

Vanguard[®] Australian Shares High Yield ETF

Product Disclosure Statement

ASX code - VHY

Dated 9 May 2011



Vanguard INVESTMENTS[®]



IMPORTANT NOTICE

Trading Participants

Please note that the offer in this Product Disclosure Statement is for stockbrokers acting as principal, that is persons who have been authorised as 'trading participants' under the Australian Securities Exchange (ASX) Operating Rules. For that reason, certain sections of this PDS (particularly those relating to applications for and redemptions of ETF units are of direct relevance to such persons only).

All Other Investors

Other investors cannot invest through this PDS directly, but can transact in the Vanguard Australian Shares High Yield ETF through a stockbroker or financial adviser. Other investors can use this PDS for informational purposes only. For further details on Vanguard Exchange Traded Funds (ETFs) please contact a stockbroker or financial adviser or visit vanguard.com.au.

Features at a Glance

Full Name:	Vanguard Australian Shares High Yield ETF	
ASX Code:	VHY	
Investment Objective	Seeks to match the return (income and capital appreciation) of the FTSE ASFA Australia High Dividend Yield Index before taking into account fund fees and expenses.	
Management Costs ¹	0.25% p.a.	
Distributions	Quarterly	
	The primary market for Authorised Participants	The secondary market for individual investors
Application/Redemption Process ²	In-specie transfer of a basket of securities together with any balancing cash payment requirements	Not Applicable. Individual investors can purchase or sell ETFs through their adviser or broker
Basket Constituents	Generally corresponds to the composition of the FTSE ASFA Australia High Dividend Yield Index, but Vanguard may vary the securities selected from time to time.	Not Applicable
Minimum Application	One creation unit, or multiples thereof	Many brokers typically set a minimum order size of \$500
Creation Unit	20,000 units	Not Applicable
Transaction Costs to Create ETF units ³	\$725	Not Applicable
Transaction Costs to Redeem ETF units ³	\$725	Not Applicable
Buy Spread (Purchase)	Nil	Nil - Investors (other than Authorised Participants) will incur customary brokerage fees and commissions when buying and selling ETF units on the ASX. Please consult a stockbroker for more information in relation to their fees and charges.
Sell Spread (Withdrawal)	Nil	
Pricing Frequency	NAV price generally calculated daily	Continuous quotation through the trading day on the ASX AQUA market
Settlement	Typically T+3	Typically T+3

¹ Please refer to the section "Fees and other costs" on pages 17-20 for more details.

² Please refer to the section 'How to transact with Vanguard' on pages 13-15.

³ This amount is only paid by Authorised Participants creating or redeeming creation units. Individual investors do not pay this amount for sales or purchases through their broker or adviser.

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Disclaimers

Investment in an ETF is subject to risk (refer to section the 'Risks' on pages 11-12), which may include possible delays in repayment and loss of income and capital invested.

None of The Vanguard Group, Inc., including Vanguard Investments Australia Ltd, or their related entities, directors or officers gives any guarantee or assurance as to the performance of, or the repayment of capital or income reinvested in, the ETF described in this PDS. Members of The Vanguard Group, Inc., and its related entities, may invest in, lend to or provide other services to the ETF and the Fund.

This PDS is prepared for general information only. It is not intended to be a recommendation by Vanguard, any of Vanguard's associates or any other person to invest in the ETF. In preparing this PDS, Vanguard did not take into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision, investors need to consider (with or without the advice or assistance of an adviser) whether investment in an ETF is appropriate to their needs, objectives and circumstances.

Vanguard has sufficient working capital to enable it to operate the ETF as outlined in this PDS.

About this PDS

This Product Disclosure Statement (PDS) is for the Vanguard Australian Shares High Yield ETF. This PDS is dated 9 May 2011. Vanguard Investments Australia Ltd ABN 72 072 881 086 AFSL 227263 RSE L0001335 (Vanguard) is the issuer of this PDS and is solely responsible for its contents. In this PDS references to 'Vanguard', the 'responsible entity', 'we', 'our' and 'us' refer to Vanguard Investments Australia Ltd.

A copy of this PDS has been lodged with both the Australian Securities and Investments Commission (ASIC) and the Australian Securities Exchange Ltd (ASX). Neither ASIC nor the ASX take any responsibility for the contents of this PDS.

At the time of lodgement of this PDS with ASIC (being, the date of this PDS), the ETF units are yet to be quoted. An application for quotation has been made to the ASX to enable the ETF units to be admitted to quotation on the AQUA market.

Obtaining the latest PDS

A copy of the latest PDS for the ETF is available on Vanguard's website at www.vanguard.com.au. If you do not have access to the internet, please contact Vanguard Client Services on 1300 655 888. A paper copy will be provided free of charge on request. Unless otherwise stated, data sources used by Vanguard are public or licensed market data, and all material is current as at the date of this PDS. The offer to which this PDS relates is available to Authorised Participants (see 'Who is this offer to' on page 5) receiving the PDS (electronically or otherwise) in Australia.

This PDS does not constitute an offer or invitation in any jurisdiction other than in Australia. For the avoidance of doubt, the ETF units are not intended to be sold to US Persons as defined under Regulation S of the US federal securities laws.

Changes to information in this PDS that are not materially adverse to investors may be updated by Vanguard by publishing such information on the Vanguard website at www.vanguard.com.au. A paper copy of any updated information will be provided free of charge on request.

Information available from Vanguard

Vanguard is subject to regular reporting and disclosure obligations in its capacity as responsible entity of the fund and issuer of the ETF.

The following information can be obtained from Vanguard by visiting Vanguard's website at www.vanguard.com.au or contacting Vanguard Client Services on 1300 655 888:

- Details of the Net Asset Value (NAV) for the ETF – available monthly
- Details of the NAV price for the ETF – available daily
- Vanguard's unit pricing discretions policy
- The latest copy of this PDS for the ETF
- Details of any continuous disclosure notices given by Vanguard to ASIC
- Details of distribution announcements given by Vanguard to the ASX via the ASX Company Announcements Platform
- Annual Reports and Financial Statements for the fund
- Details of the ETF Distribution Reinvestment Plan.

Classes of units

The ETF referred to in this PDS is a separate class of units in the fund, i.e. the Vanguard Australian Shares High Yield ETF is a separate class of units in the Vanguard Australian Shares High Yield Fund ARSN 091 751 807. As such it is only the ETF class of the fund that will be quoted on the AQUA market of the ASX (refer to pages 7-8 for further details). This PDS relates only to the ETF class of units in the fund.

Unless otherwise stated in this PDS, references to provisions for the ETF refer to the ETF class only. A reference to 'fund' in this PDS, is a reference to the Vanguard Australian Shares High Yield Fund.

Key features of the ETF offer

Who is Vanguard?

Vanguard Investments Australia Ltd is a wholly owned subsidiary of The Vanguard Group, Inc. which is based in the United States and, at 31 March 2011, managed more than AUD 1.7 trillion for nearly 25 million individual and institutional accounts.

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.

The Vanguard Group, Inc. first launched Vanguard ETFs in the United States in 2001. As at 31 December 2010, The Vanguard Group, Inc. had over 60 ETFs valued at over USD 148 billion and was the third largest ETF issuer in the United States. Vanguard launched its initial range of ETFs in the Australian market on 8 May 2009. As at 31 December 2010 Vanguard had four ETFs valued at over AUD 280 million.

What is an ETF?

An ETF is an Exchange Traded Fund, which is a type of managed fund quoted for trading on the AQUA market of the ASX. Generally, these funds comprise a broadly diversified investment portfolio of either shares, bonds or real estate securities and are constructed using an indexed investment methodology.

ETFs combine the best features of index managed funds and listed shares in one investment. They are index funds as we know them so they come with the benefits of low cost, broad diversification, transparency and tax efficiency. However, unlike traditional index funds, ETFs trade on a stock exchange so they also benefit from simple trading and intra-day pricing. ETFs carry certain risks (refer to pages 11-12).

The ETF offer	The Vanguard Australian Shares High Yield ETF is a class of units in the Vanguard Australian Shares High Yield Fund (ARSN 091 751 807).
Who is this offer to?	The offer in this PDS is only available to stockbrokers acting as principal, i.e. persons who have been authorised as trading participants under the ASX Operating Rules – referred to in this PDS as Authorised Participants.
Secondary market	At the time of lodgement of this PDS with ASIC (being, the date of this PDS), the ETF units are yet to be quoted. An application for quotation has been made to the ASX to enable the ETF units to be admitted to quotation on the AQUA market. Upon being admitted to quotation the ETF units will be able to be traded on the market in the same way as other securities traded on the ASX (refer to pages 7-8 for further details of the AQUA market of the ASX).
Applications*	ETF units can only be applied for in multiples of units that represent creation unit amounts (baskets). Application amounts must be in the form of a parcel of quoted securities selected by Vanguard from time to time transferred through Clearing House Electronic Subregister System (CHES), together with any balancing cash payment requirements.
Redemptions*	ETF units can only be redeemed in multiples of units that represent creation unit amounts (baskets). The amount payable to an investor on redemption (the withdrawal amount) will be paid through a transfer of a parcel of quoted securities selected by Vanguard from time to time transferred through CHES, together with any balancing cash payment requirements. ETF investors can only redeem units if they are an Authorised Participant who is also an Australian Resident for tax purposes under the constitution for the fund.
Distributions	Distributions will generally be made every quarter at 31 March, 30 June, 30 September and 31 December each year, or at such other times as determined by Vanguard, where the fund has income available for distribution. The withdrawal amount provided to an ETF investor on the redemption of ETF units will also generally include a distribution of the income of the fund.

*Please refer to the section 'How to transact with Vanguard' on pages 13-15

The role of certain entities in regard to the Vanguard ETF

There are a number of parties involved in the ongoing administration and quotation of the ETF as detailed in the following:

Responsible entity and custodian

Vanguard is the responsible entity of the fund and is responsible for the ongoing management of the assets associated with the fund. The custodian is the holder of the assets on behalf of the responsible entity.

Responsible Entity	Vanguard Investments Australia Ltd Level 34, Freshwater Place 2 Southbank Boulevard Southbank Vic 3006
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Custodian	JP Morgan Chase Level 35 259 George Street Sydney NSW 2000
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Refer to page 24 for more details on the responsible entity and custodian.

Registrar

The role of the registrar is to keep a record of the investors in the ETFs. This includes details such as the quantity of the securities held, tax file numbers (if provided) and details of distribution reinvestment plan participation.

Registrar	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street Abbotsford Vic 3067
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Market maker

The ASX Operating Rules Schedule 10A (AQUA Rules) contain certain market making requirements. A market maker's role is to provide additional liquidity in the ETF units. They do this by fulfilling two key functions:

- Maintaining reasonable quotes and volume for the ETF units in the market by acting as the buyer and seller of units throughout the day, and
- Periodically creating and/or redeeming ETF units with the issuer.

Market makers seek to provide continuous liquidity to the market. The process begins with the issuer disclosing to the market every morning of trading the basket of securities acceptable as the securities component of a creation or redemption request. The market maker uses this information to determine the price of an ETF unit and places a buy/sell spread around this value before sending these prices to the stock exchange as orders. The orders are published to the market, and investors can either 'hit'

orders to trade with the market maker or send their own orders to the exchange and wait for someone else to 'hit' them. Market maker orders are updated continuously throughout the day to reflect price changes in the underlying securities.

Vanguard has selected Citigroup Global Markets Australia Pty Ltd ABN 64 003 114 832 (Citigroup) as lead market maker. In selecting market makers for Vanguard ETFs, Vanguard focuses on firms or corporate groups experienced in market making in both Australia and international markets. Most importantly, the firms selected by Vanguard currently make markets on the ASX in existing Australian quoted ETF products and have agreements with the ASX which provides certain financial incentives for the market maker to operate in this capacity. Internationally, the market makers selected (or their offshore affiliates) will also have experience in markets such as the New York Stock Exchange. Vanguard may change lead market maker or appoint additional market makers.

Material contracts

Vanguard, or The Vanguard Group, Inc., has entered into a number of contracts in relation to the offer of Vanguard ETFs as follows:

Contract with	Description
FTSE International Inc	ETF Index Licence Agreement. The licence allows the use of certain indices in the operation of ETFs.
JP Morgan Chase	Custodian Agreement which sets out the services provided by the custodian on an ongoing basis.
Computershare	Registry Services Agreement which sets out the services provided by the share registrar on an ongoing basis.

AQUA market of the ASX

The AQUA market service aims to provide managed funds, ETFs and structured products with a more tailored framework for the quoting of these products on the ASX market and access to back office clearing and settlement facilities offered by the ASX

The key distinction between products admitted under the ASX Listing Rules and those quoted under the ASX AQUA Rules is the level of influence that the issuer has over the underlying instrument. See table below for the main differences between the ASX Listing Rules and the ASX AQUA Rules:

ASX Listing Rules	ASX AQUA Rules
<p>The equity issuer:</p> <ul style="list-style-type: none"> ■ controls the value of its own securities and the business it runs, and ■ the value of those securities is directly influenced by the equity issuer's performance and conduct. <p>e.g. a company's management and Board generally control the company's business and, therefore, have direct influence over the company's share price.</p>	<p>The product issuer:</p> <ul style="list-style-type: none"> ■ does not control the value of the assets underlying its products, but ■ offers products that give investors exposure to the underlying assets – such as shares, indices, currencies or commodities. <p>The value (price) of products quoted under the AQUA Rules is dependent upon the performance of the underlying assets rather than the financial performance of the issuer itself.</p> <p>e.g. A managed fund issuer does not control the value of the shares it invests in.</p>

Source: ASX Rules Framework (2008)

The following information highlights the key differences between the effect of listing under the ASX Listing Rules and quotation under the AQUA Rules.

Information	ASX Listing Rules	ASX AQUA Rules
Continuous Disclosure	<ul style="list-style-type: none"> Products under the Listing Rules are subject to the continuous disclosure requirements under Listing Rule 3.1 and section 674 of the <i>Corporations Act 2001 (Corporations Act)</i>. 	<ul style="list-style-type: none"> Issuers of products quoted under the AQUA Rules are not subject to the continuous disclosure requirements under Listing Rule 3.1 and section 674 of the <i>Corporations Act</i>. There is a requirement under the AQUA Rules that an issuer of a product quoted under the AQUA Rules provides the ASX with any information that may lead to the establishment of a false market in its products or would materially affect the price of its products. <p>What obligations apply under the AQUA Rules?</p> <ul style="list-style-type: none"> There is an obligation on issuers of ETFs to disclose information about the net tangible assets (NTA) or the net asset value (NAV) of the ETFs, the frequency and timing of which is disclosed in the ETF's Product Disclosure Statement. Issuers of ETFs must also disclose information about dividends, distributions and other disbursements to the ASX via the Company Announcements Platform (CAP). Any other information that is required to be disclosed to ASIC under section 675 of the <i>Corporations Act</i> must be disclosed to the ASX via CAP at the same time it is disclosed to ASIC.
Periodic Disclosure	<ul style="list-style-type: none"> Products under the Listing Rules are required to disclose half yearly and annual financial information or annual reports under Chapter 4 of the Listing Rules. 	<ul style="list-style-type: none"> Issuers of products quoted under the AQUA Rules are not required to disclose half yearly and annual financial information or annual reports under the AQUA Rules. Issuers of products quoted under the AQUA Rules will be subject to the ASX's capital requirements which ensure that issuers have sufficient levels of available capital for their operations. Responsible entities of AQUA Products that are ETFs are still required to lodge financial reports with ASIC. The ASX intends to introduce a requirement that issuers of products quoted under the AQUA Rules give the ASX general disclosure documents, such as financial reports, at the same time they are sent to product holders.
Corporate Control	<ul style="list-style-type: none"> Requirements in the <i>Corporations Act</i> and the Listing Rules in relation to matters such as takeover bids, share buy-backs, change of capital, new issues, restricted securities, disclosure of directors' interests and substantial shareholdings apply to companies and listed schemes. 	<ul style="list-style-type: none"> Certain requirements in the <i>Corporations Act</i> and the Listing Rules in relation to matters such as takeover bids, buy-backs, change of capital, new issues, restricted securities, disclosure of directors' interests and substantial shareholdings that apply to companies and listed schemes do not apply to products quoted under the AQUA Rules. Issuers of products quoted under the AQUA Rules are subject to the general requirement to provide the ASX with any information concerning itself that may lead to the establishment of a false market or materially affect the price of its products.
Related Party Transactions	<ul style="list-style-type: none"> Chapter 10 of the Listing Rules, which relates to transactions between an entity and persons in a position to influence the entity, specifies controls over related party transactions. 	<ul style="list-style-type: none"> Chapter 10 of the Listing Rules does not apply to AQUA Products.
Auditor Rotation Obligations	<ul style="list-style-type: none"> There are specific requirements in relation to auditor rotation under Part 2M.4 Division 5 of the <i>Corporations Act</i>. 	<ul style="list-style-type: none"> Issuers of products quoted under the AQUA Rules are not subject to the requirements under Part 2M.4 Division 5 of the <i>Corporations Act</i>.
Product Disclosure	<ul style="list-style-type: none"> Entities admitted under the Listing Rules are subject to the requirements of the <i>Corporations Act</i> in relation to the issue of a PDS. Information on the risks associated with an investment in a product is expected to be included. 	<ul style="list-style-type: none"> Products quoted under the AQUA Rules will also be subject to these requirements of the <i>Corporations Act</i>. Investors should read the PDS carefully before investing in an AQUA Product to fully understand the risks involved in investing in these types of products.

Source: ASX Rules Framework (2008)

Vanguard ETF

The ETF offered in this PDS is:

Vanguard ETF	Investment objective	Underlying index	Management costs*
Vanguard Australian Shares High Yield ETF (ASX code VHY)	Seeks to match the total return of the FTSE ASFA Australia High Dividend Yield Index before taking into account fund fees and expenses.	As at the date of this PDS, the FTSE ASFA Australia High Dividend Yield Index comprises approximately 60 securities listed on the Australian Securities Exchange with higher forecast dividend yield relative to other companies listed on the ASX. The number of securities in the index may vary over time.	0.25% p.a.

* Please refer to the section 'Fees and other costs' on pages 17-20 for further information.

Vanguard's investment policy

Investment strategy

Vanguard employs an index management strategy designed to track the return (income and capital appreciation) of the FTSE ASFA Australia High Dividend Yield Index. To closely track the index, the fund will aim to hold all of the securities in the index (at most times) allowing for individual security weightings to vary marginally from the index from time to time. The fund may invest in securities that have been or are expected to be included in the index.

Futures may be used to gain market exposure without investing directly in securities. This allows Vanguard to maintain the fund's liquidity without being under-invested. Importantly, derivatives are not used to leverage the fund's portfolio.

Performance

Monthly performance information for the ETF will be published on Vanguard's website at www.vanguard.com.au. Neither the return of capital nor the performance of the ETF is guaranteed. Past performance is not an indicator of future returns.

Changes to investment objectives and strategy

Vanguard may from time to time vary the investment objective and policy of the fund. Such variations may include changes to the target index chosen for the fund. Vanguard will notify investors of any such changes. Vanguard will not make any significant change to the investment objective and strategy without first obtaining a resolution of the relevant ETF investors approved by at least 75% of the votes cast by investors on the resolution.

Environmental, social and ethical considerations

Vanguard does not take into account labour standards or environmental, social or ethical considerations when selecting, retaining or realising investments.

Index information

The FTSE ASFA Australia High Dividend Yield Index ('Index') is a real-time, market capitalisation-weighted index consisting of companies with higher forecast dividends relative to other companies listed on the Australian Stock Exchange (ASX). The Index is calculated on a before tax basis only and is not part of the after-tax FTSE ASFA Australia Index Series.

The securities in the index are selected from the companies included in the FTSE ASFA Australia 200 Index¹ (the 'eligible securities'), a broad market index of ordinary and preferred equity securities listed on the Australian Securities Exchange. Real estate investment trusts (A-REITS) are excluded from the eligible securities.

The eligible securities are ranked according to each security's median 12 month forecast dividend yield (sourced from I/B/E/S²) with companies not forecast to pay

¹ The FTSE ASFA Australia 200 Index typically represents the largest 200 companies listed on the Australian Securities Exchange meeting certain liquidity and free float criteria (free float represents the proportion of a company's outstanding shares readily available for transactions in the share market. It excludes such things as strategic corporate holdings, government ownership, and holdings of directors and employees). For more information on this index please refer to http://www.ftse.com/Indices/FTSE_ASFA_Australia_Index_Series/index.jsp.

² I/B/E/S is the Institutional Brokers' Estimate System; a data service that collates detailed and consensus estimates of forecast measures of company earnings and performance.

dividends in the next 12 months being eliminated.

Companies with the highest forecast dividend yield are included in the index until 50% of the float adjusted market capitalisation³ of the eligible securities is met. Lastly, diversification requirements are applied to restrict the proportion of the index invested in any one industry⁴ or company. No more than 40% of the index can be invested in any one industry, and no more than 10% can be invested in any one company.

The index constituents are reviewed on a quarterly basis in March, June, September, December based on data from the close of business on the last trading day of the previous month. The semi-annual review is a recalculation of the universe of securities in the index.

For information regarding the benchmark index values and methodology please refer to www.ftse.com/Vanguard_Australia/.

³ Free float-adjusted market capitalisation reflects the market capitalisation of a company readily available for transactions in the share market.

⁴ Industries are grouped according to the Industry Classification Benchmark (ICB), a global standard developed in partnership between the FTSE Group and Dow Jones Indexes.

Risks

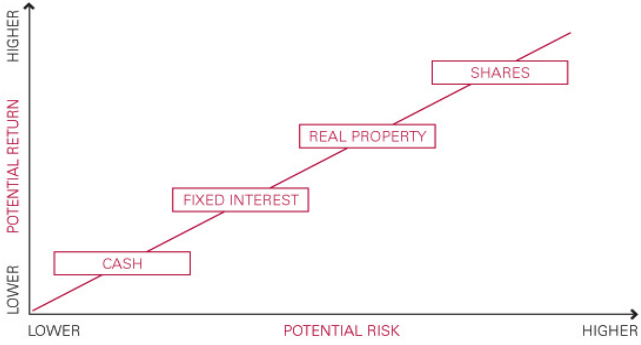
Investors in the ETF face a number of investment risks. It is important to keep in mind one of the main principles of investing: the higher the potential reward, the higher the risk of losing money. The reverse is also generally true: the lower the risk, the lower the potential reward. An investment in the ETF could lose money over short or even long periods.

The price of the ETF can fluctuate within a wide range, like fluctuations of the overall share market.

When considering an investment in the ETF, personal tolerance for fluctuating market values should be taken into account.

There is no guarantee that the value of investment capital will be maintained.

The following outlines the risks that can affect the performance of the ETF:

Type of Risk	Description
<p>Market Risk</p>	<p>Market risk is the possibility that the market has negative returns over short or even extended periods. Cash investments have the lowest market risk. Bonds and equities (including property securities) have increasing levels of market risk. Short-term market risks are high to very high for most asset classes. Below is a graphical representation of the risk/return relationship associated with various asset classes.</p>  <p>In any asset sector, the returns of individual securities are a combination of the market return and returns specific to each security.</p> <p>By diversifying their holdings across the market, index funds are generally well protected from the specific risk of individual securities (e.g. the delisting of securities) and the fund returns are generally related to the market return and its associated risk.</p> <p>From time to time the number of securities in a given index may change due to factors such as index rebalancing and this may lead to a change in the diversification of the portfolio.</p> <p>The index is comprised of securities that are forecast to produce high dividend yields. There is a risk that dividends or franking credits are not paid for the underlying securities or do not meet forecast levels or that a particular security is excluded from the index before a dividend is paid.</p>
<p>Derivative Risk</p>	<p>The primary risks associated with the use of derivative contracts are:</p> <ul style="list-style-type: none"> ■ the values of the derivative failing 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 under the derivative contracts as they arise; and ■ the counterparty to the derivative contract may not meet its obligations under the contract. <p>The risk of a performance difference is minimised by investing in derivative contracts whose behaviour is expected to resemble that of a fund's underlying securities. The risk that a fund may not be able to close out a derivatives position is minimised by entering into such 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 transaction in the over-the-counter market.</p> <p>The fund does not use derivative contracts for speculative purposes or to leverage the assets of the fund.</p>

Regulatory and Tax Risk	<p>This is the risk that a government or regulator may introduce regulatory and tax changes, or a court makes a decision regarding the interpretation of the law, that affects the value of securities in which the fund invests, the value of the ETF units in the fund or the tax treatment of the fund and its investors.</p> <p>The fund or the ETF class may be affected by changes to legislation or government policy both in Australia and in other countries. These changes are monitored by Vanguard and action is taken, where appropriate, to facilitate the achievement of the fund's investment objectives.</p>
Index Tracking Risk	<p>Vanguard employs an indexing investment strategy. Compared to managers who employ an active investment strategy, indexing significantly lowers the risk of short-term underperformance relative to the target index.</p> <p>However, the fund may fail to meet its objectives as a result of:</p> <ul style="list-style-type: none"> ■ Vanguard's selection of securities from the index in the fund; ■ The performance of the securities in the fund; and ■ the costs of managing the portfolios that are not measured by the index. <p>Vanguard's investment approach seeks to mitigate this risk.</p>
Fund Risk	<p>Fund risk relates to risks that are particular to the fund or the specific ETF class. These may include risks that the fund could terminate or the ETF class could be wound up, the fees and expenses could change or Vanguard could be replaced as responsible entity. There is also a risk that investing in ETF units may give different results than investing directly, because of the income or capital gains accrued in the ETF units in the fund and the consequences of investment and withdrawal by other investors.</p>
Operational Risk	<p>There is a risk that circumstances beyond Vanguard's reasonable control could prevent Vanguard from managing the fund or the ETF class in accordance with its investment strategies and as otherwise contemplated by this PDS. Examples of these circumstances include strikes, industrial disputes, fires or other casualty, war, civil disturbance, terrorist acts, governmental pre-emption in connection with an emergency of state and epidemics (including potential epidemics). By investing in ETF units you agree that Vanguard is not liable if Vanguard is prevented from managing the fund by circumstances beyond its reasonable control.</p>
Trading Risk	<p>In certain circumstances, the ASX may suspend the trading of ETF units or securities in the index and therefore investors will not be able to buy or sell ETF units on the ASX. In these circumstances, Vanguard may suspend the application and redemption process for Authorised Participants. If applications and redemptions are suspended, Vanguard will make an announcement on the ASX Company Announcements Platform.</p> <p>The ASX also imposes certain requirements for ETF units to continue to be quoted. Vanguard will endeavour to meet these requirements at all times to ensure the ETF units remain quoted.</p> <p>There can be no assurances that there will always be a liquid market for securities traded on the AQUA market. Vanguard has appointed a market maker to assist in maintaining liquidity for the ETF on the ASX but there is no guarantee that the market maker will be able to maintain liquidity.</p> <p>The purchase price and withdrawal amount applicable to ETF units may from time to time differ from the trading price of ETF units on the ASX. The trading price is dependent on a number of factors including the demand and supply of units, investor confidence and how closely the value of the assets of the ETF tracks the performance of the index.</p>

How to transact with Vanguard

An Authorised Participant may apply and/or redeem such number of units in the Vanguard ETF that represent creation unit amounts (baskets) by completing the ETF Application/Redemption form attached to this PDS. The Authorised Participant must also complete the Authorised Participant agreement prior to transacting with Vanguard. For a copy please contact Vanguard Client Services on 1300 655 888.

Other investors cannot apply for ETF units through this PDS, but may purchase ETF units on the ASX.

The basket will consist of two components:

- application/withdrawal securities component, plus
- cash component.

What is the application/withdrawal securities component?

This component generally corresponds to the composition of the index applicable to the ETF and is prepared by

Vanguard prior to the opening of trading for every ASX trading day for the ETF.

From time to time, there may be some differences between the application securities that are to be delivered by an Authorised Participant and the withdrawal securities delivered by Vanguard upon redemption.

The application securities and the withdrawal securities will be determined on the day on which the purchase price or withdrawal amount for the application or redemption is determined (see 'Applications/Redemptions' below).

What is the cash component?

The cash component is a balancing amount that ensures there is no impact (e.g. no dilution in value) for existing investors arising out of an application or redemption.

Minimum applications and redemptions

The following table details the minimum number of ETF units:

	Vanguard Australian Shares High Yield ETF
ASX code	VHY
Minimum creation/redemption size	20,000 units

Applications/Redemptions

ETF Application/Redemption forms received from Authorised Participants before 4.00 pm on an ASX trading day (or before market close in the event the market closes earlier than 4.00 pm) are processed at the purchase price for the ETF units applicable as at the close of trading for that day. ETF Application/Redemption forms received after 4.00 pm on an ASX trading day (or after market close in the event the market closes earlier than 4.00 pm) or on a non-ASX trading day are processed at the purchase price of the ETF units applicable for the next ASX trading day.

For an application, the Authorised Participant must deliver the basket and cash component to Vanguard and will, in return, receive the equivalent amount of ETF units.

For a redemption, the Authorised Participant must deliver the ETF units to Vanguard and will, in return, receive the basket comprising the withdrawal securities and the cash component.

Vanguard reserves the right to refuse any application. If an application is rejected, the Authorised Participant will be notified.

Important note for Applications and Redemptions

There may be occasions where Vanguard may suspend application or redemption requests. This will generally occur around the end of a distribution period when Vanguard is calculating and paying the distributable income for the relevant period or where there are factors, as determined by Vanguard, which prevent the accurate calculation of unit prices, such as the suspended trading of a significant proportion of the basket. Vanguard will advise you if any such suspension occurs.

Where Vanguard cannot accurately determine the net asset value per ETF unit, Vanguard may suspend the creation or withdrawal of units.

While the fund is liquid for the purposes of the *Corporations Act*, Vanguard will typically redeem ETF units within 30 days of the date on which the redemption request is accepted or such reasonable period as permitted in accordance with the fund's constitution. The fund is liquid if 80% of the value of the fund's assets comprise liquid assets. If the fund is illiquid, a withdrawal request must be dealt with in accordance with the constitution and the *Corporations Act*. You may not be able to withdraw the investment if a fund is illiquid. It is not expected that the fund will be illiquid.

Valuations and pricing

The Net Asset Value (NAV) of the ETF is so much of the NAV of the fund as is determined to be referable to the ETF under the rules set out in the constitution for the fund. Under these rules, the amount of the NAV of the fund that is allocated to the ETF class is based on the value of units on issue for each class and the liabilities which are specific to each class (including the ETF class). The NAV will generally be determined on the next ASX trading day.

The *purchase price* (or NAV price) of units in the ETF is determined by dividing so much of the NAV of the fund as is allocated to the ETF by the number of units on issue in the ETF at the time the purchase price is determined (the valuation point). The valuation point for an ETF is generally the close of an ASX trading day (see 'Applications/Redemptions').

The *withdrawal amount* (being the amount payable to an investor on the redemption of their ETF units) is also determined by dividing so much of the NAV of the fund as is allocated to the ETF by the number of units on issue in the ETF at the time the withdrawal amount is determined (the valuation point). The valuation point for an ETF is generally the close of an ASX trading day (see 'Applications/Redemptions').

The withdrawal amount paid to an investor on the redemption of ETF units will generally include an entitlement to the distributable income of the fund. Please refer to the 'Distributions' section of this document for further details regarding how this entitlement is determined. The balance of the withdrawal amount will comprise payment of the withdrawal price of the ETF units.

For the purposes of calculating the purchase price and withdrawal amount, the number of units on issue includes units which are to be issued and excludes units which are to be redeemed, under completed Application/Redemption forms received by Vanguard before the close of trading on the previous ASX trading day.

Details of the daily NAV price and basket will be made available on Vanguard's website at www.vanguard.com.au or by contacting Vanguard Client Services on 1300 655 888.

Unit pricing policy

Vanguard has documented its policy as to how it determines unit prices for its managed funds. The policy has been designed to meet the ASIC requirements and the Unit Pricing Discretions Policy is available on request to all investors and prospective investors at no charge.

The policy explains our approach in relation to valuation methodology, rounding of decimal places, cut-off times for receiving instructions and the frequency of income distributions and unit pricing discretions generally.

Facsimile instructions

If you are advising Vanguard via facsimile in respect of instructions (including applications and redemption requests) it is important to be aware that Vanguard:

- is deemed to have accepted an ETF application or redemption request, only when Vanguard confirms an order has been received;
- will only process a facsimile instruction if it is received in full and has been signed by authorised signatories;
- is not responsible for any loss or delay that results from a facsimile transmission not being received by Vanguard;
- will not accept a facsimile receipt confirmation from the sender's facsimile machine as evidence of receipt of the facsimile;
- does not take responsibility for any fraudulently or incorrectly completed facsimile instructions; and

- will not compensate for any losses relating to facsimiles, unless required by law. For example, the risk that a facsimile may be sent by a person who knows the investor's account details will be borne by the investor.

In the event of fraud the investor agrees to release, discharge and indemnify Vanguard from and against all actions, claims, demands, expenses and liabilities (however they arise) suffered by the investor or suffered by or brought against Vanguard, in respect of the facsimile instructions, to the extent permitted by law.

More detailed execution and settlement procedures for the Vanguard ETFs are available in the Authorised Participant Agreement.

Please contact Vanguard Client Services on 1300 655 888 for a free copy of the agreement.

Distributions

Income distributions

The fund may earn income, such as dividends and interest. The fund may also realise capital gains or losses, or other assessable income, on the disposal of investments.

Part of the distributable income of the fund as a whole will be allocated to the ETF class. The amount allocated is determined in accordance with the constitution for the fund, and is based on so much of the NAV of the fund that is attributable to the ETF class in the fund, and the fees and expenses which are referable to each class of the fund, including the ETF, at the date of the distribution.

ETF investors can become entitled to the distributable income of the fund in two ways: on the redemption of ETF units (see 'Distributions on redemption' below), or as a result of holding ETF units in the fund at the end of each distribution period, based on the number of units held at that time.

The distribution periods for the fund will generally be quarterly (i.e. as at 31 March, 30 June, 30 September and 31 December each year). However, Vanguard also has the discretion under the constitution of the fund to determine distribution periods at other times.

The amount of the distributable income of the fund which is allocated to ETF investors at the end of each distribution period is based on the distributable income of the fund for the financial year to date, less any amounts which may have already been distributed to investors during the financial year to date, including amounts distributed on the redemption of ETF units.

The distributions made to ETF investors at the end of each distribution period are calculated in cents per unit and will be based on the number of ETF units held as at the end of the distribution period. This means that, for example, if the number of units on issue increases before the end of a distribution period, this may decrease the amount of distributable income per unit that might otherwise have been distributed at the end of the distribution period, and vice versa.

Distributions will normally be paid within 15 business days after the end of the distribution period to which the distribution period relates, though the constitution of the fund provides that distributions must be paid by Vanguard within 60 days after the end of the distribution period to which the distribution relates.

Please note that the amount of the distribution will vary from distribution period to distribution period, and there may be some distribution periods when a fund will not pay

a distribution. If this should occur then details will be available on Vanguard's website at www.vanguard.com.au.

Distributions on redemption

Part of the withdrawal amount paid to an investor on the redemption of their ETF units will generally include a distribution of the distributable income of the fund. Please refer to the 'Taxation' section of this document for further information regarding how this entitlement is determined.

The amount and components of the assessable income on which an ETF investor is assessed in respect of an income entitlement they received on the redemption of ETF units will not be known until after the financial year end.

Vanguard will notify persons who have redeemed ETF units during a financial year of the amount and components of any assessable income on which an ETF investor is assessed in respect of any income entitlement they received on the redemption of ETF units during that year following the end of the financial year, once that information becomes available (see below).

Tax statement

Vanguard will, as soon as reasonably practicable after the end of each financial year, issue to each ETF investor who received an entitlement to the distributable income of the fund during a financial year, a statement which outlines the amount and composition of the taxable income of the fund on which the investor is assessed for the financial year. This should assist ETF investors in preparing their tax return for the year.

Distribution Reinvestment Plan

From time to time ETF investors may be able to participate in the ETF Distribution Reinvestment Plan (DRP). Participation in the DRP is subject to the terms and conditions of the DRP policy document.

ETF investors can choose to:

- fully participate in the DRP, where distributions are reinvested in additional ETF units, or
- have the distributions paid directly to a nominated Australian bank account.

Partial reinvestment will not be available. If no DRP election is made, the distributions will automatically be paid as cash. Investors can obtain a copy of the DRP Policy and elect to participate in the DRP by registering online via Vanguard's share registrar at computershare.com.au/easyupdate/vhy or by calling Computershare on 1300 757 905.

Fees and other costs

Consumer Advisory Warning

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 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.

Our fees and costs

This PDS shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the fund's assets as a whole.

Taxes are set out in another part of this PDS.

You should read all the information about fees and costs because it is important to understand their impact on your investment.

Type of fee or cost	Amount	How and when paid
Fees when your money moves in or out of the fund		
<i>Establishment fee:</i> The fee to open your investment	Nil	Not applicable
<i>Application/Contribution fee:</i> The fee on each amount contributed to your investment	Nil	Not applicable
<i>Withdrawal fee:</i> The fee on each amount you take out of your investment	Nil	Not applicable
<i>Termination fee:</i> The fee to close your investment	Nil	Not applicable
Management costs^{AC}		
The fees and costs for managing your investment:	0.25% p.a.	The management cost for the ETF is calculated as a percentage of the ETF's net asset value ^B . The fee is accrued daily and paid monthly. The fee for a month is paid on or after the first day of the following month. This fee is taken from the assets of the fund and is reflected in the daily unit price.
Service fees		
<i>Investment switching fee:</i> The fee for changing investment options	Nil	Not applicable

^A Worked dollar examples for the fund are shown below.

^B Please refer to page 14 for an explanation of the net asset value for the fund.

^C Refer to page 20 'Negotiated fees, rebates and related payments', for details on how to negotiate a rebate of management costs.

Example of annual fees and costs

The following table provides examples of how the fees and costs can affect the investment over a one year period. You should use this table to compare these products with other managed investment products.

Vanguard Australian Shares High Yield ETF	Amount	Balance of \$50,000 with a contribution of \$5,000 during the year
Contribution fees	Nil	
Plus management costs^A	0.25%	For every \$50,000 you have in the fund, you will be charged \$125 each year.
Equals cost of fund		If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 ^B during that year, you would be charged fees of \$125.

^A Refer to page 20 'Negotiated fees, rebates and related payments', for details on how to negotiate a rebate of management costs.

^B Assumes that the \$5,000 investment occurs on the last business day of the year.

Additional explanation of fees and costs

Management costs

The management costs for the ETF incorporate all relevant fees and other costs involved in managing the ETF and deriving investment returns, other than transaction and operational costs. They include:

- responsible entity's fee;
- custodian fees (excluding transaction based fees);
- accounting and audit fees;
- index licence fees;
- registry service fees; and
- any other recoverable expenses under the constitution of the fund, such as the cost of preparing and amending the constitution, the cost of producing the PDS, the cost of investor meetings, postage and other fund administration expenses.

The management costs for the fund incorporate Goods and Services Tax (GST) after taking into account any expected input tax credits.

The management costs of investing in the ETF are capped while this PDS is current. The cap for management costs

These transaction costs will be the same regardless of the size of the transaction. The following table gives an indication of the transaction costs regardless of the number of creation unit amounts:

	Vanguard Australian Shares High Yield ETF
Transaction costs to create ETF units	AUD 725
Transaction costs to redeem ETF units	AUD 725

For further information on transaction costs deducted from the assets of the ETF and reflected in the unit price, refer to the section "Management costs" above.

excludes any transaction and operational fees incurred by the ETF, such as ordinary brokerage and transaction fees charged by the custodians for settling trades of the ETF assets. These costs are an additional cost to investors which are deducted from the assets of the ETF and which will be reflected in the ETF unit price. The exact amount of these costs is dependant on various factors, and as such, Vanguard is unable to provide a meaningful amount or percentage of these costs.

In calculating the taxable income for the fund, all available tax deductions are taken into account. This means that the effective after-tax cost to investors of the relevant management costs may be lower than the amounts specified on page 18, to the extent that management costs are deductible and reduce the taxable income of the fund. Please refer to page 21 for more information on taxation.

Transaction costs for Authorised Participants

A separate fee will be charged in relation to the transaction costs associated with the creation/redemption of units. This represents the costs associated with the custodian with regards to the creation or redemption of units in the transaction.

Stockbroker fees for all other investors

Investors (other than Authorised Participants) will incur customary brokerage fees and commissions when buying and selling ETF units on the ASX. Please consult a stockbroker for more information in relation to their fees and charges.

Notification of changes to fees

The management costs include a responsible entity fee component which is Vanguard's remuneration for managing the fund, and an expense reimbursement component. The constitution governing the fund limits the amount of the responsible entity fee component of the management costs to 0.5% per annum (excluding GST) based on the NAV of the ETF. The transaction costs for the application and redemption of ETF units is limited to the greater of AUD 5,000 or 1% of the aggregate purchase

price/withdrawal amount of the ETF units under the constitution of the Fund.

Vanguard currently does not intend to increase existing fees or introduce new fees. At least 30 days' notice will be given to investors before any fee increase or the introduction of a new fee takes effect.

Negotiated fees, rebates and related payments

Vanguard may, subject to the Corporations Act 2001 and ASIC policy, from time to time, enter into arrangements with clients who are 'wholesale clients' under the Corporations Act 2001, in order to negotiate or reduce management fees for investing sizeable amounts in the fund. The amount of fee reduction is at Vanguard's discretion. Such investors may contact Vanguard on 1300 655 888 if they wish to apply for a rebate of management costs. Vanguard makes these payments from its own resources.

Taxation of ETF units

The taxation information in this PDS is provided for general information only. It is a broad overview of some of the Australian tax consequences associated with investing in the ETF.

It does not take into account the specific circumstances of each person who may invest in the ETF and should not be used as the basis upon which potential ETF investors make a decision to invest in the ETF.

As each investor's circumstances are different, Vanguard strongly recommends that investors obtain independent professional tax advice concerning the tax implications of investing in and dealing in ETF units, particularly if the investor is not a resident of Australia or a 'temporary resident' of Australia for tax purposes.

The taxation information in this PDS has been prepared based on tax laws and administrative interpretations of such laws available at the time of publication of this PDS, which may change. The law in relation to the taxation of trusts is currently under review by the Government. There may be further changes to the laws relating to the taxation of trusts that are announced in future that may impact on the tax treatment of investing in ETF units.

Distributions from the ETF

Generally, Vanguard, as responsible entity of the fund, should not be subject to income tax on the net taxable income of the fund provided that investors in the fund are presently entitled to all of the income of the fund each year. Vanguard intends to take all reasonable steps to ensure that the investors holding units in the fund will be presently entitled to all of the income of the fund each year.

The net taxable income of the fund, on which an investor holding ETF units is assessed during a financial year, forms part of the ETF investor's assessable income for that year, even if payment of the income entitlement that gave rise to the assessable income did not occur until after the end of the financial year.

A holder of ETF units receives an entitlement to the distributable income of the fund for a financial year if they hold ETF units at the end of a distribution period, or, for Authorised Participants, if they redeem any ETF units during the financial year.

The income tax impact for a holder of ETF units of receiving an entitlement to the net taxable income of the fund depends upon the components of the distribution.

Investors will be provided with tax statements after the end of each financial year detailing the components, for income

tax purposes, of any net taxable income distributions received from the fund during the financial year, including on the redemption of ETF units. These can be used as the basis for preparing a tax return for the year.

Franking credits

The fund may invest in Australian shares which pay franked dividends. A person holding ETF units may receive distributions of franked dividends from the fund which provide an entitlement to franking credits. There are a number of requirements for that entitlement to arise that must be satisfied (such as the 45 day holding period and related payments rule).

Franking credits are not a cash component of the distribution. Franking credits will need to be included as taxable income for the ETF investor for the relevant year and declared in a tax return. Depending on the particular circumstances, franking credits may be offset against Australian income tax payable in the relevant year, or there may be an entitlement to a refund in respect of the franking credits to the extent that they exceed the Australian income tax payable in the relevant year.

Capital gains

If the fund disposes of any of their investments (e.g. on the transfer of the basket of securities when ETF units are redeemed), the fund may realise net assessable capital gains. These capital gains will be included in the income of the fund that is distributed to unitholders of the fund.

Any net capital gain of the fund to which a unitholder becomes entitled should be taken into account in determining the net capital gain of the unitholder for the year in which the distribution is made. The net capital gain of the fund on which a unitholder is assessed may include a discount capital gains component. Unitholders who are eligible to obtain the discount capital gains concession may be able to apply the discount capital gains concession to the discount capital gains component of a gain on which they are assessed..

There have been some changes to the rules relating to the characterisation of gains and losses arising on the disposal of certain investments by "managed investment trusts". If the fund qualifies as a "managed investment trust" under these rules, Vanguard intends to make the election provided for under the amendments to have gains and losses arising on certain investments of the fund be assessed under the capital gains regime.

Non-assessable distributions

The fund may distribute amounts which are non-assessable. For example, investors holding ETF units may become entitled to certain tax-free or tax-deferred distributions. Investors holding ETF units may also become entitled to certain amounts which are non-assessable as a result of the capital gains discount concessions.

If an investor is assessed on the disposal of ETF units under the capital gains tax provisions, they should not be assessed on the non-assessable components of the distributions they receive. However, the receipt of distributions that include non-assessable amounts may have capital gains tax consequences. To the extent that certain amounts distributed are non-assessable as a result of the discount capital gains concession, no adjustment to the cost base of ETF units will be required.

If an investor is assessed on the disposal of ETF units other than under the capital gains tax provisions (e.g. if the investor is in the business of dealing in securities like ETF units), they may be assessed on the non-assessable components of distributions made by the fund.

Proposed changes to the tax treatment of trusts

The Government announced, on 7 May 2010, that it intends to introduce a new regime for the taxation of managed investment trusts. It is currently proposed that this regime will apply from 1 July 2012.

Based on the information that is currently available, it is anticipated that the regime should provide greater certainty regarding the tax treatment of managed investment trusts, including ETFs, and the tax treatment of distributions that are made on ETF units. Vanguard will monitor these amendments and their impact on the tax treatment of the ETF.

The Government also announced, on 4 March 2011, that it intends to make some changes to the tax treatment of trusts more generally, effective from 1 July 2010. Based on the information that is available at the date of the PDS, it is anticipated that these amendments, if enacted, should also provide greater certainty regarding the ability of the ETF to allocate capital gains and franking credits to investors in ETF units.

Vanguard expects that these amendments may provide greater certainty regarding the tax treatment of holders of ETF units of receiving distributions from the fund. Details regarding the actual terms of the amendments to be enacted are not available. Vanguard will monitor these developments in order to assess what impact they may

have on the tax treatment of income distributed to investors in ETF units and the tax treatment of those distributions.

Selling or transferring units

If an investor in the ETF disposes of ETF units by selling or transferring the units to another person (e.g. selling ETF units on-market), the investor may be liable for tax on any gains realised on that disposal of units.

If an investor is assessed otherwise than under the capital gains tax provisions on a disposal of ETF units (e.g. if the investor is in the business of dealing in securities like ETF units), any profits or gains realised on the sale or transfer of the units should be assessable as ordinary income. Those investors may be able to deduct any losses made on the sale or transfer of ETF units against current or future assessable income amounts, subject to certain integrity requirements.

For investors who are assessed under the capital gains tax provisions on the disposal of ETF units, a capital gain or loss may be made on the disposal of ETF units. Where a capital gain has been made, some investors may be eligible for the discount capital gains concession (50% for individuals and certain trusts and 33.33% for complying superannuation funds) on the net capital gains after losses are applied. In order for the discount capital gains concessions to be available, certain requirements may need to be satisfied (such as the units being held for at least 12 months before they are disposed of). Investors should obtain independent professional tax advice about the availability of the CGT discount.

Any capital loss arising on a disposal of ETF units may only be offset against capital gains made in that year or subsequent years.

Goods and Services Tax (GST)

The issue and withdrawal of ETF units will not be subject to GST. However, fees and expenses, such as management costs, incurred by the fund will attract GST (at the rate of 10%).

Given the nature of the activities of the fund, the fund may not be entitled to claim input-tax credits for the full amount of the GST incurred. However, for the majority of the expenses, a Reduced Input-Tax Credit (RITC) of 75% of the GST paid may be able to be claimed.

The GST and expected RITC relating to fees and expenses are incorporated in the management cost for the ETF.

Applying for and redeeming ETF units

A person will only be eligible to apply for and redeem ETF units if they are an Authorised Participant.

This section seeks to provide a summary of the income tax consequences of applying for and redeeming ETF units by Authorised Participants who are assessed on the disposal of ETF units otherwise than under the capital gains tax provisions.

If an Authorised Participant is assessed on the disposal of ETF units under the capital gains tax provisions, then the entitlement to the income of the fund which the Authorised Participant receives on the redemption of ETF units may exceed the capital gain made on the redemption of the ETF units. The Authorised Participant may not make a capital loss or be entitled to any other deduction in respect of the excess.

We recommend Authorised Participants obtain independent professional tax advice regarding the tax consequences of applying for and redeeming ETF units, particularly if they are assessed on the disposal of ETF units under the capital gains provisions.

Applications

An Authorised Participant applies for ETF units by way of an in specie transfer of a specified basket of securities together with a balancing cash payment. Accordingly, an Authorised Participant applying for ETF units may be assessed on any profits arising from the transfer of those securities as ordinary income, and may be entitled to deduct any losses arising from the transfer of those securities.

The ETF units which an Authorised Participant acquires on an application for ETF units should be taken to have been acquired at a cost equal to the value of the basket of securities transferred to the fund on application, adjusted for any balancing cash payment made or received on application.

Redemptions

An Authorised Participant who redeems ETF units will become entitled to receive the withdrawal amount on the redemption. The withdrawal amount is satisfied by an in specie transfer of a basket of securities, together with any balancing cash payment required.

The withdrawal amount comprises a distribution of the income of the fund and the payment of the withdrawal price for the ETF units which are to be redeemed.

The distribution of the net taxable income of a fund received on the redemption of ETF units may include an entitlement to income (including gains) realised by the fund on the in specie transfer of the basket of securities to the redeeming Authorised Participant.

The distribution may also include a distribution of certain other income realised by a fund (such as foreign currency gains and other hedging and derivative gains), based on the amount of such income realised by the fund up to and including the date of redemption, and the number of ETF units redeemed.

An Authorised Participant who redeems ETF units should be assessed on any profit arising on the redemption of the ETF units. An Authorised Participant who redeems ETF units may be entitled to a deduction for any loss arising on the redemption of ETF units.

For the purposes of determining the profit or loss arising on the redemption, the withdrawal price (being the withdrawal amount less the distribution of net taxable income provided as part of the withdrawal amount) should properly be regarded as the proceeds received in respect of the disposal.

That part of the withdrawal amount that is a distribution of income should also be assessable, based on the components of the distribution of income.

The tax consequences for an Authorised Participant will depend on their particular circumstances.

It will not be possible to determine the amount or components of the net taxable income on which an Authorised Participant is assessed as a result of receiving a distribution of income on the redemption of ETF units until after the end of the financial year in which the ETF units are redeemed. A statement will be provided after the end of each financial year detailing the amount and components of the net taxable income of the fund on which the Authorised Participant is assessed as a result of a distribution of income received on the redemption of ETF units during that year.

The distribution of income to an Authorised Participant who redeems ETF units seeks to ensure that any taxable income that arises for the fund as a result of the redemption of ETF units by the Authorised Participant should be allocated to the Authorised Participant, rather than continuing investors in ETF units.

There has been a recent decision of the Federal Court of Australia that addressed a number of issues that are relevant to the allocation of the net taxable income of a unit trust to unitholders on redemption. That decision casts some uncertainty regarding whether provisions in trust deeds that seek to provide trustees with a discretion to allocate part of the taxable income of a trust to a redeeming unitholder will have their intended effect.

As at the date of this PDS, Vanguard is working through the impact of this decision and how Authorised Participants

who redeem ETF units are assessed. It is anticipated however that the proposed new regime for the taxation of managed investment trusts, and the proposed amendments to the taxation of trusts more generally, which are discussed above under “Proposed changes to the tax treatment of trusts”.

In order to redeem ETF units, the Authorised Participant must also be an Australian Resident as defined in the constitution for the fund. This means that the fund should not be required to withhold any amounts from the withdrawal amount paid on redemption of ETF units on account of any distribution of income provided on redemption as part of the withdrawal amount.

Other information you need to know

Vanguard as the responsible entity

Vanguard, as the responsible entity, is solely responsible for the management and administration of the fund.

Vanguard holds an Australian Financial Services Licence (AFSL 227263) that authorises it to act as the responsible entity of the fund. The powers and duties of Vanguard are set out in the constitution of the fund, the *Corporations Act* and general trust law. The duties of Vanguard under the *Corporations Act* include:

- acting in the best interests of investors and, if there is a conflict between investors’ interests and Vanguard’s interests, giving priority to investors’ interests;
- ensuring that fund property is clearly identified as fund property and held separately from property of Vanguard and property of any other fund, and is valued at regular intervals;
- ensuring that payments out of fund property are made in accordance with the *Corporations Act*; and
- reporting to ASIC any significant breach or likely breach of an obligation under the general AFSL conditions under section 912A of the *Corporations Act* and any breach of the *Corporations Act* that relates to the fund and has had, or is likely to have, a materially adverse effect on the interests of investors.

Vanguard is liable for its actions and the actions of its agents engaged in connection with the fund. Vanguard has the power to appoint an agent, or otherwise engage a person, to do anything that it is authorised to do in connection with the fund and, for the purpose of determining whether Vanguard has properly performed its duties as responsible entity, Vanguard is taken to have done (or failed to do) anything that the agent or person has done (or failed to do) because of the appointment or

An Authorised Participant will be an Australian Resident as defined in the constitution of the fund if they provide Vanguard with an undertaking that they have been an Australian resident for tax purposes from the beginning of the financial year to the time of redemption, and will continue to be until the end of the financial year. An Authorised Participant will not be an Australian Resident for tax purposes even if they provide such an undertaking if they have at any time provided Vanguard with an address outside Australia, or if they authorise Vanguard to pay any amounts to them outside Australia.

engagement, even if they were acting fraudulently or outside the scope of their authority or engagement.

The constitution

The fund is a managed investment scheme governed by a constitution. Under the constitution, Vanguard has all the powers of a natural person in respect of the fund. The constitution for the fund sets out the rights of the unitholder and the obligations of Vanguard, as responsible entity of the fund. This PDS outlines some of the more important provisions of the constitution.

A copy of the fund constitution may be inspected by unitholders at Vanguard’s office, during business hours. Vanguard will provide unitholders with a copy of the required constitution upon request.

Amendments to the constitution

Vanguard may amend the constitution of the fund from time to time, subject to the provisions of the constitution and the *Corporations Act*. Generally, Vanguard can only amend the constitution where Vanguard reasonably believes that the change will not adversely affect the rights of a unitholder. Otherwise the constitution can only be amended if approved at a meeting of unitholders.

The custodian

Vanguard has appointed JP Morgan Chase to act as an independent custodian to hold and have overall responsibility for holding the assets of the ETF. The custodian may, from time to time, appoint sub-custodians.

The compliance plan

Vanguard has prepared and lodged a compliance plan for the fund with ASIC. The compliance plan sets out the key criteria that Vanguard will follow to ensure that it is complying with the *Corporations Act* and the fund’s

constitution. Each year the compliance plan is independently audited, as required by the *Corporations Act*, and the auditor's report is lodged with ASIC.

The compliance committee

Vanguard is required to and has established a compliance committee with a majority of members that are external to Vanguard. The compliance committee's functions include:

- monitoring Vanguard's compliance with the compliance plans and reporting its findings to Vanguard;
- reporting breaches of the *Corporations Act* or the constitution to Vanguard;
- reporting to ASIC if the committee is of the view that Vanguard has not taken or does not propose to take appropriate actions to deal with breaches reported to it by the committee; and
- assessing the adequacy of the compliance plan, recommending any changes and reporting these to Vanguard.

Reporting and disclosure obligations

The fund is subject to regular reporting and disclosure obligations, and copies of documents lodged with ASIC in relation to the fund 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 for the fund;
- any half-yearly Fund financial reports lodged with ASIC in relation to the fund; and
- any continuous disclosure notices given for the fund after the lodgement of an annual report.

Change of index

The responsible entity has the right to change the index provider. If an index were to be changed, the responsible entity would make an announcement to the ASX and take other steps as required by law.

Rights of a unitholder

A unit confers a beneficial interest on a unitholder in the assets of a fund but not an entitlement or interest in any particular part of the fund or any asset.

The terms and conditions of the fund's constitution are binding on each unitholder in the fund and all persons claiming through them respectively, as if the unitholder or person were a party to the constitution.

Reimbursement of expenses

In addition to any other indemnity which Vanguard may have under the fund constitution or at law, Vanguard is indemnified and entitled to be reimbursed out of, or paid from, the assets of the fund for all liabilities, losses and expenses incurred in relation to the proper performance of its duties as responsible entity of the fund.

Public register of alternative remuneration

As a member of the Financial Services Council, Vanguard is obliged to keep a public register that details any alternative form of remuneration, paid to or by Vanguard, worth more than AUD 300.

A copy can be requested from Vanguard on 1300 655 888.

Retirement of Vanguard

Vanguard may retire as responsible entity of the fund by calling a meeting of unitholders to enable unitholders to

vote on a resolution to choose a company to be the new responsible entity. Vanguard may be removed from office by an extraordinary resolution (i.e. 50% of the units that can be voted) passed at a meeting of unitholders, in accordance with the *Corporations Act*.

Termination

Vanguard may wind up the fund at any time on giving notice to unitholders. Following winding up, the net proceeds will be distributed to unitholders.

Limitation of liability of unitholders

The fund's constitution provides that the liability of each unitholder is limited to its investment in the fund and that a unitholder is not required to indemnify Vanguard or a creditor of Vanguard against any liability of Vanguard in respect of a fund (except that a person applying for units indemnifies Vanguard against any liability in respect of the applicant paying or failing to pay the application amount. A unitholder who redeems units also indemnifies Vanguard against any liability in respect of a withdrawal amount otherwise than as required by the constitution). However, no complete assurance can be given in this regard, as the ultimate liability of a unitholder has not been finally determined by the courts.

Proxy voting

Vanguard votes proxies in companies/funds where the fund has a significant economic interest, and it is reasonably practicable to do so. This covers the vast majority of holdings by value. Vanguard believes the right to vote proxies for holdings is a significant asset. Vanguard exercises the votes with the goal of maximising the value of the investments. To obtain a copy of Vanguard's proxy voting policy please contact Vanguard Client Services on 1300 655 888.

Meeting of unitholders

Vanguard may convene a meeting of unitholders of the fund at any time, (e.g. to approve certain amendments to a fund's constitution or to wind up the fund). Unitholders also have limited rights to call meetings and have the right to vote at any unitholder meetings. Except where that fund's constitution provides otherwise, or the *Corporations Act* requires otherwise, a resolution of unitholders must be passed by unitholders who hold units exceeding 50% in value of the total value of all units held by unitholders who vote on the resolution.

A resolution passed at a meeting of investors held in accordance with the fund's constitution binds all investors of the fund.

Indemnities and limitation of liability of Vanguard

In general, Vanguard may act on the opinion of, advice of and information obtained from advisers and experts. In those cases, Vanguard is not liable for anything done in good faith in reliance on that opinion, advice or information. Vanguard is indemnified out of the fund against any expenses, loss, costs, damages and liabilities that may be incurred in properly performing any of its duties or prosecuting or defending any action or suit in connection with the fund other than if it arises out of Vanguard's fraud, negligence or breach of trust.

Vanguard is not liable personally to unitholders or other persons for failing to act except in the case of fraud, negligence or breach of trust or duty.

Borrowings

The fund will only borrow where Vanguard believes it is in the best interests of unitholders to do so. It is not currently Vanguard's intention to borrow for the purposes of gearing.

If you have a complaint

If investors have a complaint regarding the fund or services provided by Vanguard, please contact Client Services on 1300 655 888 from 8:00 am to 6:00 pm Melbourne time, Monday to Friday.

If the complaint is not satisfactorily resolved within three business days you can refer the matter in writing to:

Manager Client Services
Vanguard Investments Australia Ltd
GPO Box 3006
Melbourne Vic 3001

Vanguard will try to resolve the complaint and get back to investors as soon as possible, but in any event, within 45 days of receiving the complaint.

In the event that investors are not satisfied with the outcome of the complaint, they have the right to refer the matter to an external complaints resolution scheme. Vanguard is a member of the Financial Ombudsman Services (FOS). Investors 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 a unitholder's personal information. Vanguard's privacy policy states how Vanguard manages personal information.

Vanguard collects personal information in the ETF Application/Redemption Form, and may collect additional personal information in the course of managing the fund. Some information must be collected for the purposes of compliance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*.

Vanguard may provide personal information to the unitholder's financial adviser if written consent is provided to Vanguard. Vanguard may be required to disclose personal information to regulators, including authorities investigating criminal or suspicious activity and to the Australian Transaction Reports and Analysis Centre (AUSTRAC) in connection with anti-money laundering and counter-terrorism financing.

Vanguard may provide a unitholder's personal information to its service providers for certain related purposes (as described under the *Privacy Act 1988*) such as account administration and the production and mailing of statements. Vanguard may also use a unitholder's personal information and disclose it to its service providers to improve customer service (including companies conducting market research) and to keep unitholders informed of Vanguard's products and services, or to their financial adviser or broker to provide financial advice and ongoing service.

Vanguard will assume consent to personal information being used for the purposes of providing information on services offered by Vanguard and being disclosed to market research companies for the purposes of analysing, Vanguard's investment base unless otherwise advised.

To obtain a copy of the privacy policy visit Vanguard's website at www.vanguard.com.au or contact Vanguard Client Services on 1300 655 888. You may request access to any personal information we hold about you.

Anti-money laundering and counter terrorism-financing

Vanguard is bound by laws regarding the prevention of money laundering and the financing of terrorism, including the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Laws). By completing the application form, the investor agrees that:

- they do not subscribe to the fund under an assumed name;
- any money used to invest in the securities is not derived from or related to any criminal activities;
- any proceeds of the investment will not be used in relation to any criminal activities;
- if Vanguard requests, the investor will provide additional information that is reasonably required for the purposes of AML/CTF Laws (including information about the investor, any beneficial interest in the units, or the source of funds used to invest);
- Vanguard may obtain information about the investor or any beneficial owner of a unit from third parties if it is believed this is necessary to comply with AML/CTF Laws; and
- in order to comply with AML/CTF Laws Vanguard may be required to take action, including:
 - delaying or refusing the processing of any application or withdrawal, or disclosing information that Vanguard hold about the investor or any beneficial owner of the units to our related bodies corporate or service providers, or relevant regulators of AML/CTF Laws (whether in or outside of Australia); and,
 - disclosing information that Vanguard holds about the investor or any beneficial owner of the units to Vanguard's related bodies corporate or service providers, or relevant regulators of AML/CTF Laws (whether in or outside of Australia).

Interest on amounts awaiting investment or withdrawal

Amounts paid to the fund may accrue interest in the fund's accounts pending the issue of ETF units or the return of application monies. Similarly, amounts made available to satisfy a withdrawal request may also accrue interest pending payment. Any such interest will be retained by the fund for the benefit of all unitholders.

Consents to inclusion of statements

Citigroup Global Markets Australia Pty Ltd (Citigroup) has given and not withdrawn their consent to be named in this PDS as the lead market maker of the ETF.

FTSE has given and not withdrawn their consent to the statements relating to FTSE on page 29 of the PDS in the format and context in which they appear.

Consents to lodge PDS

The directors of Vanguard have consented to the lodgement of this PDS with ASIC.

ASIC relief

Equal Treatment Relief

ASIC has granted relief under section 601QA of the *Corporations Act* from the equal treatment requirement in section 601FC(1)(d), to the extent necessary to allow the responsible entity to restrict eligibility to submit redemption requests in relation to units to those investors who are Australian Residents and Authorised Participants as defined in the constitution for the fund.

Redemption Facility – Relevant Interest in Fund Assets

ASIC has granted relief under section 655A(1) and 673(1) of the *Corporations Act* by modifying section 609 of the *Corporations Act* to ensure that the ability to lodge a redemption request under the redemption facility offered by the fund does not by itself give investors a relevant interest in the securities held by the fund. The instrument clarifies that those relevant interests do not need to be taken into account by investors in relation to their obligations under the takeover and substantial holder notices regimes in the *Corporations Act*. The relief will not apply once the relevant units are redeemed.

Ongoing Disclosure of Material Changes and Significant Events

ASIC has granted relief under section 1020F of the *Corporations Act* from the ongoing disclosure requirements in section 1017B on condition that the responsible entity complies with the continuous disclosure requirements in the *Corporations Act* as if the fund is an unlisted disclosing entity.

FTSE disclaimer

The Vanguard Australian Shares High Yield ETF is not in any way sponsored, endorsed, sold or promoted by FTSE International Limited ("FTSE"), the London Stock Exchange Plc (the "Exchange"), The Financial Times Limited ("FT") or by The Association of Superannuation Funds of Australia ("ASFA") (together the "Licensor Parties") and none of the Licensor Parties make any warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE ASFA Australia High Dividend Yield Index (the "Index") and/or the figure at which the said Index stands at any particular time on any particular day or otherwise. The Index is compiled and calculated by FTSE. None of the Licensor Parties shall be liable (whether in negligence or otherwise) to any person for any error in the Index and none of the Licensor Parties shall be under any obligation to advise any person of any error therein. All intellectual property rights in and to the Index vest in FTSE and ASFA. "FTSE®" is a trade mark of the Exchange and the FT and is used by FTSE under licence. "ASFA™" is a trade mark of ASFA."

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Application/Redemption form

Vanguard® Australian Shares High Yield ETF

Vanguard INVESTMENTS®

Dated 9 May 2011

It is important to read the Vanguard Australian Shares High Yield ETF Product Disclosure Statement (PDS) carefully. If this PDS was obtained electronically, a paper copy of this PDS and the ETF Application/redemption form will be provided free of charge upon request.

Please complete ALL sections in BLOCK letters.

You can fax the completed Application/Redemption form to the fax number displayed in the next column.



Fax

From Australia
1300 765 712

From Overseas
(+61) 3 8888 3777



Note

This form is for use by participants authorised by Vanguard Investments Australia Ltd only.

1. Application Details

Name _____

ACN/ABN

Email _____

Postal address _____

Suburb _____ State Postcode

Telephone () Fax ()

Participant ID (PID)

2. Number of Units to be Applied or Redeemed

This Applicant hereby applies to Vanguard Investments Australia Ltd for Units as specified below.

Please note: Applications are to be made in whole multiples of 20,000 units only.

Fund name	ASX code	Number of application units	Number of redemption units
Vanguard® Australian Shares High Yield ETF	VHY	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>

3. Signatures

- I/We acknowledge that we are an Australian Resident for tax purposes at the time this form was signed (both for an application and redemption).
- I/We have received the Vanguard Australian Shares High Yield ETF PDS dated 9 May 2010 (electronic or hard copy), and I/we have detached this ETF Application/Redemption Form from this PDS and declare all details given in this form are true and correct.
- I/We have read this PDS to which this application/redemption applies and agree to be bound by the terms and conditions of this PDS, the Facsimile Indemnity as referred to on page 14, and the constitution of the fund in which I/we are investing, as referred to on page 25 of this PDS (and as amended from time to time), which govern the fund.
- I/We understand that none of The Vanguard Group, Inc. (including Vanguard Investments Australia Ltd) or their related entities, directors or officers guarantees the performance of, the repayment of capital, or income invested in the fund.
- I/We declare that I/we have the capacity and power to make an investment in accordance with the application/redemption.
- I/We declare that in making a decision to invest the only information and representations provided by Vanguard are those contained in this PDS to which this application/redemption relates.
- If signed under power of attorney, the attorney verifies that no notice or revocation of that power has been received.
- I/We acknowledge that I/we are a Trading Participant under the ASX Operating Rules.
- I/We agree to reimburse and indemnify Vanguard for all taxes, duties and charges imposed against Vanguard or its agents that may be assessed against Vanguard as a result of my/our entitlement to the capital or distributable income of the fund (Taxation Amount).
- I/We authorise Vanguard to deduct from my/our income distributions payable from the fund, on account.

Authorised signatory 1

Signature _____

Name _____

Position _____

Date _____

Authorised signatory 2

Signature _____

Name _____

Position _____

Date _____



Vanguard INVESTMENTS®

Connect with Vanguard™

The indexing specialist > vanguard.com.au > 1300 655 888

Vanguard Investments Australia Ltd
(The Product Issuer)

Registered office

Level 34, Freshwater Place
2 Southbank Boulevard
Southbank Vic 3006
Telephone: 1300 655 888

Postal address

GPO Box 3006
Melbourne Vic 3001

Vanguard ETF Product Team

8:30 am to 5:30 pm (Melbourne time)
Monday to Friday
Telephone: 1300 655 888
Facsimile: 1300 765 712
E-mail: etf@vanguard.com.au

ASX enquiries

131 279 (within Australia)
+61 2 9338 0000 (outside Australia)