- the appropriate level of risk for each person depends on a range of factors, including age, investment time frame, where other parts of the investor's wealth is invested, and the investor's risk tolerance.

Risks of managed investment schemes vary depending on: the type and mix of securities that the fund invests in such as cash, fixed interest, property, and shares and the change in the value of those securities (security specific risk); the variability of returns of the broad market for those securities and the possibility that the market return is negative over short or even extended periods of time (market risk); the fluctuations in the value of the Australian dollar relative to other currencies for international securities (currency risk); the risk that governments may introduce regulatory or tax changes that affect the value of the securities of the fund (regulatory risk); the risk that a fund's trading counterparties cannot meet their financial obligations (credit and counterparty risk); and the risks associated with the use of derivative contracts such as performance differences, liquidity, credit, and counterparty risk (derivative risk).

Significant risks of investing in the Fund

There is no guarantee that the value of your initial investment will be maintained. In other words, the value of your investment may rise or fall. Significant investment risks include:

- **Market risk** - There is the chance that security prices overall will decline.
- **Security specific risk** - There is the chance that the price of an individual security will decline. The return of the Fund is a combination of the return of the broad market and the return specific to each individual security held by the Fund. The Fund is generally well protected from security specific risk by diversifying the holdings of the Fund across the market.
- **Derivative risk** - The primary risks associated with the use of derivative contracts are: the values of the derivative may fail to move in line with the underlying asset (a performance difference); the potential lack of liquidity of the derivative; the Fund may not be able to meet payment obligations for the derivative contracts as they arise; and the counterparty to the derivative contract may not meet its obligations under the contract. The risk of a performance difference is minimised by investing in derivative contracts where the behaviour is expected to resemble the key risk/return characteristics of the Fund's underlying securities. The risk that the Fund may not be able to close out a derivatives position is minimised by entering into transactions on an exchange with an active and liquid secondary market, or with counterparties that are able to provide a minimum level of liquidity for any transactions in the over-the-counter market. The Fund does not use derivative contracts for speculative purposes or to leverage the assets of the Fund.
- **Credit risk** - The issuer of fixed interest or debt securities may fail to pay interest and principal in a timely manner, or negative perceptions of the issuer's ability to make such payments may cause the price, and therefore value, of those securities to decline.
- **Currency risk** - There is the chance that the value of a foreign investment, measured in Australian dollars, will decrease because of unfavourable changes in currency exchange rates.

- **Currency hedging** - Forward foreign exchange contracts are used to manage currency risk for the Fund. The return (income and capital appreciation) of the Fund is thus relatively unaffected by currency fluctuations. However, currency hedging involves costs and implementation risks due to the volatility of currency and securities markets, and there are side effects for the income distributions from the Fund. When the Australian dollar is appreciating relative to other currencies, the gains from currency hedging may result in significant additional income being distributed by the Fund. Conversely, when the Australian dollar is depreciating relative to other currencies, the losses from currency hedging can totally offset other income received by the Fund, resulting in no income distribution for the period.
- **Counterparty risk** - There is the chance that the Fund's trading counterparties become insolvent or cannot otherwise meet their obligations to the Fund. For example, there is the chance that profits associated with foreign exchange contracts may not be realised.
- **Regulatory risk** - The Fund may be affected by changes to legislation or government policy. These changes are monitored by Vanguard and action is taken, where appropriate, to facilitate the achievement of the Fund's investment objectives.
- **Fund risk** - Investing in a managed investment scheme carries with it the risks of that investment vehicle including: the costs of managing the Fund may not be measured by the index for the Fund (tracking error); the securities in the index for the Fund may change due to changes in the industry or the relevant sector; the fees and costs for the Fund could change; Vanguard could be replaced as the responsible entity and/or investment manager for the Fund; or the Fund could terminate. There is also a risk that investing in the Fund may give different results than investing directly yourself in the underlying securities because of the income or capital gains accrued in the Fund and the consequences of investment and withdrawal by other investors in the Fund.
- **Manager risk** - The Fund may fail to meet its investment strategy due to Vanguard's security selection or implementation processes which may cause the Fund to underperform its benchmark or other funds with a similar investment strategy.
- **Other risks** - Managed investment schemes are also subject to operational risk in that circumstances beyond Vanguard's control may prevent it from managing the Fund in accordance with its investment strategy such as strikes or industrial disputes, fires, war, civil disturbance, terrorist acts, state emergencies, and epidemics.

5. How we invest your money

Warning: When it comes to choosing an investment in the Fund, you should consider:

- the likely investment return;
- the risk; and
- your investment timeframe.

Investment strategy and investment return objective	The Fund seeks to track the return (income and capital appreciation) of a tailored diversified index representing a 40% allocation to the UBS Australian Composite Bond Index, and a 60% allocation to the Barclays Capital Global Aggregate ex Securitized Index (hedged to Australian dollars) before taking into account fees, expenses, and tax. The Fund meets its investment strategy by investing in the following underlying funds: <ul style="list-style-type: none"> ▪ Vanguard Australian Fixed Interest Index Fund ▪ Vanguard International Fixed Interest Index Fund (Hedged) ▪ Vanguard International Credit Securities Index Fund (Hedged) Vanguard may, at its discretion, commence investing directly in the securities in the indices or in other funds.
Strategic asset allocation	Australian fixed interest 40% International fixed interest (hedged) 60%
Minimum suggested investment timeframe	Four years.
Summary risk level	Low - Relatively stable returns, with a low potential for loss of capital.
Who it may suit	Investors with a short to medium term investment horizon, seeking a steady and reliable income stream.

Environmental, social, and ethical considerations

Vanguard does not take into account labour standards, environment, social or ethical considerations when selecting, retaining or realising investments in the Fund.

Changing the investment strategy

Vanguard may from time to time vary the investment strategy of the Fund, including by changing the target index for the Fund. Vanguard will notify investors of any such changes.

6. Fees and costs

DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns. For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features, such as superior investment performance or the provision of better member services, justify higher fees and costs. You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website (www.moneysmart.gov.au) has a managed investment fee calculator to help you check out different fee options.

Fees and costs of the Fund

The following table shows the fees and costs you may be charged for investing in the Fund. This information can be used to compare costs between different simple managed investment schemes. The fees and costs may be deducted from your account balance or deducted from the returns on your investment.

TYPE OF FEE OR COST	AMOUNT
Fees when your money moves in or out of the Fund	
<i>Establishment fee</i>	Nil
<i>Contribution fee</i>	Nil
<i>Withdrawal fee</i>	Nil
<i>Termination fee</i>	Nil
Management costs	
The fees and costs for managing your investment	0.34% p.a. *

* *The amount of this fee can be negotiated.*

Buy/sell spread costs apply to the Fund. A buy spread cost of 0.16% is charged on each contribution and a sell spread cost of 0.16% is charged on each withdrawal, and is reflected in the buy price and sell price respectively for units in the Fund. Vanguard may increase buy/sell spread costs without notice when it is necessary to protect the interests of existing investors and if permitted by law.

The management costs for the Fund incorporate goods and services tax (GST) after taking into account any expected input tax credits. The management costs for the Fund also incorporate management costs for any underlying funds. At least 30 days prior notice will be given to unitholders before any fee increase or the introduction of a new fee takes effect.

Example of annual fees and costs

The following table provides an example of how the fees and costs for the Fund can affect your investment over a one year period. You should use this table to compare this Fund with other simple managed investment schemes.

EXAMPLE

Vanguard Diversified Bond Index Fund		Balance of \$500,000 with a contribution of \$5,000 during year
Contribution fees	Nil	For every \$5,000 you put in, you will be charged \$0.
PLUS management costs	0.34% p.a.	And , for every \$500,000 you have in the Fund you will be charged \$1,700 each year.
EQUALS cost of Fund		If you had an investment of \$500,000 at the beginning of the year and you put in \$5,000 during that year you will be charged fees of \$1,700^{AB} . What it costs you will depend on the fees you negotiate with Vanguard.

A Assumes that the \$5,000 contribution occurs on the last day of the year and that there is a constant account balance of \$500,000 throughout the year.

B A buy spread cost of 0.16% would also apply. For every \$5,000 you put in, you will be charged \$8.

Vanguard has a managed funds fee calculator on our website at www.vanguard.com.au that can be used to calculate the impact of fees and costs on your account balance. The Australian Securities & Investment Commission (ASIC) also has a managed funds fee calculator on their website at www.moneysmart.gov.au that can be used to calculate the impact of fees and costs on your account balance.

! *You should read the important information about fees and costs in the Vanguard Wholesale Funds Reference Guide before making a decision. Go to page 10 of the Vanguard Wholesale Funds Reference Guide located at www.vanguard.com.au/offerdocuments The material relating to fees and costs in the Vanguard Wholesale Funds Reference Guide may change between the time you read this PDS and the day when you sign the Application Form.*

7. How managed investment schemes are taxed

Warning: Investing in a registered managed investment scheme is likely to have tax consequences. You are strongly advised to seek professional tax advice.

Taxation is complex and each investor's circumstances are different. This is only a brief summary of the taxation information relating to Australian tax residents who hold their Fund units on capital account for income tax purposes:

- Registered managed investment schemes **do not** pay tax on behalf of investors.
- Investors will be assessed for tax on their share of the net taxable income of the Fund (both income and capital gains) in the year to which their entitlement relates, irrespective of whether the income is reinvested in additional units or the income payment occurs at a later date.
- Investors may be liable for tax on capital gains realised on the sale of units in the Fund, either by withdrawal or transfer.

! *You should read the important information about taxation in the Vanguard Wholesale Funds Reference Guide before making a decision. Go to page 14 of the Vanguard Wholesale Funds Reference Guide located at www.vanguard.com.au/offerdocuments The material relating to taxation in the Vanguard Wholesale Funds Reference Guide may change between the time you read this PDS and the day when you sign the Application Form.*

8. How to apply

To invest in the Fund:

1. Read this Product Disclosure Statement.
2. Read the important information referenced in the Vanguard Wholesale Funds Reference Guide.
3. Complete all sections of the Vanguard Wholesale Funds Application Form. We need to collect this information to comply with Anti-Money Laundering and Counter-Terrorism Financing legislation.
4. Read and sign the declaration in the Application Form.
5. Attach your supporting identification and documents, including any power of attorney authorisations.
6. Lodge your Application Form together with your supporting identification and documents. We recommend that you keep copies for future reference.

Your original Application Form, supporting identification and documents, and cheque must be posted to or lodged directly at the Vanguard office. **Please note that faxed or email copies will not be processed.**

Payment methods other than cheque are available i.e. you initiate a transfer to Vanguard's bank account. Please contact Client Services on 1300 655 102 for further details.

Vanguard may, in its absolute discretion, accept or refuse to accept, in whole or in part, any application for units without providing any reasons. If for any reason Vanguard refuses or is unable to process your application, we will return your application money to you. You will not be entitled to interest on your application money in this circumstance.

Cooling off

If you invest \$500,000 or more in the Fund, you will be considered a wholesale investor. Wholesale investors, as defined in the *Corporations Act 2001 (Cth)*, do not have cooling off rights in relation to making an investment in the Fund.

However, if we exercise our discretion to accept an investment of less than \$500,000 in the Fund, you may have the same cooling off rights as a retail investor. Retail investors have the right to a 14 day cooling off period during which time you may request in writing that Vanguard repay your investment. The 14 day period commences either from the time the investment is confirmed by Vanguard or 5 days after the units are issued, whichever is the earlier. The amount repaid to you under the cooling off provisions may be less than the amount you invested. The amount repaid will be based on the sell price applicable for the day the request is received, and may be reduced by tax or duty paid or payable by you in relation to the acquisition and termination of the investment.

Complaints

If you have a complaint about the Fund or the services provided to you by Vanguard, please contact Client Services on 1300 655 102. If your complaint is not resolved to your satisfaction, you can refer the matter in writing to:

Client Services Manager, Vanguard Investments Australia Limited, GPO Box 3006, Melbourne, Vic, 3001.

Vanguard will try to resolve the complaint and get back to you as soon as possible, but in any event we will respond to complaints within 45 days of receipt.

In the event that you are not satisfied with the outcome of your complaint, you have the right to refer the matter to an external dispute resolution process – the Financial Ombudsman Service (FOS). You can contact FOS on 1300 780 808.

Privacy policy

Privacy laws regulate, among other matters, the way organisations collect, use, disclose, keep secure and give people access to their personal information. Vanguard is committed to respecting the privacy of your personal information. Vanguard's privacy policy states how Vanguard manages personal information. Vanguard collects personal information in the Application Form, and may collect additional personal information in the course of managing your investment in order to provide this product to you and to establish and manage your investment in the Fund.

If you do not provide the information requested in the Application Form, Vanguard will not be able to process or accept your application.

To obtain a copy of the privacy policy or to access or update your personal information, visit www.vanguard.com.au or contact Client Services on 1300 655 102 or write to GPO Box 3006, Melbourne, Vic, 3001.

Connect with Vanguard™

The indexing specialist > vanguard.com.au > 1300 655 102

