

Vanguard® Wholesale Funds

Diversified funds

Annual Report
30th June 2011



Vanguard® Conservative Index Fund	ARSN 101 565 351	ABN 24 396 176 911
Vanguard® Balanced Index Fund	ARSN 101 565 431	ABN 14 193 060 779
Vanguard® Growth Index Fund	ARSN 101 565 520	ABN 43 698 348 922
Vanguard® High Growth Index Fund	ARSN 101 565 637	ABN 71 339 405 674
Vanguard® Diversified Bond Index Fund	ARSN 147 937 728	ABN 90 633 012 411

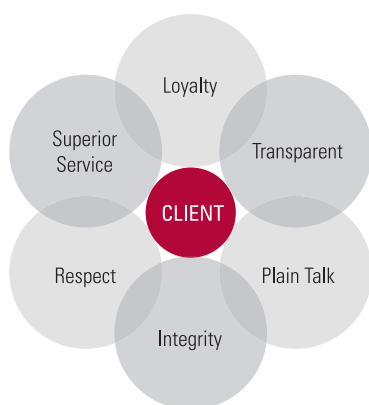
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About Vanguard

Since launching the first index mutual fund for individual investors in 1976, Vanguard has strived to be the world’s highest value provider of investment products and services.

We have an unwavering focus on our clients and a commitment to champion what is best for investors by keeping costs as low as possible.



Our investment philosophy

Underlying Vanguard’s investment approach is an enduring philosophy based on four key beliefs:

1. Minimise costs

All else being equal, investments with consistently low management fees and transaction costs can give investors a head start in achieving competitive returns*. Management fees create a drag on returns that make it difficult for a fund manager to add value. High fund turnover can drive up transaction costs and lower a fund’s tax efficiency. To keep portfolio costs down, Vanguard adopts a buy-and-hold investment approach to minimise transaction costs and taxes.

2. Focus on strategic asset allocation

Research suggests that asset allocation is the most important investment decision investors will make, that is their mix of equities, fixed interest, property and cash within a portfolio. Historically asset allocation has accounted for more than 80 per cent of the variation in long term investment performance.

3. Invest for the long term

A sound investment approach starts with asset allocation with consideration to the time horizon of the investment objective.

4. Maintain diversification in portfolios

Being broadly diversified, with exposure to all parts of the share, fixed interest and property markets reduces the amount of risk a portfolio is exposed to.

Vanguard Investments Australia Ltd is a wholly owned subsidiary of The Vanguard Group, Inc. which is based in the US and currently manages nearly US\$ 1.9[†] trillion for nearly 25 million individual and institutional accounts.

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

*Past performance is not an indicator of future performance. Our products are designed to closely track market returns before fees, expenses and taxes. Investments are not guaranteed and may rise or fall.

[†]As at 30 June 2011

Directors' Report

The directors of Vanguard Investments Australia Ltd, the Responsible Entity of the Vanguard Diversified Index Funds, present their report together with the financial report of the following Vanguard Diversified Index Funds ('the Funds') for the year ended 30 June 2011.

- Vanguard Conservative Index Fund
- Vanguard Balanced Index Fund
- Vanguard Growth Index Fund
- Vanguard High Growth Index Fund
- Vanguard Diversified Bond Index Fund

Principal activities

The Funds invest in accordance with the investment policy of the Funds as set out in the current Product Disclosure Statement (PDS) and in accordance with the Constitutions of the Funds. The Funds seek to track the weighted average return of the various indices of the underlying Vanguard Wholesale Index Funds in which they invest, in proportion to their strategic asset allocation, before taking into account Fund fees and expenses.

The Vanguard Diversified Bond Index Fund commenced operations on 9 May 2011. There are no comparative figures for this Fund as this is the first year of operations.

The Funds did not have any employees during the year.

There were no significant changes in the nature of the activities of the Funds during the year.

Results

The results of the operations of the Funds were as follows:

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	For the year ended 30 June		For the year ended 30 June		For the year ended 30 June		For the year ended 30 June		For the year ended 30 June	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating profit/(loss) before financing costs attributable to unitholders	18,226	7,383	23,616	9,971	37,008	14,484	24,630	7,421	1,859	–
<i>Distributions</i>										
Distribution paid and payable	26,401	5,032	36,070	6,876	52,868	8,405	30,004	3,835	11,320	–
Distribution (cents per unit)	7.6176	4.6191	8.0786	4.5059	7.9459	4.0842	6.7462	3.7684	6.6729	–

Directors

The following persons held office as directors of Vanguard Investments Australia Ltd during the year or since the end of the year and up to the date of this report:

J G Duffield – resigned 31 December 2010
 J H Wily – resigned 31 December 2010
 J M Norris
 G W Reed
 J P Brennan
 K A Watt
 J M James

Review and results of operations

During the year, the investment policy of the Funds continues to be that detailed in the current PDS and in accordance with the provisions of the Constitutions of the Funds.

The Funds maintained their investment strategy by investing in unlisted unit trusts. There have been no changes to the operations of the Funds since last year.

Directors' Report *(continued)*

Review and results of operations *(continued)*

Performance

The table below details the performance of the Funds as represented by the total return, net of fees, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total return is shown for the past five years to 30 June 2011 and assumes that all distributions were re-invested during that period, except for Vanguard Diversified Bond Index

Fund which is from commencement of operations from 9 May 2011 to 30 June 2011. These are calculated in accordance with FSC Standard 6.0 Product Performance – calculation and presentation of returns. The directors assess the performance of the Funds by comparing each Fund's total return with the corresponding Index (the Benchmark) gross of fees.

	2011	2010	2009	2008	2007
	%	%	%	%	%
Vanguard Conservative Index Fund					
Capital growth	(0.48)	3.92	(5.00)	(6.97)	3.48
Distribution of income	7.53	4.70	4.02	5.89	6.58
Total return	7.05	8.62	(0.98)	(1.08)	10.06
Benchmark return					
<i>Tailored Index</i>	7.07	8.54	(1.91)	(0.93)	10.14
Vanguard Balanced Index Fund					
Capital growth	0.51	5.91	(10.10)	(11.09)	6.30
Distribution of income	7.57	4.39	3.54	5.09	6.51
Total return	8.08	10.30	(6.56)	(6.00)	12.81
Benchmark return					
<i>Tailored Index</i>	8.08	10.42	(7.30)	(5.91)	12.95
Vanguard Growth Index Fund					
Capital growth	1.32	8.06	(14.60)	(15.80)	9.08
Distribution of income	7.73	4.19	2.86	5.18	6.93
Total return	9.05	12.25	(11.74)	(10.62)	16.01
Benchmark return					
<i>Tailored Index</i>	9.19	12.32	(12.60)	(10.65)	16.02
Vanguard High Growth Index Fund					
Capital growth	3.71	9.14	(20.70)	(19.64)	11.57
Distribution of income	6.26	3.69	2.77	4.56	7.78
Total return	9.97	12.83	(17.93)	(15.08)	19.35
Benchmark return					
<i>Tailored Index</i>	10.04	13.01	(18.41)	(15.15)	19.48
Vanguard Diversified Bond Index Fund (1)					
Capital growth	(5.44)	n/a	n/a	n/a	n/a
Distribution of income	6.67	n/a	n/a	n/a	n/a
Total return	1.23	n/a	n/a	n/a	n/a
Benchmark return					
<i>Tailored Index</i>	1.27	n/a	n/a	n/a	n/a

(1) Vanguard Diversified Bond Index Fund's inception date was 9 May 2011.

Investors should be aware that past performance is not an indication of future performance.

Directors' Report *(continued)*

Review and results of operations *(continued)*

Unit redemption prices

Unit redemption prices (quoted including distribution) are shown as follows:

	At 30 June		Period high Period to 30 June		Period low Period to 30 June	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Vanguard Conservative Index Fund	1.0467	1.0324	1.0640	1.0623	1.0188	0.9746
Vanguard Balanced Index Fund	1.1128	1.0870	1.1470	1.1360	1.0683	0.9976
Vanguard Growth Index Fund	1.0787	1.0453	1.1259	1.1139	1.0229	0.9312
Vanguard High Growth Index Fund	1.1443	1.0930	1.2072	1.1975	1.0674	0.9559
Vanguard Diversified Bond Index Fund	1.0097	n/a	1.0153	n/a	1.0000	n/a

Significant changes in state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Funds that occurred during the financial year under review.

Matters subsequent to the end of the financial year

Except as disclosed in the financial report, no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (i) the operations of the Funds in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Funds in future financial years.

Likely developments and expected results of operations

The Funds will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Funds and in accordance with the provisions of the Constitutions of the Funds.

The results of the Funds' operations will be affected by a number of factors, including the performance of investment markets in which each Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Funds in regards to insurance cover provided to either Vanguard Investments Australia Ltd or the auditors of the Funds. So long as the officers of Vanguard Investments Australia Ltd act in accordance with the Constitutions of the Funds and the Law, the officers remain indemnified out of the assets of the Funds against losses incurred while acting on behalf of the Funds. The auditors are in no way indemnified out of the assets of the Funds.

Fees paid to and interests held in the Funds by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Funds' property during the year are disclosed in Note 11(b) to the financial statements.

No fees were paid out of Funds' property to the directors of the Responsible Entity during the year.

The number of interests in the Funds held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 11(b) to the financial statements.

Interests in the Funds

The movement in units on issue in the Funds during the year is set out in Note 8 to the financial statements.

The value of each Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 2 to the financial statements.

Directors' Report *(continued)*

Environmental regulation

The operations of the Funds are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand dollars

The Funds are registered schemes of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made in accordance with a resolution of the directors.



J M James
Managing Director
Melbourne
31 August 2011

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Auditor's Independence Declaration

As lead auditor for the audit of Vanguard Diversified Index Funds for the year/period ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the following Vanguard Diversified Index Funds during the year/period:

- Vanguard Conservative Index Fund
- Vanguard Balanced Index Fund
- Vanguard Growth Index Fund
- Vanguard High Growth Index Fund
- Vanguard Diversified Bond Index Fund



George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
31 August 2011

Statement of comprehensive income

For the year ended 30 June 2011

	Notes	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Investment income											
Distribution Income		26,398	5,020	35,984	6,892	52,790	8,412	29,928	3,854	11,313	–
Net gain/(loss) on financial instruments held at fair value through profit or loss	4	(8,192)	2,376	(12,452)	3,088	(15,820)	6,085	(5,317)	3,576	(9,459)	–
Other investment income		58	8	113	21	110	25	71	11	10	–
Total investment income/(loss)		18,264	7,404	23,645	10,001	37,080	14,522	24,682	7,441	1,864	–
Expenses											
Responsible Entity's fees	6	38	21	29	30	72	38	52	20	5	–
Other expenses		–	–	–	–	–	–	–	–	–	–
Total operating expenses		38	21	29	30	72	38	52	20	5	–
Operating profit/(loss)		18,226	7,383	23,616	9,971	37,008	14,484	24,630	7,421	1,859	–
Financing costs attributable to unitholders											
Distributions to unitholders	7	(26,401)	(5,032)	(36,070)	(6,876)	(52,868)	(8,405)	(30,004)	(3,835)	(11,320)	–
(Increase)/decrease in net assets attributable to unitholders	8(b)	8,175	(2,351)	12,454	(3,095)	15,860	(6,079)	5,374	(3,586)	9,461	–
Profit/(loss) for the year		–	–	–	–	–	–	–	–	–	–
Other comprehensive income		–	–	–	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	–	–	–	–	–	–	–

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

As at 30 June 2011

	Notes	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Assets											
Cash & cash equivalents	9	–	790	(2)	8	1	28	1	11	1	–
Receivables		9,848	1,260	16,751	2,378	24,881	3,546	12,720	1,777	11,313	–
Financial assets held at fair value through profit or loss	10	380,831	130,762	574,127	198,726	754,855	246,480	536,150	125,480	160,257	–
Other assets		1	1	1	1	2	1	2	1	–	–
Total assets		390,680	132,813	590,877	201,113	779,739	250,055	548,873	127,269	171,571	–
Liabilities											
Accounts payable		4	2	3	3	8	4	6	2	3	–
Distribution payable	7	11,123	1,355	17,778	2,437	25,065	3,571	12,788	1,772	11,320	–
Other liabilities		–	788	–	–	–	–	–	–	–	–
Total liabilities (excluding net assets attributable to unitholders)		11,127	2,145	17,781	2,440	25,073	3,575	12,794	1,774	11,323	–
Net assets attributable to unitholders (liability)	8(b)	379,553	130,668	573,096	198,673	754,666	246,480	536,079	125,495	160,248	–

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2011

Notes	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total equity at the beginning of the financial year	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-	-	-	-
Transactions with owners in their capacity as owners	-	-	-	-	-	-	-	-	-	-
Total equity at the end of the financial year	-	-	-	-	-	-	-	-	-	-

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the start or end of the year.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2011

	Notes	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
		2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities											
Proceeds from sale of financial assets designated at fair value through profit or loss		25,201	3,938	10,416	6,236	23,201	11,459	22,288	3,810	1,506	–
Purchases of financial assets designated at fair value through profit or loss		(265,652)	(47,397)	(376,658)	(103,269)	(515,941)	(125,133)	(419,291)	(59,815)	(171,223)	–
Other income		58	8	113	21	110	25	71	11	10	–
Responsible Entity's fees paid		(37)	(20)	(29)	(29)	(69)	(37)	(49)	(20)	(2)	–
Other expenses paid		–	–	–	–	–	–	–	–	–	–
Net cash outflows from operating activities	12(a)	(240,430)	(43,471)	(366,158)	(97,041)	(492,699)	(113,686)	(396,981)	(56,014)	(169,709)	–
Cash flows from financing activities											
Proceeds from applications by unitholders		286,948	53,004	427,476	122,666	570,648	147,752	447,212	71,185	172,675	–
Payments for redemptions by unitholders		(43,763)	(7,174)	(52,088)	(21,690)	(66,828)	(30,008)	(44,271)	(13,408)	(2,965)	–
Distributions paid		(3,545)	(1,570)	(9,240)	(3,926)	(11,148)	(4,031)	(5,970)	(1,756)	–	–
Net cash inflows from financing activities		239,640	44,260	366,148	97,050	492,672	113,713	396,971	56,021	169,710	–
Net increase/(decrease) in cash and cash equivalents		(790)	789	(10)	9	(27)	27	(10)	7	1	–
Cash and cash equivalents at the beginning of the year		790	1	8	(1)	28	1	11	4	–	–
Cash and cash equivalents at the end of the year	9	–	790	(2)	8	1	28	1	11	1	–

Non-cash financing activities 12(b)

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2011

1. General information

The Responsible Entity of the Vanguard Diversified Index Funds is Vanguard Investments Australia Ltd (the 'Responsible Entity'). The Responsible Entity's registered office is Level 34, Freshwater Place, 2 Southbank Boulevard, Southbank Vic 3006.

Vanguard Diversified Bond Index Fund was constituted on 7 December 2010 and will terminate on 7 December 2090 unless terminated earlier in accordance with the provisions of the Constitutions of the Fund. The other Funds were constituted on 30 July 2002 and will terminate on 30 July 2082 unless terminated earlier in accordance with the provisions of the Constitutions of the Funds.

The Funds invest in accordance with the investment policy of the Funds as set out in the current Product Disclosure Statement (PDS) and in accordance with the Constitutions of the Funds. The Funds seek to track the weighted average return of the various indices of the underlying Vanguard Wholesale Index Funds in which they invest, in proportion to their strategic asset allocation, before taking into account Fund fees and expenses.

The financial statements were authorised for issue by the directors on 31 August 2011. The directors of the Responsible Entity have the power to amend and reissue the financial report.

The financial report is presented in the Australian currency.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

This financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The balance sheet is presented on a liquidity basis.

Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliability determined.

Compliance with International Financial Reporting Standards

The financial report of the Funds also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Financial statement presentation

The Funds have applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Fund had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Financial instruments

(i) Classification

The Funds' investments are categorised as at fair value through profit or loss. They comprise:

These include derivative financial instruments including futures, forward contracts, options and interest rate swaps. All derivatives in a net receivable or payable position are shown gross and reported as either derivative financial assets or derivative financial liabilities. The Funds do not designate any derivatives as hedges in a hedging relationship.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

2. Summary of significant accounting policies *(continued)*

(b) Financial instruments *(continued)*

(i) Classification *(continued)*

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts, unlisted equity instruments and commercial paper.

Financial assets and financial liabilities designated at fair value through profit and loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Funds' documented investment strategy. The Funds' policy is for the responsible entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

The Funds recognise financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Funds have transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Funds measure a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Funds is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Funds recognise the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Further details on how the fair value of the financial instruments is determined are disclosed in Note 3(b).

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities as the Funds are required to distribute their taxable income. The units can be put back to the Funds at any time for cash equal to a proportionate share of the Funds' net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Funds. Because the Funds' redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the income statement as they arise.

(d) Cash and cash equivalents

For cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet. Futures margin deposit accounts are restricted cash balances and accordingly are not included in cash and cash equivalents.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Funds' main income generating activity.

(e) Investment income

Interest income and expenses are recognised in the income statement for all financial assets that are not

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

2. Summary of significant accounting policies *(continued)*

held at fair value through profit and loss using the effective interest method. Interest on assets held at fair value through profit and loss is included in the net gains/(losses) on financial assets. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b).

Dividend income is recognised on the ex-dividend date net of any related foreign withholding tax, but inclusive of reclaims that are yet to be received.

Trust distributions are recognised on an entitlements basis as the Funds are presently entitled to the distributable income of its investee trusts.

(f) Expenses

All expenses, including Responsible Entity's fees are recognised in the income statement on an accruals basis.

(g) Income tax

Under current legislation, the Funds are not subject to income tax provided the taxable income of the Funds are fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Funds).

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, the portion of the gain that is subject to capital gains tax will be distributed so that the Funds are not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Funds to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

The Funds currently incur withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the income statement.

(h) Distributions

In accordance with the Constitutions of the Funds, the Funds fully distribute their distributable income to unitholders by cash or reinvestment. Distributions payable are the amounts that the unitholders are presently entitled to as at 30 June 2011, but have not yet received. The distributions are payable at the end of September, December, March and June each year. Distributions are recognised in the income statement as finance costs attributable to unitholders.

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the income statement as finance costs.

(j) Foreign currency translation

(i) Functional and presentation currency
Items included in the Funds' financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Funds compete for funds and are regulated. The Australian dollar is also the Funds' presentation currency.

(k) Receivables

Receivables may include amounts for trust distributions. Trust distributions are accrued when the right to receive payment is established. Amounts are generally received within 30 days of being recorded as receivables.

(l) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheet as unitholders are presently entitled to the distributable income as at 30 June 2011 under the Constitutions of the Funds.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

2. Summary of significant accounting policies *(continued)*

(m) Applications and redemptions

Applications received for units in the Funds are recorded net of any entry fees payable prior to the issue of units in the Funds. Redemptions from the Funds are recorded gross of any exit fees payable after the cancellation of units redeemed. There are currently no entry or exit fees charged for the Funds.

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Responsible Entity by third parties such as audit fees, custodial services and Responsible Entity fees, have been passed onto the Funds. The Funds qualify for Reduced Input Tax Credits (RITC) at a rate of at least 75%, hence Responsible Entity fees, custodial fees and other expenses have been recognised in the income statement net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

(o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Funds) and interpretation is set below:

- (i) *AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 10 Amendments to Australia Accounting Standards arising from AASB 9* (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and deregulation of financial assets and financial liabilities. This standard is not applicable until 1 January 2013 but is available for early adoption.

AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Funds have not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact in the Funds' financial statements as the Funds do not hold any available-for-sale investments.

- (ii) *Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Funds will apply the amended standard from 1 July 2011. The amendments will not have any effect on the Funds' financial statements.

- (iii) *AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB issued AASB 2010-6 Disclosures on Transfers of Financial Assets which amends AASB 1 First-time Adoption on Australian Accounting and AASB 7 Financial Instruments: Disclosures to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Funds' disclosures. The Funds intend to apply the amendments from 1 July 2011.

- (iv) *Amendments to AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Projects* (effective for annual reporting periods beginning on or after 1 July 2010 / 1 July 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Funds do not expect that any adjustments will be necessary as the result of applying the revised rules.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

2. Summary of significant accounting policies *(continued)*

(p) Rounding of amounts

The Funds are registered schemes of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order, unless otherwise indicated.

3. Financial risk management

The Funds' activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Funds' overall risk management programme focuses on ensuring compliance with the Funds' Product Disclosure Statement and seeks to deliver investment returns which closely match the total returns of selected indexes. Financial risk management is carried out by the investment management department under the policies approved by the Board of Directors of the Responsible Entity.

(a) Market risk

(i) Price risk

The Funds are exposed to price risk whereby the future prices of the Funds' securities are uncertain.

In any asset sector the returns of individual securities are a combination of the market return and returns specific to each security. By diversifying their holdings across the market, index funds are generally well protected from the specific risk of individual securities. Their specific returns tend to cancel each other out leaving the index funds with the market returns and their associated risk. Vanguard employs an indexing investment strategy in all asset classes in which the Funds invest.

(ii) Foreign exchange risk

The international funds are exposed to foreign exchange risk as a result of investments in financial instruments denominated in foreign currencies. Fluctuations in the value of the Australian dollar and foreign currencies can affect the returns from overseas investments. This is because losses or gains must be converted back to Australian dollars.

The Funds have no significant direct exposure to foreign exchange risk. However, the Funds are indirectly exposed to foreign exchange risk via their investment strategy of investing in the Vanguard Wholesale Index Funds.

Of the Vanguard Wholesale Index Funds, the Vanguard International Shares Index Fund and Vanguard Emerging Markets Shares Index Fund do not hedge any of their exposure to foreign currencies. Accordingly, these Funds are affected by currency fluctuations.

The Vanguard International Fixed Interest Index Fund (Hedged), Vanguard International Credit Securities Index Fund (Hedged), Vanguard International Property Securities Index Fund (Hedged) and Vanguard International Small Companies Index Fund (Hedged) invest on a fully hedged basis (to Australian dollars), reducing their exposure to currency risk. Foreign currency exposure is accounted for by marking to market in a manner consistent with the valuation of the underlying securities.

(iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Funds have insufficient direct exposure to interest rate risk to be material. The Funds are indirectly exposed to interest rate risk via their investment strategy of investing in the Vanguard Wholesale Index Funds. All financial liabilities are non-interest bearing.

(b) Fair value estimation

The carrying amounts of the Funds' assets and liabilities at the balance sheet date approximate their fair values.

Financial assets and liabilities held at fair value through profit and loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit and loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(b) Fair value estimation *(continued)*

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Funds would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such funds.

(c) Credit risk

Credit risk is the risk that the Funds' trading counterparties become insolvent or cannot otherwise meet their obligations of the Funds in full when they fall due.

For Funds which invest in fixed interest and debt securities there is a credit risk. This is the risk that an issuer of a fixed interest or debt security may not meet its payment obligations to the Funds. The Responsible Entity seeks to minimise this risk by diversifying a Fund's holdings across issuers. There are no financial assets that are passed due or impaired.

For Funds which invest in forward exchange contracts there is risk associated with unrealised profits. This is generally a small proportion of the Fund's value.

Credit risk is most applicable to the funds with significant exposure to fixed interest and debt securities such as the Vanguard Conservative Index Fund, Vanguard Balanced Index Fund and Vanguard Diversified Bond Index Fund.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. There were no significant concentrations of credit risk to counterparties at 30 June 2011 or 30 June 2010.

(d) Liquidity risk

The Funds' approach to managing liquidity is to ensure that they will always have sufficient liquidity to meet their liabilities when due. Unitholders are able to withdraw their units at any time and the Funds are therefore exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Funds' financial instruments are predominantly investments in the Vanguard Wholesale Index Funds (VWIF), a group of unlisted unit trusts which are also managed by the Responsible Entity. The VWIF's financial instruments include investments in equity investments, fixed interest securities and derivative contracts traded over-the-counter. The VWIF's listed securities are considered to be readily realisable as they are all listed on major stock exchanges. The VWIF may use futures to gain market exposure without investing directly in the securities. This allows the VWIF to maintain liquidity without being under-invested in their respective investment policies. The derivatives are not used to leverage the VWIF's portfolio.

The following tables summarise the maturity profile of the Funds' financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Funds can be required to pay.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

	Vanguard Conservative Index Fund									
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	4	–	–	–	4	2	–	–	–	2
Distribution payable	11,123	–	–	–	11,123	1,355	–	–	–	1,355
Net assets attributable to unitholders	379,553	–	–	–	379,553	130,668	–	–	–	130,668
Total financial liabilities	390,680	–	–	–	390,680	132,025	–	–	–	132,025

	Vanguard Balanced Index Fund									
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	3	–	–	–	3	3	–	–	–	3
Distribution payable	17,778	–	–	–	17,778	2,437	–	–	–	2,437
Net assets attributable to unitholders	573,096	–	–	–	573,096	198,673	–	–	–	198,673
Total financial liabilities	590,877	–	–	–	590,877	201,113	–	–	–	201,113

	Vanguard Growth Index Fund									
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	8	–	–	–	8	4	–	–	–	4
Distribution payable	25,065	–	–	–	25,065	3,571	–	–	–	3,571
Net assets attributable to unitholders	754,666	–	–	–	754,666	246,480	–	–	–	246,480
Total financial liabilities	779,739	–	–	–	779,739	250,055	–	–	–	250,055

	Vanguard High Growth Index Fund									
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	6	–	–	–	6	2	–	–	–	2
Distribution payable	12,788	–	–	–	12,788	1,772	–	–	–	1,772
Net assets attributable to unitholders	536,079	–	–	–	536,079	125,495	–	–	–	125,495
Total financial liabilities	548,873	–	–	–	548,873	127,269	–	–	–	127,269

	Vanguard Diversified Bond Index Fund									
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	3	–	–	–	3	–	–	–	–	–
Distribution payable	11,320	–	–	–	11,320	–	–	–	–	–
Net assets attributable to unitholders	160,248	–	–	–	160,248	–	–	–	–	–
Total financial liabilities	171,571	–	–	–	171,571	–	–	–	–	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(e) Summarised sensitivity analysis

The following tables summarise the sensitivity of the Funds' operating profit to price risk. The reasonably possible movements in the price risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correction of the Funds' investments with the relevant benchmark and market volatility. However, actual movements in the price risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Funds invest. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

Price risk movement in the underlying sector represents the range of historical returns from the average return

minus one standard deviation to average return plus one standard deviation. For a normal distribution approximately two-thirds of the outcomes are expected to fall within plus or minus one standard deviation of the mean. Outcomes are expected to occur outside these ranges, approximately one-third of the time.

The Funds have a limited direct exposure to interest rate risk which is considered to be immaterial. The Funds do not have direct exposure to foreign exchange risk. However, the Funds have an indirect exposure to interest rate risk and foreign exchange rate risk via their investments in Vanguard Wholesale Index Funds. No sensitivity analysis tables for interest rate risk and foreign exchange risk have been prepared on the look through basis.

	Carrying amount \$'000	Price risk movement in underlying sector %	Impact on operating profit	
			Low \$'000	High \$'000
Vanguard Conservative Index Fund				
30 June 2011				
Asset Sector : Cash	162,239	+0% to +7%	–	11,357
Asset Sector : Fixed interest	101,499	–2% to +11%	(2,030)	11,165
Asset Sector : Australian shares	59,644	–10% to +23%	(5,964)	13,718
Asset Sector : International shares	43,205	–16% to +27%	(6,913)	11,665
Asset Sector : Property securities	14,244	–18% to +26%	(2,564)	3,703
30 June 2010				
Asset Sector : Cash	55,338	+0% to +7%	–	3,874
Asset Sector : Fixed interest	36,371	–1% to +10%	(364)	3,637
Asset Sector : Australian shares	19,896	–11% to +24%	(2,189)	4,775
Asset Sector : International shares	14,225	–26% to +27%	(3,699)	3,841
Asset Sector : Property securities	4,932	–28% to +25%	(1,381)	1,233
Vanguard Balanced Index Fund				
30 June 2011				
Asset Sector : Cash	127,079	+0% to +7%	–	8,896
Asset Sector : Fixed interest	153,540	–2% to +11%	(3,071)	16,889
Asset Sector : Australian shares	143,275	–10% to +23%	(14,328)	32,953
Asset Sector : International shares	116,051	–16% to +27%	(18,568)	31,334
Asset Sector : Property securities	34,182	–18% to +26%	(6,153)	8,887
30 June 2010				
Asset Sector : Cash	44,199	+0% to +7%	–	3,094
Asset Sector : Fixed interest	55,673	–1% to +10%	(557)	5,567
Asset Sector : Australian shares	48,353	–11% to +24%	(5,319)	11,605
Asset Sector : International shares	39,525	–26% to +27%	(10,277)	10,672
Asset Sector : Property securities	10,976	–28% to +25%	(3,073)	2,744

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(e) Summarised sensitivity analysis *(continued)*

	Carrying amount	Price risk movement in underlying sector	Impact on operating profit	
	\$'000	%	Low	High
	\$'000		\$'000	\$'000
Vanguard Growth Index Fund				
30 June 2011				
Asset Sector : Cash	15,193	+0% to +7%	–	1,064
Asset Sector : Fixed interest	201,613	–2% to +11%	(4,032)	22,177
Asset Sector : Australian shares	265,159	–10% to +23%	(26,516)	60,987
Asset Sector : International shares	215,284	–16% to +27%	(34,445)	58,127
Asset Sector : Property securities	57,606	–18% to +26%	(10,369)	14,978
30 June 2010				
Asset Sector : Cash	5,019	+0% to +7%	–	351
Asset Sector : Fixed interest	69,632	–1% to +10%	(696)	6,963
Asset Sector : Australian shares	82,647	–11% to +24%	(9,091)	19,835
Asset Sector : International shares	70,045	–26% to +27%	(18,212)	18,912
Asset Sector : Property securities	19,137	–28% to +25%	(5,358)	4,784
Vanguard High Growth Index Fund				
30 June 2011				
Asset Sector : Fixed interest	51,693	–2% to +11%	(1,034)	5,686
Asset Sector : Australian shares	240,919	–10% to +23%	(24,092)	55,411
Asset Sector : International shares	192,013	–16% to +27%	(30,722)	51,844
Asset Sector : Property securities	51,525	–18% to +26%	(9,275)	13,397
30 June 2010				
Asset Sector : Fixed interest	12,827	–1% to +10%	(128)	1,283
Asset Sector : Australian shares	55,559	–11% to +24%	(6,111)	13,334
Asset Sector : International shares	45,079	–26% to +27%	(11,721)	12,171
Asset Sector : Property securities	12,015	–28% to +25%	(3,364)	3,004
Vanguard Diversified Bond Index Fund				
30 June 2011				
Asset Sector : Fixed interest	160,257	–2% to +11%	(3,205)	17,628
30 June 2010				
Asset Sector : Fixed interest	–	–	–	–

(f) Fair value hierarchy

The table on the following page analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

proprietary, and provided by independent sources that are actively involved in the relevant market.

The determination of what constitutes 'observable' requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(f) Fair value hierarchy *(continued)*

	Vanguard Conservative Index Fund				Vanguard Balanced Index Fund			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Financial assets designated at fair value through profit or loss:								
Unlisted Unit Trusts	–	380,831	–	380,831	–	574,127	–	574,127
Total	–	380,831	–	380,831	–	574,127	–	574,127

	Vanguard Conservative Index Fund				Vanguard Balanced Index Fund			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Financial assets designated at fair value through profit or loss:								
Unlisted Unit Trusts	–	130,762	–	130,762	–	198,726	–	198,726
Total	–	130,762	–	130,762	–	198,726	–	198,726

	Vanguard Growth Index Fund				Vanguard Growth Index Fund				Vanguard Growth Index Fund			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets												
Financial assets designated at fair value through profit or loss:												
Unlisted Unit Trusts	–	754,855	–	754,855	–	536,150	–	536,150	–	160,257	–	160,257
Total	–	754,855	–	754,855	–	536,150	–	536,150	–	160,257	–	160,257
30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets												
Financial assets designated at fair value through profit or loss:												
Unlisted Unit Trusts	–	246,480	–	246,480	–	125,480	–	125,480	–	–	–	–
Total	–	246,480	–	246,480	–	125,480	–	125,480	–	–	–	–

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts, exchange traded derivatives, US government treasury bills and certain non-US sovereign obligations.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing

sources supported by observable inputs are classified within level 2. These include, investment-grade corporate bonds and certain non-US sovereign obligations, certain listed equities, certain unlisted unit trusts, and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

4. Net gains/(losses) on financial assets designated at fair value through profit or loss

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net unrealised gain/(loss) on financial assets designated at fair value through profit or loss	(8,675)	1,888	(12,705)	2,630	(16,609)	5,480	(5,615)	3,327	(9,468)	–
Net realised gain/(loss) on financial assets designated at fair value through profit or loss	483	488	253	458	789	605	298	249	9	–
Total net gain/(loss) on financial assets designated at fair value through profit or loss	(8,192)	2,376	(12,452)	3,088	(15,820)	6,085	(5,317)	3,576	(9,459)	–

5. Auditor's remuneration

The auditor's remuneration is borne by the Responsible Entity. Other services include the audit of the Compliance Plans and Internal Controls Report (GS 007).

During the year, the following fees were paid and payable for services provided by the auditor of the Funds.

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Auditor's remuneration										
– for auditing the financial statements	10,142	10,500	10,142	10,500	10,142	10,500	10,142	10,500	10,649	–
– other services	6,303	6,841	6,303	6,841	6,303	6,841	6,303	6,841	4,108	–

6. Responsible Entity's fees

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Responsible Entity's fees incurred by the Funds	38	21	29	30	72	38	52	20	5	–
Management costs per annum	0.33%	0.33%	0.34%	0.34%	0.36%	0.36%	0.37%	0.37%	0.34%	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

7. Distributions paid and payable

	Vanguard Conservative Index Fund				Vanguard Balanced Index Fund			
	2011		2010		2011		2010	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Interim distributions paid	15,278	4.6355	3,677	3.5587	18,292	4.7269	4,439	3.1878
Distribution payable – 30 June	11,123	2.9821	1,355	1.0604	17,778	3.3517	2,437	1.3181
	26,401	7.6176	5,032	4.6191	36,070	8.0786	6,876	4.5059

	Vanguard Growth Index Fund				Vanguard High Growth Index Fund				Vanguard Diversified Bond Index Fund			
	2011		2010		2011		2010		2011		2010	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Interim distributions paid	27,803	4.4749	4,834	2.5906	17,216	4.0759	2,063	2.2452	–	–	–	–
Distribution payable – 30 June	25,065	3.4710	3,571	1.4936	12,788	2.6703	1,772	1.5232	11,320	6.6729	–	–
	52,868	7.9459	8,405	4.0842	30,004	6.7462	3,835	3.7684	11,320	6.6729	–	–

8. Net assets attributable to unitholders

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
(a) Units on issue										
Opening balance	127,810	82,000	184,863	92,251	239,065	127,184	116,306	64,312	–	–
Applications	273,475	50,958	381,831	111,366	525,940	138,879	389,899	63,448	172,575	–
Distributions reinvested	12,557	2,512	10,324	896	18,667	1,218	11,289	498	–	–
Redemptions	(40,870)	(7,660)	(46,595)	(19,650)	(61,526)	(28,216)	(38,574)	(11,952)	(2,938)	–
Closing balance	372,972	127,810	530,423	184,863	722,146	239,065	478,920	116,306	169,637	–
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(b) Net assets attributable to unitholders										
Opening balance	130,668	80,674	198,673	93,610	246,480	121,347	125,495	63,566	–	–
Applications	286,947	53,004	427,476	122,666	570,648	147,752	447,212	71,185	172,674	–
Distributions reinvested	13,089	2,601	11,489	992	20,225	1,310	13,017	566	–	–
Redemptions	(42,976)	(7,962)	(52,088)	(21,690)	(66,827)	(30,008)	(44,271)	(13,408)	(2,965)	–
Increase/(decrease) in net assets attributable to unitholders	(8,175)	2,351	(12,454)	3,095	(15,860)	6,079	(5,374)	3,586	(9,461)	–
Closing balance	379,553	130,668	573,096	198,673	754,666	246,480	536,079	125,495	160,248	–

(a) Each unit represents a right to an individual share in the Funds and does not extend to a right to the underlying assets of the Funds. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Funds.

(b) Movements in the number of units and net assets attributable to unitholders are stipulated within the Constitutions of the Funds.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

8. Net assets attributable to unitholders *(continued)*

Capital risk management

The Funds manage their net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Funds are subject to daily applications and redemptions at the discretion of the unitholders.

The net liquid assets include cash and cash equivalents, financial assets designated at fair value through profit and loss, receivables and payables with a maturity of less than 30 days.

The ratio of net liquid assets to net applications/ (redemptions) at end of reporting periods are as follows:

The Funds monitor the level of daily applications and redemptions relative to the net liquid assets in the Funds.

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bonds Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Average daily net applications/(redemptions)	972	179	1,496	402	2,007	469	1,605	230	676	–
Net liquid assets of the fund	379,553	130,668	573,096	198,673	754,666	246,480	536,079	125,495	160,248	–
Net assets attributable to unitholders (NAATU)	379,553	130,668	573,096	198,673	754,666	246,480	536,079	125,495	160,248	–
Ratio of net liquid assets to NAATU	100%	100%	100%	100%	100%	100%	100%	100%	100%	–

9. Cash and cash equivalents

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bonds Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash at bank	–	790	(2)	8	1	28	1	11	1	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

10. Financial assets held at fair value through profit or loss

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000
Designated at fair value through profit or loss										
Unlisted unit trusts	380,831	130,762	574,127	198,726	754,855	246,480	536,150	125,480	160,257	–
Total designated at fair value through profit or loss	380,831	130,762	574,127	198,726	754,855	246,480	536,150	125,480	160,257	–
Total financial assets held at fair value through profit or loss	380,831	130,762	574,127	198,726	754,855	246,480	536,150	125,480	160,257	–
Comprising:										
Unlisted Unit Trusts										
Units in Cash trusts	162,239	55,338	127,079	44,199	15,193	5,019	–	–	–	–
Units in Fixed interest trusts	101,499	36,371	153,540	55,673	201,613	69,632	51,693	12,827	160,257	–
Units in Australian shares trusts	59,644	19,896	143,275	48,353	265,159	82,647	240,919	55,559	–	–
Units in International shares trusts	43,205	14,225	116,051	39,525	215,284	70,045	192,013	45,079	–	–
Units in Property securities trusts	14,244	4,932	34,182	10,976	57,606	19,137	51,525	12,015	–	–
Total Unlisted Unit Trusts	380,831	130,762	574,127	198,726	754,855	246,480	536,150	125,480	160,257	–
Total financial assets held at fair value through profit or loss	380,831	130,762	574,127	198,726	754,855	246,480	536,150	125,480	160,257	–

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 3.

11. Related parties

Responsible Entity

The Responsible Entity of the Vanguard Diversified Index Funds is Vanguard Investments Australia Ltd (ABN 72 072 881 086 AFSL 227263), which is a wholly owned subsidiary of The Vanguard Group, Inc.

(a) Key management personnel

The Funds do not employ personnel in their own right. However the Funds are required to have an incorporated Responsible Entity to manage the activities of the Funds and this is considered the Key Management Personnel.

(i) Directors

The directors of the Responsible Entity are key management personnel of that entity and their names are as follows:

J G Duffield – resigned 31 December 2010

J H Wily – resigned 31 December 2010

J M Norris

G W Reed

J P Brennan

K A Watt

J M James

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

11. Related parties *(continued)*

(a) Key management personnel *(continued)*

(ii) Key management personnel compensation

The Responsible Entity is entitled to receive a management fee as detailed in note 11(b) below. Payments made from the Funds to the Responsible Entity do not include any amounts directly attributable to the compensation of the directors of the Responsible Entity.

No compensation is paid to directors or directly by the Funds to any of the key management personnel of the Responsible Entity.

(iii) Key management personnel loan disclosures

The Funds have not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(iv) Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time Vanguard Investments Australia Ltd or its director related entities may invest in or withdraw from the Funds. These investments or withdrawals are on the same terms and conditions as those entered into by other Funds' investors and are trivial and domestic in nature.

(b) Responsible entity's fees and other transactions

Under the Constitution for each Fund, the Responsible Entity is entitled to receive management fees up to the following limit:

up to 1.5% per annum of the net asset value of each Fund.

The above limits do not take into account Goods and Services Tax (GST).

The Constitutions of the Funds also allow recoverable expenses borne by the Responsible Entity to be recovered from the assets of the relevant funds.

In the current PDS for the Funds, the Responsible Entity has undertaken to limit the amount of its fees and certain expense recoveries to a 'management cost' specified for each Fund. Where the Funds invest in other Funds managed by the Responsible Entity, the Responsible Entity receives fees and expenses recoveries paid from the assets of the relevant underlying Funds. However, the total of the fees and relevant recoverable expenses received by the Responsible Entity (out of the assets of a Fund and the relevant underlying Funds) do not exceed the management cost specified in the PDS.

The following table sets out the total Responsible Entity fee and recoverable expenses deducted in respect of each Fund, including the management costs deducted directly from each Fund and the management costs deducted from the relevant underlying Funds. The amounts shown take into account GST and expected reduced input tax credits.

Note that the table does not take into account rebates paid by the Responsible Entity (out of the Responsible Entity's own assets) to particular investors in accordance with the Corporations Act, relevant ASIC class orders and policy and the PDS for the Funds.

	Total management cost		Management cost deducted directly from the Fund		Management cost deducted from underlying Funds	
	2011	2010	2011	2010	2011	2010
	% per annum	% per annum	% per annum	% per annum	% per annum	% per annum
Vanguard Conservative Index Fund	0.33	0.33	0.02	0.02	0.31	0.31
Vanguard Balanced Index Fund	0.34	0.34	0.02	0.02	0.32	0.32
Vanguard Growth Index Fund	0.36	0.36	0.02	0.02	0.34	0.34
Vanguard High Growth Index Fund	0.37	0.37	0.02	0.02	0.35	0.35
Vanguard Diversified Bond Index Fund	0.34	–	0.02	–	0.32	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

11. Related parties *(continued)*

(b) Responsible entity's fees and other transactions *(continued)*

The transactions during the year and amounts payable at year end between the Funds and the Responsible Entity were as follows:

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Fees paid and payable for the year by the Funds to the Responsible Entity	38	21	29	30	72	38	52	20	5	–
Fees earned by the Responsible Entity in respect of investments by the Funds in other schemes managed by the Responsible Entity *	586	327	460	473	1,221	651	905	357	77	–
Aggregate amounts payable to the Responsible Entity at the reporting date	4	2	3	3	8	4	6	2	3	–

* Where monies are invested into other Funds managed by the Responsible Entity, the responsible Entity fee is calculated taking into account the fees charged in the underlying Funds.

(c) Related party schemes' unitholdings

Vanguard Investments Australia Ltd held no units in any of the Funds.

(d) Key management personnel unitholdings

The key management personnel of Vanguard Investments Australia Ltd held no units in any of the Funds.

(e) Other transactions within the Funds

Apart from those details disclosed in this note, no key management personnel of the Responsible Entity has entered into a material contract with the Funds since the end of the previous financial year and there were no material contracts involving directors' interest subsisting at year end.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

11. Related parties *(continued)*

(f) Related Party investments

The Funds had no investment in Vanguard Investments Australia Ltd (VIA) during the year.

The Funds held investments in other Schemes managed by VIA during the year as indicated in the tables below:

	Net fair value of investments		Interest held at 30 June		Distributions received/receivable		Distributions receivable which remain unpaid at	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	%	%	\$'000	\$'000	\$'000	\$'000
Investments by:								
Vanguard Conservative Index Fund								
In other schemes managed by VIA:								
Vanguard Cash Plus Index Fund	162,239	55,338	31.86	13.78	7,365	2,081	515	116
Vanguard Australian Fixed Interest Index Fund	42,153	14,381	1.36	0.51	2,156	715	612	238
Vanguard International Fixed Interest Index Fund (Hedged)	38,518	13,471	1.20	0.37	7,200	516	4,091	222
Vanguard International Credit Securities Index Fund (Hedged)	20,828	8,519	4.59	1.83	4,149	556	2,523	114
Vanguard Australian Property Securities Index Fund	7,328	2,620	0.30	0.12	369	148	111	53
Vanguard International Property Securities Index Fund (Hedged)	6,916	2,312	0.88	0.34	1,756	148	869	148
Vanguard International Small Companies Index Fund (Hedged)	3,193	1,398	3.14	1.39	740	–	514	–
Vanguard Australian Shares Index Fund	59,644	19,896	1.01	0.39	2,032	646	346	226
Vanguard International Shares Index Fund	40,012	12,827	0.53	0.20	631	210	267	143

	Net fair value of investments		Interest held at 30 June		Distributions received/receivable		Distributions receivable which remain unpaid at	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	%	%	\$'000	\$'000	\$'000	\$'000
Investments by:								
Vanguard Balanced Index Fund								
In other schemes managed by VIA:								
Vanguard Cash Plus Index Fund	127,079	44,199	24.95	11.01	4,837	1,552	403	92
Vanguard Australian Fixed Interest Index Fund	64,472	21,801	2.08	0.77	2,796	1,029	937	361
Vanguard International Fixed Interest Index Fund (Hedged)	57,409	20,670	1.78	0.57	10,131	788	6,098	341
Vanguard International Credit Securities Index Fund (Hedged)	31,659	13,202	6.97	2.84	6,048	834	3,835	176
Vanguard Australian Property Securities Index Fund	18,133	5,475	0.74	0.26	776	308	275	110
Vanguard International Property Securities Index Fund (Hedged)	16,049	5,501	2.04	0.80	3,663	353	2,015	353
Vanguard International Small Companies Index Fund (Hedged)	10,281	3,618	10.10	3.61	2,222	–	1,654	–
Vanguard Australian Shares Index Fund	143,275	48,353	2.42	0.95	3,998	1,463	831	550
Vanguard International Shares Index Fund	100,167	33,894	1.33	0.53	1,433	544	668	379
Vanguard Emerging Markets Shares Index Fund	5,603	2,013	0.71	0.23	80	21	35	16

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

11. Related parties *(continued)*

(f) Related Party investments *(continued)*

	Net fair value of investments		Interest held at 30 June		Distributions received/receivable		Distributions receivable which remain unpaid at	
	2011	2010	2011	2010	2011	2010	2011	2010
Investments by:	\$'000	\$'000	%	%	\$'000	\$'000	\$'000	\$'000
Vanguard Growth Index Fund								
In other schemes managed by VIA:								
Vanguard Cash Plus Index Fund	15,193	5,019	2.98	1.25	664	181	48	10
Vanguard Australian Fixed Interest Index Fund	83,599	27,269	2.70	0.96	4,200	1,340	1,215	451
Vanguard International Fixed Interest Index Fund (Hedged)	76,856	26,652	2.39	0.74	14,294	1,025	8,163	440
Vanguard International Credit Securities Index Fund (Hedged)	41,158	15,711	9.07	3.38	8,255	1,062	4,985	210
Vanguard Australian Property Securities Index Fund	29,863	9,478	1.23	0.45	1,444	551	453	191
Vanguard International Property Securities Index Fund (Hedged)	27,743	9,659	3.53	1.41	6,893	620	3,484	620
Vanguard International Small Companies Index Fund (Hedged)	23,110	7,485	22.71	7.47	5,092	–	3,718	–
Vanguard Australian Shares Index Fund	265,159	82,647	4.48	1.62	8,895	2,645	1,539	940
Vanguard International Shares Index Fund	178,665	57,959	2.37	0.90	2,819	936	1,192	647
Vanguard Emerging Markets Shares Index Fund	13,509	4,601	1.71	0.52	234	52	84	37

	Net fair value of investments		Interest held at 30 June		Distributions received/receivable		Distributions receivable which remain unpaid at	
	2011	2010	2011	2010	2011	2010	2011	2010
Investments by:	\$'000	\$'000	%	%	\$'000	\$'000	\$'000	\$'000
Vanguard High Growth Index Fund								
In other schemes managed by VIA:								
Vanguard Australian Fixed Interest Index Fund	22,064	5,056	0.71	0.18	1,130	264	321	84
Vanguard International Fixed Interest Index Fund (Hedged)	19,305	4,881	0.60	0.14	3,635	189	2,051	80
Vanguard International Credit Securities Index Fund (Hedged)	10,324	2,890	2.27	0.62	2,080	200	1,251	39
Vanguard Australian Property Securities Index Fund	26,336	6,033	1.08	0.28	1,327	355	399	121
Vanguard International Property Securities Index Fund (Hedged)	25,189	5,982	3.20	0.87	6,232	384	3,162	384
Vanguard International Small Companies Index Fund (Hedged)	18,570	4,923	18.25	4.91	4,376	–	2,987	–
Vanguard Australian Shares Index Fund	240,919	55,559	4.07	1.09	8,332	1,817	1,398	632
Vanguard International Shares Index Fund	158,216	36,568	2.10	0.57	2,548	604	1,056	408
Vanguard Emerging Markets Shares Index Fund	15,227	3,588	1.93	0.40	268	41	95	29

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

11. Related parties *(continued)*

(f) Related Party investments *(continued)*

	Net fair value of investments		Interest held at 30 June		Distributions received/receivable		Distributions receivable which remain unpaid at	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	%	%	\$'000	\$'000	\$'000	\$'000
Investments by:								
Vanguard Diversified Bond Index Fund								
In other schemes managed by VIA:								
Vanguard Australian Fixed Interest Index Fund	67,683	–	2.18	–	983	–	983	–
Vanguard International Fixed Interest Index Fund (Hedged)	59,287	–	1.84	–	6,298	–	6,298	–
Vanguard International Credit Securities Index Fund (Hedged)	33,287	–	7.33	–	4,032	–	4,032	–

Vanguard Personal Superannuation Plan, which is another scheme managed by Vanguard Investments Australia Ltd held investments in the Funds during the year as indicated:

	Number of units held		Interest held at 30 June		Number of units acquired		Number of units disposed		Distributions paid/payable by the funds	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			%	%					\$'000	\$'000
Investments in:										
Vanguard Conservative Index Fund	2,209,240	1,132,514	0.59	0.89	1,342,946	571,500	266,220	33,758	157,551	33,800
Vanguard Balanced Index Fund	5,226,637	5,379,690	0.99	2.91	1,851,658	2,700,430	2,004,711	487,432	477,926	211,111
Vanguard Growth Index Fund	6,236,770	3,815,962	0.86	1.60	2,788,399	1,500,276	367,591	1,615,771	398,760	164,488
Vanguard High Growth Index Fund	820,449	495,890	0.17	0.43	338,791	186,243	14,232	1,364,206	48,825	17,165

12. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit/(loss) for the year	–	–	–	–	–	–	–	–	–	–
Increase/(decrease) in net assets attributable to unitholders	(8,175)	2,351	(12,454)	3,095	(15,860)	6,079	(5,374)	3,586	(9,461)	–
Distributions paid and payable	26,401	5,032	36,070	6,876	52,868	8,405	30,004	3,835	11,320	–
Proceeds from sale of financial assets designated at fair value through profit or loss	25,201	3,938	10,416	6,236	23,201	11,459	22,288	3,810	1,506	–
Purchases of financial assets designated at fair value through profit or loss	(265,652)	(47,397)	(376,658)	(103,269)	(515,941)	(125,133)	(419,291)	(59,815)	(171,223)	–
Net (gains)/losses on financial assets designated at fair value through profit or loss	8,192	(2,376)	12,452	(3,088)	15,820	(6,085)	5,317	(3,576)	9,459	–
Net change in dividends/distribution receivable	(8,588)	(976)	(14,372)	(2,025)	(21,336)	(3,054)	(10,944)	(1,517)	(11,313)	–
Net change in accounts payables	2	1	–	1	4	2	4	1	3	–
Non-cash item (reinvestment of distribution income)	(17,811)	(4,044)	(21,612)	(4,867)	(31,455)	(5,359)	(18,985)	(2,338)	–	–
Net cash inflow/(outflow) from operating activities	(240,430)	(43,471)	(366,158)	(97,041)	(492,699)	(113,686)	(396,981)	(56,014)	(169,709)	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

12. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities *(continued)*

(b) Non-cash financing and investing activities

	Vanguard Conservative Index Fund		Vanguard Balanced Index Fund		Vanguard Growth Index Fund		Vanguard High Growth Index Fund		Vanguard Diversified Bond Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	13,089	2,601	11,489	992	20,225	1,310	13,017	566	–	–

As described in note 2(h), non-distributable income is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (i.e. taxable).

13. Segment information

The Funds are organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no segment reporting is provided in the Funds' financial statements.

Geographical segment

The Funds operate in Australia and all directly held assets are Australian. The Funds may hold exposure to other geographical segments through investments in unlisted trusts.

There are no required disclosures, as the financial statements have been prepared on the basis of the Funds direct investments, all of which are 100% in Australia, and not on a look through basis for investments held indirectly through unit trusts.

14. Events occurring after the balance sheet date

There are no significant events that have occurred since balance date which would impact on the financial position of the Funds as disclosed in the balance sheet as at 30 June 2011 or on the results and cashflows of the Funds for the year ended on that date.

Investors should be aware that markets and currencies can be volatile, therefore affecting the returns of an investment portfolio. You can obtain up to date fund performance and unit price information by visiting the Vanguard website at www.vanguard.com.au.

15. Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2011 and 30 June 2010 for the Funds.

Directors' Declaration

In the opinions of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 8 to 31 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of each Fund's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and

- (b) there are reasonable grounds to believe that each Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



J M James
Managing Director
Melbourne
31 August 2011

Independent auditor's report to the unitholders of the Vanguard Diversified Index Funds:

- Vanguard Conservative Index Fund
- Vanguard Balanced Index Fund
- Vanguard Growth Index Fund
- Vanguard High Growth Index Fund
- Vanguard Diversified Bond Index Fund

Report on the financial report

We have audited the accompanying financial report of Vanguard Diversified Index Funds (the 'Funds'), which comprises the balance sheet as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year/period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Funds.

Directors' responsibility for the financial report

The directors of the Responsible Entity for the Funds are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

**Independent auditor's report to the unitholders of
the Vanguard Diversified Index Funds: (continued)**

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Vanguard Diversified Index Funds is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Funds' financial position as at 30 June 2011 and of its performance for the year/period ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of the Funds for the year/period ended 30 June 2011 included on Vanguard Investments Australia Ltd ('VIA') web site. The VIA directors are responsible for the integrity of the VIA web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.



PricewaterhouseCoopers



George Sagonas
Partner

Melbourne
31 August 2011

Vanguard Investments Australia Ltd is the issuer of this Annual Report and interests in the Funds. We have not taken your circumstances into account when preparing the Annual Report so it may not be applicable to your circumstances. You should consider your circumstances and our Product Disclosure Statement (PDS) before making any investment decision. You can access our PDS at www.vanguard.com.au or by calling 1300 655 102. Past performance is not an indication of future performance. Investments are not guaranteed and may rise or fall in value.

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