Investing with Vanguard®

Vanguard INVESTMENTS®

INDEXING APPROACH SECTOR
LOW FEES ETFS TAX EFFIENCY
INVESTORS TRANSPARENCY
ENDURING PLAIN TALK COSTS
EFFICIENCY STRATEGY ASSET
ASSET CLASSES INVESTMENT
PORTFOLIO RETURNS FOCUS
CORE-SATELLITE LONG-TERM
MARKET RETURNS INDEXING
LOW COSTS PERFORMANCE
DIVERSIFICATION SPECIALIST

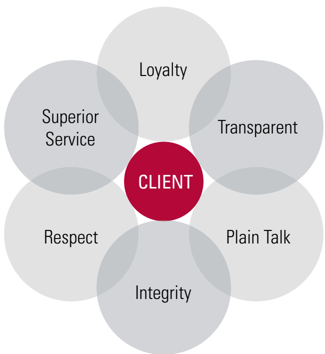
> **“**Most investors will find that the best way to own common stocks (shares) is through an index fund that charges minimal fees. Those following this path are sure to beat the net results, after fees and expenses, of the great majority of investment professionals.**”**

WARREN BUFFETT
Source: Berkshire Hathaway Inc. Chairman's Letter, 1996.

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 with a commitment to champion what's best for investors by offering outstanding performance and service, while keeping costs as low as possible.

Over the years Vanguard has built a reputation as a global leader in client advocacy and earned the trust of millions of investors along the way. Since our establishment in 1975 our sole purpose has been to align our interest with those of our investors to ensure the best outcome is achieved.



Vanguard Investments Australia Ltd (Vanguard) was established in 1996 and today is a leading fund manager with more than A$81 billion* in funds under management. Vanguard Investments Australia is part of the Vanguard Group Inc (US), one of the world's largest investment managers with over A$1.5 trillion in funds under management and more than 23 million institutional and personal investor accounts.

What is indexing?

An index is a group of securities designed to represent a broad market or a portion of the broad market. Today there are indices measuring the investment results of all major markets and asset classes.

An index fund or an exchange traded fund (ETF) invests in all or a representative sample of the securities of the index it tracks.

An indexing approach will ensure portfolio performance is broadly in line with the returns of the underlying asset class or market over the long-term.

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 the most important investment decision is strategic asset allocation—that is, the mix of equities, fixed interest, property and cash within a portfolio. Historically asset allocation has accounted for up to 94 per cent of the variation in long term investment performance, with market timing and security selection having minimal impact over time^.
3. **Invest for the long-term.**
   A sound investment approach should start with asset allocation with consideration to the time horizon of the investment objective.
4. **Maintain portfolio diversification.**
   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.

Percentage of managed funds outperformed by the index*

Fund Category	Comparison Index	3 months	1 year	3 years	5 years
Australian Shares	S&P/ASX 200 Accumulation Index	57.8	50.8	49.4	62.9
Australian Shares Small Cap	S&P/ASX Small Ordinaries Index	30.3	38.8	27.0	39.6
International Shares	MSCI World ex-Australia Index	49.0	24.1	62.6	68.9
Australian Bonds	UBS Composite Bond Index 0+Y	25.0	16.7	87.1	89.7
Australian Equities (A-REIT)	S&P/ASX 200 A-REIT Index	31.4	21.1	52.2	62.7

*Source: S&P SPIVA report, 31 December 2009.

Key benefits of indexing

Low management costs

When compounded over time, management costs and fund expenses can significantly detract from the overall performance of a fund. An index fund typically has low management costs due to the efficient manner in which it operates.

Low transaction costs

Index funds generally have low portfolio turnover as they tend to 'buy and hold' securities for longer periods to track the index. Efficient portfolio management results in low ongoing transaction costs, such as brokerage, commissions, stamp duty, custody and other expenses associated with trading securities.

Tax efficiency

An index management approach minimises portfolio turnover which means investors get the advantage of available capital gains tax concessions. The compounding effect of having more money invested rather than paid out as taxable income is a distinct advantage over the long term.

Diversification

An index fund gives investors access to a broad spread of securities that make up a market index. Portfolio diversification means less exposure to the performance fluctuations of individual securities, moderating overall volatility.

Transparency

An index fund is designed to track an index and therefore allows greater control and transparency over a portfolio's risks.

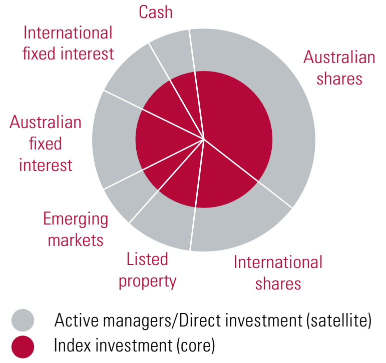
Competitive long-term performance

Vanguard's index funds provide investors an efficient way to capture long-term market performance#.

The table above compares the performance of Australian managed funds against the associated index benchmark. The results indicate that over a 5 year horizon, benchmarks have outperformed the majority of actively managed funds across equity, bonds and property fund categories.

Core-satellite approach

The core-satellite approach uses index funds as the 'core' or foundation of a portfolio and lowly correlated active funds or direct shares as 'satellites' to deliver risk and return benefits to client portfolios. The low cost, tax efficient and broad diversification characteristics of index funds provide a foundation for client portfolios that will deliver market returns. Once the core allocation is in place, active satellites can be chosen that tilt a portfolio towards a particular sector or style with the objective of achieving outperformance.



Note: Asset allocations in this diagram are intended to be an example only and not a recommendation

We strive for the best execution

Vanguard has developed and refined portfolio construction methodologies, trading strategies, and computer models that help efficiently manage cash flows, while maintaining close correlations with index benchmarks. Our expertise in managing portfolio efficiencies ensures costs are minimised.

Past performance is not an indicator of future performance. Vanguard's index funds are designed to closely track market returns before fees, expenses and taxes. Investments are not guaranteed and may rise or fall in value.

Vanguard's range of managed funds and ETFs

Vanguard offers a complete range of index funds across all asset classes that can be used as a diversified standalone portfolio solution, or in conjunction with active funds as part of a core-satellite approach.

Managed funds

- Vanguard® Australian Shares Index Fund
- Vanguard® Australian Shares High Yield Fund
- Vanguard® Sustainability Leaders Australian Shares Fund
- Vanguard® International Shares Index Fund**
- Vanguard® Sustainability Leaders International Shares Fund
- Vanguard® International Small Companies Index Fund**
- Vanguard® Emerging Markets Shares Index Fund
- Vanguard® Australian Property Securities Index Fund
- Vanguard® International Property Securities Index Fund**
- Vanguard® Global Infrastructure Fund
- Vanguard® Australian Government Bond Index Fund
- Vanguard® Australian Fixed Interest Index Fund
- Vanguard® International Fixed Interest Index Fund (Hedged)
- Vanguard® International Credit Securities Index Fund (Hedged)
- Vanguard® Cash Reserve Fund
- Vanguard® Cash Plus Index Fund

- Vanguard® Conservative Index Fund
- Vanguard® Balanced Index Fund
- Vanguard® Growth Index Fund
- Vanguard® High Growth Index Fund

Exchange traded funds

- Australian Shares
- US Shares
- International Shares

1975-2010

Vanguard Group through the years

1975 14 funds, 47 crew, 372,648 shareholder accounts.	1975: Vanguard begins operations May 1, 1975. John C. Bogle is founder, chairman and CEO. We have 28 employees, 11 funds and $1.8 billion in net assets. 1976: First index mutual fund becomes available to individual investors. 1978: Net cash flow turns positive.
1980 20 funds, 167 crew, 362,596 shareholder accounts.	1980: Annual sales surpass $1 billion. 1981: Ship logo adopted. 1983: Brokerage Services opens.
1985 38 funds, 886 crew, 1,120,121 shareholder accounts.	1985: STAR® Fund becomes Vanguard's first fund of funds. 1986: First bond index fund for retail investors launched. Vanguard Structured Portfolios (now Quantitative Equity Group) started. 1989: Data centre built (now the Robert A. DiStefano Technology Centre).
1990 58 funds 2,230 crew 2,949,597 shareholder accounts	1990: First international shares index funds launched. 1992: The Vanguard Group Foundation® launched. 1994: First tax-managed funds open.
1995 89 funds, 3,927 crew, 6,681,460 shareholder accounts.	1995: Vanguard.com launched. 1996: Vanguard Investments Australia opens. John J. Brennan becomes CEO (1996) and chairman (1998) of the Vanguard Group Inc. Advice and wealth management services offered to US investors. Voyager Services®. 1998: Vanguard Investments Europe founded.
2000 103 funds, 11,025 crew, 15,502,008 shareholder accounts.	2000: Learning Voyage becomes Vanguard University®. Vanguard Investments Japan founded. 2001: Vanguard ETFs® launched (US). 2002: Intermediary Services Group (now Financial Adviser Services) begins in the U.S. 2004: Vanguard Investments Australia becomes the first Australian fund to report after tax returns.
2005 130 funds, 11,205 crew, 21,265,014 shareholder accounts.	2005: Business Development Group started. 2007: Vanguard Investments Australia launches Portfolio Construction Workshops for advisers. Vanguard surpasses $100 billion in assets outside the U.S. Vanguard Investments Australia surpasses $50 billion in assets. 2008: F.William McNabb III becomes CEO (2008) and Chairman (2010) of the Vanguard Group Inc. 2009: Vanguard Investments U.K. founded. Vanguard.com has 5 million registered users. Sydney, Brisbane and Perth offices open in Australia. Vanguard Investments Australia ETFs launched.
2010 162 funds, 12,097 crew, 24,683,384 shareholder accounts.	2010: Vanguard Investments Australia ETFs surpassed $100 million under management. John James appointed as managing director of Vanguard Investments Australia Ltd.

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The indexing specialist > vanguard.com.au > 1300 655 205

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** Hedged and unhedged funds available.
^Source: Brison, Hood and Beebower, Determinants of Portfolio Performance (1986, 1991)
*As at 31 March 2010