



**Vanguard®**

# Vanguard Precious Metals and Mining Fund Semiannual Report

July 31, 2009



- > For the six months ended July 31, 2009, Vanguard Precious Metals and Mining Fund posted a return of 59.55%.
  
- > The fund surpassed the return of its benchmark and the average return of gold-oriented funds.
  
- > Big contributors for the period included platinum mining and marketing companies, while gold was a weak spot.

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*Please note:* The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

# Your Fund's Total Returns

## Six Months Ended July 31, 2009

	Ticker Symbol	Total Returns
Vanguard Precious Metals and Mining Fund	VGPMX	59.55%
S&P/Citigroup Custom Precious Metals and Mining Index		53.16
Average Gold-Oriented Fund <sup>1</sup>		25.01

## Your Fund's Performance at a Glance

January 31, 2009–July 31, 2009

	Starting Share Price	Ending Share Price	Distributions Per Share	
			Income Dividends	Capital Gains
Vanguard Precious Metals and Mining Fund	\$10.74	\$16.98	\$0.110	\$0.000

<sup>1</sup> Derived from data provided by Lipper Inc.



## President's Letter

Dear Shareholder,

**For the fiscal half-year ended July 31, 2009, Vanguard Precious Metals and Mining Fund returned 59.55%. The fund's return surpassed that of its benchmark index and significantly outpaced the average return of gold-oriented funds.**

The fund's strong results helped it recover somewhat from its unprecedented decline (-60.16%) in the 12 months ended January 31, 2009. Such extreme swings in performance are not uncommon among metals and mining stocks. As the financial markets bounced back in the spring, investors poured more money into precious metals and mining stocks that stand to benefit from an improving economy.

Among the fund's best performers during the six months were platinum producers and distributors. The fund also benefited from the advisor's decision to limit its exposure to gold stocks, which suffered because of weakness in the price of gold. Other metals experienced a sharp rise in prices during the period.

### **Stocks rose on signs that recovery is taking root**

For the six months ended July 31, the broad U.S. stock market returned about 23%. The period began in gloom, with stocks declining in February and early March before staging a strong springtime rally. After pausing in June, the market surged nearly 8% in July as investors reacted to improvement in the housing

market, an increase in manufacturing activity, rising corporate earnings, and cautiously optimistic comments from the Federal Reserve Board.

Global stock markets performed even better, advancing almost 38% for the period. Encouraging earnings reports and higher commodity prices lifted international stocks off their lows in early March. After three straight months of solid gains, the MSCI All Country World Index ex USA fell slightly in June before rallying again in July.

Although stock markets worldwide have been in recovery mode for five months and various economic signs point to the recession's end, the health of global financial markets and economies

remained fragile as the period ended. Unemployment, in particular, was still a major concern both in the United States and abroad.

### Investors departed Treasuries for higher-yielding bonds

For the six months, the Barclays Capital U.S. Aggregate Bond Index, a broad measure of the investment-grade market, returned more than 4%. That return paled, however, next to the 30% return of lower-quality bonds, as measured by the Barclays Capital U.S. Corporate High Yield Bond Index. In mid-March, investors seemed to gain confidence in the federal government's efforts to thaw the credit markets and stimulate the economy, and they started shifting from U.S. Treasury bonds to corporate issues—particularly

## Market Barometer

	Total Returns Periods Ended July 31, 2009		
	Six Months	One Year	Five Years <sup>1</sup>
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	22.26%	-20.17%	0.32%
Russell 2000 Index (Small-caps)	26.61	-20.72	1.52
Dow Jones U.S. Total Stock Market Index	23.23	-19.67	0.81
MSCI All Country World Index ex USA (International)	37.70	-20.90	7.57
<b>Bonds</b>			
Barclays Capital U.S. Aggregate Bond Index (Broad taxable market)	4.47%	7.85%	5.14%
Barclays Capital Municipal Bond Index	4.38	5.11	4.21
Citigroup 3-Month Treasury Bill Index	0.09	0.65	3.00
<b>CPI</b>			
Consumer Price Index	1.99%	-2.10%	2.60%

<sup>1</sup> Annualized.

below-investment-grade bonds, which offered the highest yields. Municipal bonds also benefited from government support, with the broad tax-exempt market returning about 4% for the six months.

Efforts to combat the financial crisis have included a combination of aggressive monetary policy and large fiscal programs, most notably the nearly \$800 billion American Recovery and Reinvestment Act. On the monetary side, the Fed has kept its target for short-term interest rates at an all-time low of 0% to 0.25%, a target it expects to maintain for "an extended period." For the last several months, the Fed has been purchasing Treasury and mortgage-backed securities, an effort to keep longer-term interest rates and borrowing costs low. In recent months,

however, Treasury yields have risen amid concerns about longer-term budget deficits.

### **A rise in metal prices helped boost the fund's return**

Vanguard Precious Metals and Mining Fund has a small portfolio, consisting of only 40 stocks at the end of the fiscal half-year.

Though few in number, those holdings included some of the sector's better performers in the period. M&G Investment Management, the fund's advisor, exercised its skill at spotting key metals companies with healthy cash flows and competitive advantages to earn a return about 6 percentage points higher than that of its

### **Expense Ratios<sup>1</sup>**

Your Fund Compared With Its Peer Group

	Fund	Average Gold-Oriented Fund
Precious Metals and Mining Fund	0.39%	1.40%

<sup>1</sup> The fund expense ratio shown is from the prospectus dated May 29, 2009, and represents estimated costs for the current fiscal year based on the fund's net assets as of the prospectus date. For the six months ended July 31, 2009, the annualized expense ratio was 0.28%. The peer-group expense ratio is derived from data provided by Lipper Inc. and captures information through year-end 2008.

benchmark and more than double the average return of its gold-oriented peer funds.

For the six-month period, the fund's stellar performance was largely attributable to its platinum holdings. Platinum, along with other metals, benefited from an improved outlook for the global economy, which could mean a rise in demand for durable goods such as automobiles. Platinum is a key component in emission-control parts for cars and trucks.

Three of the five top contributors to the fund's performance belonged to platinum miners or distributors, and together they contributed 22 percentage points to the overall return. Impala Platinum, the world's second-largest platinum producer with mines in South Africa and Zimbabwe, was the lead contributor.

Producers of nickel, manganese, and steel also boosted the fund's return. France's Eramet, one of the world's largest refiners and producers of nickel, manganese, and special steels, benefited from an increase in demand driven largely by China and by the effects of government stimulus plans. Australia-based Sims Metal Management, the world's largest recycler of scrap metal, benefited from higher steel prices.

On the other hand, the Canadian gold producer Barrick Gold was among the fund's weakest performers in the period, along with Australian mineral sands producer Iluka Resources. Barrick Gold retreated as the price of gold declined. Iluka suffered from weaker demand for some of its products, including titanium dioxide, an ingredient in protective coatings such as house and car paints.

### **The fund can help diversify a balanced portfolio**

While the stock market has recovered from some of its losses earlier in the year, the only certainty about its near-term direction is continued uncertainty.

The market's unpredictable nature can be unnerving for investors. But what's important to keep in mind is that short-term ups and downs in the markets should not lead you to make hasty investment decisions.

Vanguard encourages investors to maintain a well-balanced portfolio with a long-term perspective. In practice, this means building a portfolio that includes stocks, bonds, and short-term reserves in proportions that fit your time horizon and risk tolerance. A balanced portfolio can provide some protection against the stock

market's occasionally sharp declines, while allowing you to participate in its long-term potential for growth. Vanguard Precious Metals and Mining Fund can play a useful role in enhancing the diversification of a well-balanced portfolio.

Thank you for investing your assets at Vanguard.

Sincerely,

A handwritten signature in black ink that reads "F. William McNabb III". The signature is written in a cursive style with a large, sweeping initial "F" and a distinct "III" at the end.

F. William McNabb III  
President and Chief Executive Officer  
August 14, 2009

## Advisor's Report

Vanguard Precious Metals and Mining Fund produced a strong absolute return of 59.55% over the six-month period ended July 31, 2009. This was slightly ahead of results for the customized benchmark index, which gained 53.16%, and well above the average return for gold-oriented funds, which was 25.01%.

Heightened volatility persisted during the six months under review, although the overall trend was much more positive. In February, with concerns about the health of the global economy continuing to plague capital markets, the price of gold appreciated strongly as investors were attracted by the metal's "safe haven" status. As this aversion to risk subsided, investors' demand for gold eased somewhat, but it remained sufficient to keep gold prices generally in a relatively strong range of \$900–\$950 per ounce.

Other metals and minerals with greater sensitivity to economic activity—in particular copper and nickel, but also platinum—rallied strongly in tandem with the improving outlook for industrial demand. China's record imports of a range of materials acted as an especially potent force in propelling commodity prices higher. In addition, the collapse in capital expenditure in recent months highlighted potential supply shortages across the mining industry. This factor also attracted investors toward companies involved in mining more economically sensitive

materials, especially those firms with more attractive valuations and better growth prospects.

Against this backdrop, one of the key factors in the fund's good performance was its significant exposure to industrially sensitive, diversified mining companies at the expense of pure gold producers, an area in which the fund has long had a relatively small weighting. This positioning reflects a long-term strategic stance based on fundamental factors such as industry supply and demand dynamics, returns-focused management, and relative valuations, all of which in our opinion favor the broader mining sector.

The fund also benefited from an improving outlook for many of the companies in the portfolio, notably those supported by a geographically diversified customer base. Such diversification has been particularly helpful because growth remains elusive in many developed markets. In addition, the companies we invest in have been carrying out robust cost-containment programs to provide some insulation to their returns in an environment of weaker demand.

Within the precious metals sector, strong contributions to performance came from the fund's substantial holding in U.K.-listed platinum producer Lonmin and South African producer Impala Platinum. Both

companies benefited as platinum prices rebounded thanks to an improved outlook for demand from the automotive industry.

Elsewhere, a number of our holdings in non-precious-metal companies rallied strongly from depressed levels, which had failed to reflect the quality and growth potential of their mining assets. These companies included French nickel and manganese producer Eramet; Canada-listed copper producer First Quantum Minerals; Canadian nickel and coal producer Sherritt International; and Australian nickel producer Panoramic Resources, which is a new holding for us.

The fund's focus on cash-generative mining companies with sound balance sheets was vindicated, with the majority of our holdings remaining in a strong financial position despite the downturn. This strength enabled many of them to take advantage of attractive acquisition opportunities within their industries.

On the negative side, a number of holdings that had performed strongly in the latter half of calendar 2008 succumbed to short-term profit-taking during the past six months. These included Australian mineral sands producer Iluka Resources, whose share price has lagged as the company reported marketing challenges for its products, and Canadian gold royalty company Franco-Nevada, which posted adequate returns but suffered nonetheless as investors sought companies more

geared to an economic recovery. Both of these holdings hurt our performance during the period. Also weak were holdings in French kaolin producer Imerys and U.S. producer Minerals Technologies, both of which have high exposure to the relatively depressed United States and European construction markets. We still believe that these companies have excellent long-term prospects.

During the half-year, we continued to focus on building our stake in metals and minerals companies with returns-focused management, strong financial positions, and exposure to strategically important materials. We increased our position in BHP Billiton, which is the world's largest mining company and possesses one of the strongest balance sheets in the industry. We established new stakes in First Quantum Minerals, a Canadian-listed company that mines high-quality copper and gold in Zambia and the Democratic Republic of Congo, and Hochschild Mining, a U.K.-listed miner of high-grade silver in Peru.

We purchased selected gold producers, such as U.K.-listed Peter Hambro Mining and Canadian producer Eldorado Gold, which—in contrast with much of the gold sector—have high-quality assets and management. We also added to existing positions, or established new ones, in companies where negative sentiment had, in our view, suppressed share prices

below fair valuation levels. Examples included German potash producer K&S, Lonmin, and Sherritt International.

We made relatively few sales during the period. The most significant was a substantial reduction of the portfolio's large holding in Franco-Nevada, whose valuation had become less attractive because of its very strong performance since we purchased it. For similar reasons, we reduced exposure to Australian steel company Bluescope Steel and trimmed positions in large North American gold producers Barrick Gold and Newmont Mining.

The past year has been an extraordinary period for investors in companies involved in producing metals and minerals. After a spell when short-term demand for many natural resources appeared to grind to a halt, a surge in demand from China helped trigger a sharp rebound in the prices of many metals and minerals, and thus in stock prices as well.

It was encouraging to see that the mining industry reacted to the slowdown in demand by shutting down excess capacity. The ongoing consolidation of the industry has led to more rational actions and a greater focus on maintaining profitability. We continue to believe that appetite for commodities will be supported over the long term by infrastructure expenditure worldwide and by rising urbanization in emerging markets—trends supported by

the fiscal stimulus packages that have been implemented by governments around the world.

As a consequence, our long-term outlook for commodities in general remains positive, and we anticipate a growing number of exciting opportunities for investors in the mining sector. The shorter-term picture, however, remains less clear, and volatility is likely to persist.

As to the ongoing strategy of the fund, we remain convinced of the importance of sticking to long-term investment principles and focusing on industry and company fundamentals. We shall continue to invest in well-capitalized, trustworthy companies with strategically important assets whose value is not properly appreciated by investors. We are avoiding companies that are operating in disadvantaged industries, have unsound balance sheets, or are not managed in the interest of shareholders.

Portfolio Managers:

Graham E. French,

Matthew Vaight, UKSIP

M&G Investment Management Ltd.

August 26, 2009

# Results of Proxy Voting

At a special meeting of shareholders on July 2, 2009, fund shareholders approved the following two proposals:

## Proposal 1—Elect trustees for each fund.\*

The individuals listed in the table below were elected as trustees for each fund. All trustees with the exception of Messrs. McNabb and Volanakis (both of whom already served as directors of The Vanguard Group, Inc.) served as trustees to the funds prior to the shareholder meeting.

Trustee	For	Withheld	Percentage For
John J. Brennan	831,083,148	23,429,009	97.3%
Charles D. Ellis	815,919,984	38,592,173	95.5%
Emerson U. Fullwood	818,220,903	36,291,254	95.8%
Rajiv L. Gupta	827,792,136	26,720,020	96.9%
Amy Gutmann	828,576,544	25,935,613	97.0%
JoAnn Heffernan Heisen	827,968,189	26,543,968	96.9%
F. William McNabb III	830,218,855	24,293,302	97.2%
André F. Perold	817,862,692	36,649,465	95.7%
Alfred M. Rankin, Jr.	827,956,891	26,555,266	96.9%
Peter F. Volanakis	829,990,273	24,521,884	97.1%

\* Results are for all funds within the same trust.

## Proposal 2—Update and standardize the funds' fundamental policies regarding:

- Purchasing and selling real estate.
- Issuing senior securities.
- Borrowing money.
- Making loans.
- Purchasing and selling commodities.
- Concentrating investments in a particular industry or group of industries.
- Eliminating outdated fundamental investment policies not required by law.

The revised fundamental policies are clearly stated and simple, yet comprehensive, making oversight and compliance more efficient than under the former policies. The revised fundamental policies will allow the funds to respond more quickly to regulatory and market changes, while avoiding the costs and delays associated with successive shareholder meetings.

Vanguard Fund	For	Abstain	Against	Broker Non-Votes	Percentage For
Precious Metals and Mining Fund					
2a	90,338,393	1,775,013	5,697,112	8,321,718	85.1%
2b	89,548,119	2,225,835	6,036,560	8,321,721	84.4%
2c	88,386,610	2,064,020	7,359,883	8,321,722	83.3%
2d	88,318,725	2,175,115	7,316,675	8,321,720	83.2%
2e	91,870,981	1,936,694	4,002,840	8,321,721	86.6%
2f	92,204,024	2,160,349	3,446,140	8,321,722	86.9%
2g	91,058,902	3,081,657	3,669,957	8,321,719	85.8%

Fund shareholders did not approve this proposal:

**Proposal 3—Institute procedures to prevent holding investments in companies that, in the judgment of the board, substantially contribute to genocide or crimes against humanity, the most egregious violations of human rights.**

The trustees recommended a vote against the proposal because it called for procedures that duplicate existing practices and procedures of the Vanguard funds.

Vanguard Fund	For	Abstain	Against	Broker Non-Votes	Percentage For
Precious Metals and Mining Fund	14,729,424	3,285,886	79,795,203	8,321,722	13.9%

# Precious Metals and Mining Fund

## Fund Profile

As of July 31, 2009

### Portfolio Characteristics

	Fund	Comparative Index <sup>1</sup>	Broad Index <sup>2</sup>
Number of Stocks	40	305	4,370
Median Market Cap	\$4.2B	\$21.8B	\$26.1B
Price/Earnings Ratio	25.8x	23.1x	23.0x
Price/Book Ratio	1.7x	2.1x	2.1x
Return on Equity	19.9%	20.1%	19.6%
Earnings Growth Rate	22.3%	23.7%	12.6%
Foreign Holdings	88.8%	91.3%	0.0%
Turnover Rate <sup>3</sup>	24%	—	—
Expense Ratio <sup>4</sup>	0.39%	—	—
Short-Term Reserves	1.2%	—	—

### Market Diversification (% of equity exposure)

United Kingdom	25.5%
Australia	17.0
Canada	14.3
France	14.0
South Africa	12.9
United States	10.5
Singapore	3.0
Germany	1.9
Other Markets	0.9

### Volatility Measures<sup>5</sup>

	Fund Versus Comparative Index <sup>1</sup>	Fund Versus Broad Index <sup>2</sup>
R-Squared	0.89	0.58
Beta	0.99	1.56

### Ten Largest Holdings<sup>6</sup> (% of total net assets)

Johnson Matthey PLC	9.0%
Lonmin PLC	8.0
Impala Platinum Holdings Ltd. ADR	7.6
Imerys SA	7.2
Eramet SLN	6.7
Sims Metal Management Ltd.	6.2
BHP Billiton Ltd.	4.8
Peter Hambro Mining PLC	4.2
Hochschild Mining PLC	3.7
Iluka Resources Ltd.	3.7
Top Ten	61.1%

1 S&P/Citigroup Custom Precious Metals and Mining Index.

2 Dow Jones U.S. Total Stock Market Index.

3 Annualized.

4 The fund expense ratio shown is from the prospectus dated May 29, 2009, and represents estimated costs for the current fiscal year based on the fund's net assets as of the prospectus date. For the six months ended July 31, 2009, the annualized expense ratio was 0.28%.

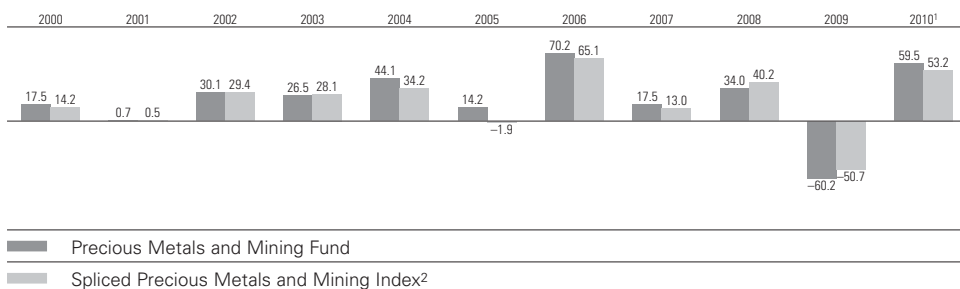
5 For an explanation of R-squared, beta, and other terms used here, see the Glossary.

6 The holdings listed exclude any temporary cash investments and equity index products.

## Performance Summary

All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the fund. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [www.vanguard.com/performance](http://www.vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on fund distributions or on the sale of fund shares.

### Fiscal-Year Total Returns (%): January 31, 1999–July 31, 2009



### Average Annual Total Returns: Periods Ended June 30, 2009

This table presents average annual total returns through the latest calendar quarter—rather than through the end of the fiscal period. Securities and Exchange Commission rules require that we provide this information.

	Inception Date	One Year	Five Years	Ten Years
Precious Metals and Mining Fund <sup>3</sup>	5/23/1984	-53.11%	13.48%	15.85%

<sup>1</sup> Six months ended July 31, 2009.

<sup>2</sup> S&P/Citigroup World Equity Gold Index through June 30, 2005; S&P/Citigroup Custom Precious Metals and Mining Index thereafter.

<sup>3</sup> Total returns do not reflect the 1% fee assessed on redemptions of shares held for less than one year, nor do they include the account service fee that may be applicable to certain accounts with balances below \$10,000.

Note: See Financial Highlights table for dividend and capital gains information.

## Financial Statements (unaudited)

### Statement of Net Assets

As of July 31, 2009

The fund provides a complete list of its holdings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the fund's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the fund files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the fund's Forms N-Q on the SEC's website at [www.sec.gov](http://www.sec.gov). Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
<b>Common Stocks (99.1%)</b>			<b>Papua New Guinea (0.0%)</b>		
<b>Australia (16.9%)</b>			* Bougainville Copper Ltd. 2,000,000 1,056		
Sims Metal Management Ltd.	7,950,000	185,902	<b>Peru (0.6%)</b>		
BHP Billiton Ltd.	4,550,000	143,571	Compania de Minas Buenaventura SA ADR 700,000 18,235		
*.1 Iluka Resources Ltd.	41,783,827	110,034	<b>Singapore (3.0%)</b>		
1 Panoramic Resources, Ltd.	18,700,000	43,213	Noble Group Ltd. 62,337,052 90,477		
*.1 St. Barbara Ltd.	129,665,600	21,232	<b>South Africa (12.8%)</b>		
BlueScope Steel Ltd.	1,216,434	3,427	Impala Platinum Holdings Ltd. ADR 9,350,000 227,018		
* MIL Resources, Ltd.	1,678,671	47	Anglo Platinum Ltd. ADR 1,450,000 103,893		
		<b>507,426</b>	Northam Platinum Ltd. 11,200,000 53,428		
			<b>384,339</b>		
<b>Canada (14.2%)</b>			<b>United Kingdom (25.2%)</b>		
*.1 Centerra Gold Inc.	15,120,900	96,151	1 Johnson Matthey PLC 11,450,000 270,336		
Franco-Nevada Corp.	3,400,000	84,901	1 Lonmin PLC 10,391,666 239,769		
1 Sherritt International Corp.	14,825,000	84,360	1 Peter Hambro Mining PLC 11,500,000 125,645		
* First Quantum Minerals Ltd.	1,050,000	69,935	1 Hochschild Mining PLC 26,712,078 111,478		
1 Harry Winston Diamond Corp.	7,724,400	45,102	* Gem Diamond Ltd. 1,800,000 5,916		
* Eldorado Gold Corp.	3,300,000	33,176	Vedanta Resources PLC 100,000 2,948		
Barrick Gold Corp.	200,000	6,985	* Kenmare Resources PLC 4,550,000 1,559		
1.2 Harry Winston Diamond Corp.			* Gemfields Resources PLC 3,333,333 369		
Private Placement	700,000	3,883	* Mwana Africa PLC 3,180,219 308		
* Claude Resources, Inc.	2,650,000	1,776	* Zambezi Resources Ltd. 4,895,833 102		
		<b>426,269</b>	<b>758,430</b>		
<b>France (13.9%)</b>			<b>United States (10.3%)</b>		
1 Imerys SA	4,056,000	216,068	Schnitzer Steel Industries, Inc. Class A 1,850,000 99,474		
Eramet SLN	716,626	201,364	Newmont Mining Corp. (Holding Co.) 2,200,000 90,970		
		<b>417,432</b>	1 Minerals Technologies, Inc. 1,473,996 64,075		
<b>Germany (1.9%)</b>			1 AMCOL International Corp. 3,030,000 56,994		
K&S AG	1,000,000	55,985	<b>311,513</b>		
<b>Indonesia (0.3%)</b>			<b>Total Common Stocks</b>		
* PT International Nickel Indonesia Tbk	22,500,000	9,746	<b>(Cost \$3,184,171)</b>		
			<b>2,980,908</b>		

## Precious Metals and Mining Fund

	Shares	Market Value* (\$000)
<b>Precious Metals (0.1%)</b>		
* Platinum Bullion (In Troy Ounces)	2,009	2,423
<b>Total Precious Metals (Cost \$1,213)</b>		<b>2,423</b>
<b>Temporary Cash Investment (1.2%)</b>		
<b>Money Market Fund (1.2%)</b>		
<sup>3</sup> Vanguard Market Liquidity Fund, 0.335% (Cost \$35,611)	35,611,000	35,611
<b>Total Investments (100.4%) (Cost \$3,220,995)</b>		<b>3,018,942</b>
<b>Other Assets and Liabilities (-0.4%)</b>		
Other Assets		16,432
Liabilities		(28,640)
		<b>(12,208)</b>
<b>Net Assets (100%)</b>		
<b>Applicable to 177,117,820 outstanding \$.001 par value shares of beneficial interest (unlimited authorization)</b>		
		<b>3,006,734</b>
<b>Net Asset Value Per Share</b>		<b>\$16.98</b>

## At July 31, 2009, net assets consisted of:

	Amount (\$000)
Paid-in Capital	3,325,031
Overdistributed Net Investment Income	(38,040)
Accumulated Net Realized Losses	(78,235)
Unrealized Appreciation (Depreciation)	
Investment Securities	(202,053)
Foreign Currencies	31
<b>Net Assets</b>	<b>3,006,734</b>

• See Note A in Notes to Financial Statements.

\* Non-income-producing security.

1 Considered an affiliated company of the fund as the fund owns more than 5% of the outstanding voting securities of such company.

2 Security exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may be sold in transactions exempt from registration, normally to qualified institutional buyers. At July 31, 2009, the value of this security represented 0.1% of net assets.

3 Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

ADR—American Depositary Receipt.

See accompanying Notes, which are an integral part of the Financial Statements.

# Statement of Assets and Liabilities

As of July 31, 2009

	Market Value (\$000)
<b>Assets</b>	
Investments in Securities, at Value	3,018,942
Receivables for Capital Shares Issued	5,734
Accrued Income Receivable	4,986
Other Assets	5,712
<b>Total Assets</b>	<b>3,035,374</b>
<b>Liabilities</b>	
Payables for Investment Securities Purchased	16,331
Payables for Capital Shares Redeemed	2,473
Other Liabilities	9,836
<b>Total Liabilities</b>	<b>28,640</b>
<b>Net Assets</b>	<b>3,006,734</b>

See accompanying Notes, which are an integral part of the Financial Statements.

# Statement of Operations

	Six Months Ended July 31, 2009
	(\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends <sup>1,2</sup>	11,638
Interest <sup>2</sup>	72
Security Lending	127
<b>Total Income</b>	<b>11,837</b>
<b>Expenses</b>	
Investment Advisory Fees—Note B	
Basic Fee	1,577
Performance Adjustment	(1,139)
The Vanguard Group—Note C	
Management and Administrative	2,283
Marketing and Distribution	235
Custodian Fees	60
Auditing Fees	1
Shareholders' Reports and Proxies	92
Trustees' Fees and Expenses	2
<b>Total Expenses</b>	<b>3,111</b>
<b>Net Investment Income</b>	<b>8,726</b>
<b>Realized Net Gain (Loss)</b>	
Investment Securities Sold <sup>2</sup>	(42,964)
Foreign Currencies	(3,496)
<b>Realized Net Gain (Loss)</b>	<b>(46,460)</b>
<b>Change in Unrealized Appreciation (Depreciation)</b>	
Investment Securities	1,064,728
Foreign Currencies	26
<b>Change in Unrealized Appreciation (Depreciation)</b>	<b>1,064,754</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>1,027,020</b>

1 Dividends are net of foreign withholding taxes of \$1,858,000.

2 Dividend income, interest income, and realized net gain (loss) from affiliated companies of the fund were \$11,449,000, \$72,000, and \$2,014,000, respectively.

See accompanying Notes, which are an integral part of the Financial Statements.

## Statement of Changes in Net Assets

	Six Months Ended July 31, 2009	Year Ended January 31, 2009
	(\$000)	(\$000)
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	8,726	82,443
Realized Net Gain (Loss)	(46,460)	284,265
Change in Unrealized Appreciation (Depreciation)	1,064,754	(3,024,276)
Net Increase (Decrease) in Net Assets Resulting from Operations	1,027,020	(2,657,568)
<b>Distributions</b>		
Net Investment Income	(16,927)	(99,293)
Realized Capital Gain <sup>1</sup>	—	(361,426)
Total Distributions	(16,927)	(460,719)
<b>Capital Share Transactions</b>		
Issued	579,256	841,029
Issued in Lieu of Cash Distributions	15,527	423,318
Redeemed <sup>2</sup>	(242,091)	(1,137,039)
Net Increase (Decrease) from Capital Share Transactions	352,692	127,308
Total Increase (Decrease)	1,362,785	(2,990,979)
<b>Net Assets</b>		
Beginning of Period	1,643,949	4,634,928
End of Period <sup>3</sup>	3,006,734	1,643,949

1 Includes fiscal 2009 short-term gain distributions totaling \$2,529,000. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

2 Net of redemption fees for fiscal 2010 and 2009 of \$967,000 and \$2,019,000, respectively.

3 Net Assets—End of Period includes undistributed (overdistributed) net investment income of (\$38,040,000) and (\$36,107,000).

See accompanying Notes, which are an integral part of the Financial Statements.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Six Months Ended July 31,	Year Ended January 31,				
	2009	2009	2008	2007	2006	2005
<b>Net Asset Value, Beginning of Period</b>	<b>\$10.74</b>	<b>\$33.45</b>	<b>\$28.64</b>	<b>\$27.08</b>	<b>\$16.46</b>	<b>\$15.29</b>
<b>Investment Operations</b>						
Net Investment Income	.053 <sup>1,2</sup>	.653	.900 <sup>2</sup>	.560	.337 <sup>1</sup>	.185 <sup>1</sup>
Net Realized and Unrealized Gain (Loss) on Investments <sup>3</sup>	6.297	(19.849)	8.362	4.027	11.080	1.988
Total from Investment Operations	6.350	(19.196)	9.262	4.587	11.417	2.173
<b>Distributions</b>						
Dividends from Net Investment Income	(.110)	(.763)	(.670)	(.490)	(.240)	(.144)
Distributions from Realized Capital Gains	—	(2.751)	(3.782)	(2.537)	(.557)	(.859)
Total Distributions	(.110)	(3.514)	(4.452)	(3.027)	(.797)	(1.003)
<b>Net Asset Value, End of Period</b>	<b>\$16.98</b>	<b>\$10.74</b>	<b>\$33.45</b>	<b>\$28.64</b>	<b>\$27.08</b>	<b>\$16.46</b>
<b>Total Return<sup>4</sup></b>	<b>59.55%</b>	<b>-60.16%</b>	<b>33.97%</b>	<b>17.48%</b>	<b>70.19%</b>	<b>14.20%</b>
<b>Ratios/Supplemental Data</b>						
Net Assets, End of Period (Millions)	\$3,007	\$1,644	\$4,635	\$3,444	\$3,297	\$921
Ratio of Total Expenses to Average Net Assets	0.28% <sup>5,6</sup>	0.30% <sup>5</sup>	0.28% <sup>5</sup>	0.35% <sup>5</sup>	0.40%	0.48%
Ratio of Net Investment Income to Average Net Assets	2.00% <sup>2,6</sup>	2.17%	2.70% <sup>2</sup>	1.88%	1.68%	1.32%
Portfolio Turnover Rate	24% <sup>6</sup>	22%	29%	24%	20%	36%

<sup>1</sup> Calculated based on average shares outstanding.

<sup>2</sup> Net investment income per share and the ratio of net investment income to average net assets for the year ended January 31, 2008, include \$0.190 and 0.65%, respectively, resulting from a special dividend from Centennial Coal Co. Ltd. in January 2008. Based on additional information reported by the company in 2009, a portion of the special dividend was reallocated to return of capital. The reallocation reduced net investment income per share and the ratio of net investment income to average net assets for the six months ended July 31, 2009, by \$0.161 and 1.19%, respectively. The reallocation has no impact on net assets, net asset values per share, or total returns.

<sup>3</sup> Includes increases from redemption fees of \$.01, \$.01, \$.00, \$.03, \$.01, and \$.01.

<sup>4</sup> Total returns do not reflect the 1% fee assessed on redemptions of shares held for less than one year, nor do they include the account service fee that may be applicable to certain accounts with balances below \$10,000.

<sup>5</sup> Includes performance-based investment advisory fee increases (decreases) of (0.10%) for fiscal 2010, 0.00% for fiscal 2009, (0.01%) for fiscal 2008, and 0.01% for fiscal 2007.

<sup>6</sup> Annualized.

See accompanying Notes, which are an integral part of the Financial Statements.

## Notes to Financial Statements

Vanguard Precious Metals and Mining Fund is registered under the Investment Company Act of 1940 as an open-end investment company, or mutual fund. The fund invests in securities of foreign issuers, which may subject it to investment risks not normally associated with investing in securities of United States corporations.

A. The following significant accounting policies conform to generally accepted accounting principles for U.S. mutual funds. The fund consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been affected by events occurring before the fund's pricing time but after the close of the securities' primary markets, are valued at their fair values calculated according to procedures adopted by the board of trustees. These procedures include obtaining quotations from an independent pricing service, monitoring news to identify significant market- or security-specific events, and evaluating changes in the values of foreign market proxies (for example, ADRs, futures contracts, or exchange-traded funds), between the time the foreign markets close and the fund's pricing time. When fair-value pricing is employed, the prices of securities used by a fund to calculate its net asset value may differ from quoted or published prices for the same securities. Precious metals are valued at the mean of the latest quoted bid and asked prices. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value.

2. **Foreign Currency:** Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using exchange rates obtained from an independent third party as of the fund's pricing time on the valuation date. Realized gains (losses) and unrealized appreciation (depreciation) on investment securities include the effects of changes in exchange rates since the securities were purchased, combined with the effects of changes in security prices. Fluctuations in the value of other assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains (losses) until the assets or liabilities are settled in cash, at which time they are recorded as realized foreign currency gains (losses).

3. **Federal Income Taxes:** The fund intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the fund's tax positions taken on federal income tax returns for all open tax years (tax years ended January 31, 2006–2009) and for the period ended July 31, 2009, and has concluded that no provision for federal income tax is required in the fund's financial statements.

4. **Distributions:** Distributions to shareholders are recorded on the ex-dividend date.

5. **Security Lending:** The fund may lend its securities to qualified institutional borrowers to earn additional income. Security loans are required to be secured at all times by collateral at least equal to the market value of securities loaned. The fund invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability for the return of the collateral, during the period the securities are on loan. Security lending income represents the income earned on investing cash collateral, less expenses associated with the loan.

6. Other: Dividend income is recorded on the ex-dividend date. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold. Fees assessed on redemptions of capital shares are credited to paid-in capital.

**B.** M&G Investment Management Ltd. provides investment advisory services to the fund for a fee calculated at an annual percentage rate of average net assets. The basic fee is subject to quarterly adjustments based on the fund's performance for the preceding three years relative to the S&P/Citigroup Custom Precious Metals and Mining Index. For the six months ended July 31, 2009, the investment advisory fee represented an effective annual basic rate of 0.14% of the fund's average net assets before a decrease of \$1,139,000 (0.10%) based on performance.

**C.** The Vanguard Group furnishes at cost corporate management, administrative, marketing, and distribution services. The costs of such services are allocated to the fund under methods approved by the board of trustees. The fund has committed to provide up to 0.40% of its net assets in capital contributions to Vanguard. At July 31, 2009, the fund had contributed capital of \$613,000 to Vanguard (included in Other Assets), representing 0.02% of the fund's net assets and 0.25% of Vanguard's capitalization. The fund's trustees and officers are also directors and officers of Vanguard.

**D.** Various inputs may be used to determine the value of the fund's investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

**Level 1**—Quoted prices in active markets for identical securities.

**Level 2**—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—Significant unobservable inputs (including the fund's own assumptions used to determine the fair value of investments).

The following table summarizes the fund's investments as of July 31, 2009, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks—North America	733,899	—	3,883
Common Stocks—Other	349,146	1,893,878	102
Precious Metals	2,423	—	—
Temporary Cash Investments	35,611	—	—
<b>Total</b>	<b>1,121,079</b>	<b>1,893,878</b>	<b>3,985</b>

The following table summarizes changes in investments valued based on Level 3 inputs during the six months ended July 31, 2009:

	Investments in Securities (\$000)
<hr/>	
Amount Valued Based on Level 3 Inputs	
Balance as of January 31, 2009	2,646
Transfers in and/or out of Level 3	102
Change in Unrealized Appreciation (Depreciation)	1,237
Balance as of July 31, 2009	3,985

E. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes; these differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. The fund's tax-basis capital gains and losses are determined only at the end of each fiscal year.

During the six months ended July 31, 2009, the fund realized net foreign currency losses of \$3,496,000, which decreased distributable net income for tax purposes; accordingly, such losses have been reclassified from accumulated net realized losses to overdistributed net investment income.

Certain of the fund's investments are in securities considered to be "passive foreign investment companies," for which any unrealized appreciation and/or realized gains are required to be included in distributable net income for tax purposes. During the six months ended July 31, 2009, the fund realized gains on the sale of passive foreign investment companies of \$9,764,000, which have been included in current and prior periods' taxable income; accordingly, such gains have been reclassified from accumulated net realized losses to overdistributed net investment income. Unrealized appreciation as of January 31, 2009, on the fund's passive foreign investment company holdings at July 31, 2009, was \$43,586,000, all of which has been distributed and is reflected in the balance of overdistributed net investment income.

During 2001, the fund elected to use a provision of the Taxpayer Relief Act of 1997 to mark to market certain appreciated securities held on January 1, 2001; such securities were treated as sold and repurchased, with unrealized gains of \$46,006,000 becoming realized, for tax purposes. The mark-to-market created a difference between the cost of investments for financial statement and tax purposes, which will reverse when the securities are sold. Through July 31, 2009, the fund realized gains on the sale of these securities of \$20,516,000 for financial statement purposes, which were included in prior year mark-to-market gains for tax purposes. The remaining difference of \$25,490,000 is reflected in the balance of accumulated net realized gains; the corresponding difference between the securities' cost for financial statement and tax purposes is reflected in unrealized depreciation.

At July 31, 2009, the cost of investment securities for tax purposes was \$3,290,071,000. Net unrealized depreciation of investment securities for tax purposes was \$271,129,000, consisting of unrealized gains of \$539,207,000 on securities that had risen in value since their purchase and \$810,336,000 in unrealized losses on securities that had fallen in value since their purchase.

## Precious Metals and Mining Fund

F. During the six months ended July 31, 2009, the fund purchased \$608,348,000 of investment securities and sold \$264,106,000 of investment securities, other than temporary cash investments.

G. Capital shares issued and redeemed were:

	Six Months Ended July 31, 2009	Year Ended January 31, 2009
	Shares (000)	Shares (000)
Issued	41,619	37,881
Issued in Lieu of Cash Distributions	1,292	27,485
Redeemed	(18,881)	(50,837)
Net Increase (Decrease) in Shares Outstanding	24,030	14,529

H. Certain of the fund's investments are in companies that are considered to be affiliated companies of the fund because the fund owns more than 5% of the outstanding voting securities of the company. Transactions during the period in securities of these companies were as follows:

	Jan. 31, 2009 Market Value (\$000)	Current Period Transactions			July 31, 2009 Market Value (\$000)
		Purchases at Cost (\$000)	Proceeds from Securities Sold (\$000)	Dividend Income (\$000)	
AMCOL International Corp.	44,919	—	847	1,093	56,994
Centerra Gold Inc.	61,150	3,826	—	—	96,151
Claude Resources, Inc.	2,524	—	1,379	—	NA <sup>1</sup>
Franco-Nevada Corp.	171,223	—	105,537	468	NA <sup>1</sup>
Harry Winston Diamond Corp.	30,643	140	—	—	45,102
Harry Winston Diamond Corp. Private Placement	2,646	—	—	—	3,883
Hochschild Mining PLC	NA <sup>2</sup>	80,660	—	250	111,478
Iluka Resources Ltd.	98,933	9,993	—	—	110,034
Imerys SA	134,204	—	469	4,022	216,068
Johnson Matthey PLC	160,598	—	—	4,869	270,336
Lonmin PLC	101,515	33,530	—	—	239,769
Minerals Technologies, Inc.	50,534	4,662	—	141	64,075
Panoramic Resources, Ltd.	—	19,867	—	—	43,213
Peter Hambro Mining PLC	55,203	45,764	—	—	125,645
Sherritt International Corp.	—	17,787	—	606	84,360
St. Barbara Ltd.	23,056	2,662	—	—	21,232
	937,148			11,449	1,488,340

1 Not applicable because at July 31, 2009, the security was still held but the issuer was no longer an affiliated company of the fund.

2 Not applicable because at January 31, 2009, the issuer was not an affiliated company of the fund.

I. In preparing the financial statements as of July 31, 2009, management considered the impact of subsequent events occurring through September 10, 2009, for potential recognition or disclosure in these financial statements.

## About Your Fund's Expenses

As a shareholder of the fund, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a fund's gross income, directly reduce the investment return of the fund.

A fund's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your fund and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The accompanying table illustrates your fund's costs in two ways:

- **Based on actual fund return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the fund's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the fund. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading "Expenses Paid During Period."

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your fund's costs with those of other mutual funds. It assumes that the fund had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the fund's actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your fund's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

### Six Months Ended July 31, 2009

	Beginning Account Value 1/31/2009	Ending Account Value 7/31/2009	Expenses Paid During Period <sup>1</sup>
Precious Metals and Mining Fund			
Based on Actual Fund Return	\$1,000.00	\$1,595.47	\$1.80
Based on Hypothetical 5% Return	1,000.00	1,023.41	1.40

<sup>1</sup> These calculations are based on expenses incurred in the most recent six-month period. The fund's annualized six-month expense ratio for that period is 0.28%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the fund for buying and selling securities. Further, the expenses do not include the 1% fee on redemptions of shares held for less than one year, nor do they include the account service fee described in the prospectus. If such fees were applied to your account, your costs would be higher. Your fund does not carry a "sales load."

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the fund's expenses, including annual expense ratios, in the Financial Statements section of this report. For additional information on operating expenses and other shareholder costs, please refer to your fund's current prospectus.

# Trustees Approve Advisory Agreement

The board of trustees of Vanguard Precious Metals and Mining Fund has renewed the fund's investment advisory agreement with M&G Investment Management Limited. The board determined that the retention of the advisor was in the best interests of the fund and its shareholders.

The board based its decision upon an evaluation of the advisor's investment staff, portfolio management process, and performance. The trustees considered the factors discussed below, among others. However, no single factor determined whether the board approved the agreement. Rather, it was the totality of the circumstances that drove the board's decision.

## **Nature, extent, and quality of services**

The board considered the quality of the fund's investment management over both the short and long term, and took into account the organizational depth and stability of the advisor. The board noted that M&G, founded in 1931, specializes in managing equity and fixed income portfolios for both institutional and retail clients worldwide. The firm has advised the fund since the fund's inception in 1984. The advisor continues to employ a sound process, selecting companies which are broadly representative of the metals and mining industries with an emphasis on large, stable, and diversified companies. The advisor's global equity research team—composed of six senior investment professionals and four analysts—conducts intensive fundamental analysis on companies in the industry, including regular company visits.

The board concluded that the advisor's experience, stability, depth, and performance, among other factors, warranted continuation of the advisory agreement.

## **Investment performance**

The board considered the short- and long-term performance of the fund, including any periods of outperformance or underperformance of a relevant benchmark and peer group. The board noted that the fund is more broadly diversified than its competitors—with the ability to invest up to half of the fund's assets in non-precious metals and mining stocks. The board concluded that the advisor has carried out the fund's investment strategy in disciplined fashion, and that performance results have allowed the fund to remain competitive versus its benchmark over the long term; however, short-term performance had lagged because of the fund's underweighting in gold stocks. Information about the fund's most recent performance can be found in the Performance Summary section of this report.

## **Cost**

The board concluded that the fund's expense ratio was well below the average expense ratio charged by funds in its peer group. The board noted that the fund's advisory fee rate was also well below its peer-group average. Information about the fund's expense ratio appears in the About Your Fund's Expenses section of this report as well as in the Financial Statements section, which also includes information about the advisory fee rate.

The board did not consider profitability of M&G in determining whether to approve the advisory fee, because M&G is independent of Vanguard, and the advisory fee is the result of arm's-length negotiations.

## **The benefit of economies of scale**

The board concluded that the fund's shareholders benefit from economies of scale because of breakpoints in the advisory fee schedule. The breakpoints reduce the effective rate of the fee as the fund's assets increase.

The board will consider whether to renew the advisory agreement again after a one-year period.

# Glossary

**Beta.** A measure of the magnitude of a fund's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a fund with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the fund and the index. Note that a fund's beta should be reviewed in conjunction with its R-squared (see definition). The lower the R-squared, the less correlation there is between the fund and the index, and the less reliable beta is as an indicator of volatility.

**Earnings Growth Rate.** The average annual rate of growth in earnings over the past five years for the stocks now in a fund.

**Equity Exposure.** A measure that reflects a fund's investments in stocks and stock futures. Any holdings in short-term reserves are excluded.

**Expense Ratio.** The percentage of a fund's average net assets used to pay its annual administrative and advisory expenses. These expenses directly reduce returns to investors.

**Foreign Holdings.** The percentage of a fund represented by stocks or depositary receipts of companies based outside the United States.

**Inception Date.** The date on which the assets of a fund (or one of its share classes) are first invested in accordance with the fund's investment objective. For funds with a subscription period, the inception date is the day after that period ends. Investment performance is measured from the inception date.

**Median Market Cap.** An indicator of the size of companies in which a fund invests; the midpoint of market capitalization (market price x shares outstanding) of a fund's stocks, weighted by the proportion of the fund's assets invested in each stock. Stocks representing half of the fund's assets have market capitalizations above the median, and the rest are below it.

**Price/Book Ratio.** The share price of a stock divided by its net worth, or book value, per share. For a fund, the weighted average price/book ratio of the stocks it holds.

**Price/Earnings Ratio.** The ratio of a stock's current price to its per-share earnings over the past year. For a fund, the weighted average P/E of the stocks it holds. P/E is an indicator of market expectations about corporate prospects; the higher the P/E, the greater the expectations for a company's future growth.

**R-Squared.** A measure of how much of a fund's past returns can be explained by the returns from the market in general, as measured by a given index. If a fund's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the fund's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the fund and the index.

**Return on Equity.** The annual average rate of return generated by a company during the past five years for each dollar of shareholder's equity (net income divided by shareholder's equity). For a fund, the weighted average return on equity for the companies whose stocks it holds.

**Short-Term Reserves.** The percentage of a fund invested in highly liquid, short-term securities that can be readily converted to cash.

**Turnover Rate.** An indication of the fund's trading activity. Funds with high turnover rates incur higher transaction costs and may be more likely to distribute capital gains (which may be taxable to investors). The turnover rate excludes in-kind transactions, which have minimal impact on costs.

# The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them on an at-cost basis.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals. The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 157 Vanguard funds.

The following table provides information for each trustee and executive officer of the fund. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at [www.vanguard.com](http://www.vanguard.com).

## Interested Trustees

### John J. Brennan<sup>1</sup>

Born 1954. Trustee Since May 1987. Chairman of the Board. Principal Occupation(s) During the Past Five Years: Chairman of the Board and Director/Trustee of The Vanguard Group, Inc., and of each of the investment companies served by The Vanguard Group; Chief Executive Officer and President of The Vanguard Group and of each of the investment companies served by The Vanguard Group (1996–2008); Chairman of the Financial Accounting Foundation; Governor of the Financial Industry Regulatory Authority (FINRA); Director of United Way of Southeastern Pennsylvania.

### F. William McNabb III<sup>1</sup>

Born 1957. Trustee Since July 2009. Principal Occupation(s) During the Past Five Years: Director of The Vanguard Group, Inc., since 2008; Chief Executive Officer and President of The Vanguard Group and of each of the investment companies served by The Vanguard Group since 2008; Director of Vanguard Marketing Corporation; Managing Director of The Vanguard Group (1995–2008).

## Independent Trustees

### Charles D. Ellis

Born 1937. Trustee Since January 2001. Principal Occupation(s) During the Past Five Years: Applecore Partners (pro bono ventures in education); Senior Advisor to Greenwich Associates (international business strategy consulting); Successor Trustee of Yale University; Overseer of the Stern School of Business at New York University; Trustee of the Whitehead Institute for Biomedical Research.

### Emerson U. Fullwood

Born 1948. Trustee Since January 2008. Principal Occupation(s) During the Past Five Years: Retired Executive Chief Staff and Marketing Officer for North America and Corporate Vice President of Xerox Corporation (photocopiers and printers); Director of SPX Corporation (multi-industry manufacturing), the United Way of Rochester, the Boy Scouts of America, Amerigroup Corporation (direct health and medical insurance carriers), and Monroe Community College Foundation.

### Rajiv L. Gupta

Born 1945. Trustee Since December 2001.<sup>2</sup> Principal Occupation(s) During the Past Five Years: Retired Chairman and Chief Executive Officer of Rohm and Haas Co. (chemicals); President of Rohm and Haas Co. (2006–2008); Board Member of American Chemistry Council; Director of Tyco International, Ltd. (diversified manufacturing and services) and Hewlett-Packard Co. (electronic computer manufacturing); Trustee of The Conference Board.

### Amy Gutmann

Born 1949. Trustee Since June 2006. Principal Occupation(s) During the Past Five Years: President of the University of Pennsylvania; Christopher H. Browne Distinguished Professor of Political Science in the School of Arts and Sciences with Secondary Appointments at the Annenberg School for Communication and the Graduate School of Education of the University of Pennsylvania; Director of Carnegie Corporation of New York, Schuylkill River Development Corporation, and Greater Philadelphia Chamber of Commerce; Trustee of the National Constitution Center.

### **JoAnn Heffernan Heisen**

Born 1950. Trustee Since July 1998. Principal Occupation(s) During the Past Five Years: Retired Corporate Vice President, Chief Global Diversity Officer, and Member of the Executive Committee of Johnson & Johnson (pharmaceuticals/consumer products); Vice President and Chief Information Officer of Johnson & Johnson (1997–2005); Director of the University Medical Center at Princeton and Women’s Research and Education Institute.

### **André F. Perold**

Born 1952. Trustee Since December 2004. Principal Occupation(s) During the Past Five Years: George Gund Professor of Finance and Banking, Harvard Business School; Director and Chairman of UNX, Inc. (equities trading firm); Chair of the Investment Committee of HighVista Strategies LLC (private investment firm).

### **Alfred M. Rankin, Jr.**

Born 1941. Trustee Since January 1993. Principal Occupation(s) During the Past Five Years: Chairman, President, Chief Executive Officer, and Director of NACCO Industries, Inc. (forklift trucks/housewares/lignite); Director of Goodrich Corporation (industrial products/aircraft systems and services).

### **Peter F. Volanakis**

Born 1955. Trustee Since July 2009. Principal Occupation(s) During the Past Five Years: President since 2007 and Chief Operating Officer since 2005 of Corning Incorporated (communications equipment); President of Corning Technologies (2001–2005); Director of Corning Incorporated and Dow Corning; Trustee of the Corning Incorporated Foundation and the Corning Museum of Glass; Overseer of the Amos Tuck School of Business Administration at Dartmouth College.

### **Executive Officers**

#### **Thomas J. Higgins<sup>1</sup>**

Born 1957. Chief Financial Officer Since September 2008. Principal Occupation(s) During the Past Five Years: Principal of The Vanguard Group, Inc.; Chief Financial Officer of each of the investment companies served by The Vanguard Group since 2008; Treasurer of each of the investment companies served by The Vanguard Group (1998–2008).

#### **Kathryn J. Hyatt<sup>1</sup>**

Born 1955. Treasurer Since November 2008. Principal Occupation(s) During the Past Five Years: Principal of The Vanguard Group, Inc.; Treasurer of each of the investment companies served by The Vanguard Group since 2008; Assistant Treasurer of each of the investment companies served by The Vanguard Group (1988–2008).

#### **Heidi Stam<sup>1</sup>**

Born 1956. Secretary Since July 2005. Principal Occupation(s) During the Past Five Years: Managing Director of The Vanguard Group, Inc., since 2006; General Counsel of The Vanguard Group since 2005; Secretary of The Vanguard Group and of each of the investment companies served by The Vanguard Group since 2005; Director and Senior Vice President of Vanguard Marketing Corporation since 2005; Principal of The Vanguard Group (1997–2006).

### **Vanguard Senior Management Team**

<b>R. Gregory Barton</b>	<b>Michael S. Miller</b>
<b>Mortimer J. Buckley</b>	<b>James M. Norris</b>
<b>Kathleen C. Gubanich</b>	<b>Glenn W. Reed</b>
<b>Paul A. Heller</b>	<b>George U. Sauter</b>

### **Founder**

#### **John C. Bogle**

Chairman and Chief Executive Officer, 1974–1996

<sup>1</sup> These individuals are “interested persons” as defined in the Investment Company Act of 1940.

<sup>2</sup> December 2002 for Vanguard Equity Income Fund, Vanguard Growth Equity Fund, the Vanguard Municipal Bond Funds, and the Vanguard State Tax-Exempt Funds.



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