



Vanguard®

Vanguard® REIT Index Fund Semiannual Report

July 31, 2008



- > Each share class of Vanguard REIT Index Fund earned a flat total return for the fiscal half-year ended July 31, 2008.
- > The fund matched the return of its benchmark index, surpassing both the –1.6% average total return of competing REIT mutual funds and the –5.9% return of the broad stock market.
- > REIT mutual funds have been challenged by tightened credit conditions, which were set in motion by the subprime-mortgage-market crisis, and a slowing economy.

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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 cover 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, 2008

	Ticker Symbol	Total Returns
Vanguard REIT Index Fund		
Investor Shares	VGSIX	0.0%
Admiral™ Shares ¹	VGSLX	0.1
Signal® Shares ²	VGRSX	0.0
Institutional Shares ³	VGSNX	0.0
ETF Shares ⁴	VNQ	
Market Price		0.4
Net Asset Value		0.1
Target REIT Composite ⁵		0.0
MSCI® US REIT Index		0.0
Average Real Estate Fund ⁶		-1.6

Your Fund's Performance at a Glance

January 31, 2008–July 31, 2008

	Starting Share Price	Ending Share Price	Distributions Per Share ⁷		
			Income Dividends	Capital Gains	Return of Capital
Vanguard REIT Index Fund					
Investor Shares	\$20.38	\$19.97	\$0.420	\$0.000	\$0.000
Admiral Shares	86.94	85.19	1.836	0.000	0.000
Signal Shares	23.21	22.74	0.489	0.000	0.000
Institutional Shares	13.46	13.18	0.285	0.000	0.000
ETF Shares	61.31	60.08	1.293	0.000	0.000

1 A lower-cost class of shares available to many longtime shareholders and to those with significant investments in the fund.

2 Signal Shares also carry lower costs and are available to institutional shareholders who meet certain administrative, service, and account-size criteria.

3 This class of shares also carries low expenses and is available for a minimum investment of \$5 million.

4 Vanguard ETF™ Shares are traded on the American Stock Exchange and are available only through brokers. The table shows the ETF returns based on both the AMEX market price and the net asset value for a share. U.S. Pat. No. 6,879,964 B2; 7,337,138.

5 The Target REIT Composite consists of the MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average).

6 Derived from data provided by Lipper Inc.

7 Distributions may include some combination of dividend income, return of capital, and capital gains. The tax characteristics of these distributions, however, cannot be determined until after the end of the year.

Dear Shareholder,

Vanguard REIT Index Fund produced a flat total return for the six months ended July 31, 2008, a consequence of a sharp rally, a steep plunge, and then a bounceback as the half-year drew to a close. By contrast, competitor funds returned -1.6% , on average, and the broad stock market fell -5.9% for the period. Underlying the REIT market's ups and downs were the ongoing effects of the subprime-mortgage crisis that began last summer and an economic slowdown.

As of July 31, Investor Shares yielded 5.0% , while the Admiral, Signal, Institutional, and ETF Shares yielded 5.1% . Yields for each of the fund's share classes remained the same as six months earlier.

Please note that these yield figures are not comparable to the 30-day SEC yields of other stock funds. REITs must distribute at least 90% of their taxable income, minus expenses, to shareholders. These distributions typically include some payments that represent capital gains and returns of capital by the underlying REITs; each REIT determines these amounts at the end of its fiscal year.



Chairman's Letter

Stocks rode a bumpy path to disappointing results

U.S. stocks struggled during the six months, a period of pronounced volatility in the financial markets. Continued weakness in the housing market, record oil prices, rising unemployment, and an uptick in inflation all weighed on stocks and set a downbeat tone for the period.

The U.S. market performed well in April and May, but those returns were bookended by declines earlier and later in the period. June was a particularly difficult month; the broad U.S. stock market declined –8.2%, the worst single-month return in more than five years.

For the half-year, the broad U.S. stock market returned –5.9%. Investors favored small-capitalization stocks over large- and mid-caps, and growth stocks over their value-oriented counterparts. International stocks also experienced high levels of volatility, and returned –3.8%.

Bond investors remained cautious in the wake of the subprime crisis

In the extensive fallout from the subprime-mortgage crisis, bond investors continued to prefer the safety of short-term, high-quality issues—most notably U.S. Treasury securities. During the period, bonds outpaced stocks, but registered negative returns. The broad taxable bond market returned –0.6%. Municipal bonds, which experienced a spike in volatility, returned –0.9%.

Market Barometer

	Total Returns Periods Ended July 31, 2008		
	Six Months	One Year	Five Years ¹
Stocks			
Russell 1000 Index (Large-caps)	–6.6%	–10.6%	7.5%
Russell 2000 Index (Small-caps)	0.9	–6.7	9.8
Dow Jones Wilshire 5000 Index (Entire market)	–5.9	–10.2	8.1
MSCI All Country World Index ex USA (International)	–3.8	–9.3	17.9
Bonds			
Lehman U.S. Aggregate Bond Index (Broad taxable market)	–0.6%	6.2%	4.6%
Lehman Municipal Bond Index	–0.9	2.8	4.3
Citigroup 3-Month Treasury Bill Index	1.0	3.1	3.1
CPI			
Consumer Price Index	4.2%	5.6%	3.6%

¹ Annualized.

During the half-year, the Federal Reserve Board lowered its target for the federal funds rate twice, reducing it a total of 1 percentage point, to 2.00%. At its June meeting (and again at its August meeting after the end of the fund's fiscal period), the Fed voted to leave the target rate unchanged, signaling a growing concern about near-term inflation.

In a tough environment, the fund rallied from a slump

During the six months, Vanguard REIT Index Fund snapped back twice. Following its first fiscal-year loss in seven years for the year ended January 31, 2008, the fund rallied through mid-May. But REITs, which typically have high demand for financing, fell victim to tightening credit conditions—an aftereffect of the subprime-mortgage-

market crisis that began last summer—and a continuing economic slowdown. The rally stalled and the fund's return slumped sharply in June, only to bounce back around mid-July.

Led by six of its top ten holdings, the fund's residential, office, specialized, and diversified REIT categories made positive contributions to return. These were offset by negative returns from the industrial and retail REIT groups.

The largest contributor to the fund's return was its residential REIT holdings, especially REITs that own and manage apartment complexes such as Equity Residential (+18%) and AvalonBay Communities (+8%). These REITs benefited from one lingering effect of the mortgage-market

Annualized Expense Ratios¹
Your Fund Compared With Its Peer Group

	Investor Shares	Admiral Shares	Signal Shares	Institutional Shares	ETF Shares	Average Real Estate Fund
REIT Index Fund	0.20%	0.10%	0.10%	0.09%	0.10%	1.46%

¹ Fund expense ratios reflect the six months ended July 31, 2008. Peer-group expense ratio is derived from data provided by Lipper Inc. and captures information through year-end 2007.

crisis: healthy demand for apartments as some potential homebuyers were unable to find mortgage loans and owners who could no longer afford their homes were forced to downsize.

The next-largest contributor to return was the office REIT category. The top contributor was Boston Properties (+6%), which acquired the General Motors Building in Manhattan during the period. To a lesser degree, the specialized and diversified REITs groups also provided positive returns.

Within the specialized group, top performers included storage REITs, such as Public Storage (+6%), which were aided by downsizing homeowners. Health care REITs, the other top performers in this category, benefited from the demand for medical services that many consider to be immune from the effects of a slowing economy. But hotel REITs, such as Host Hotels & Resorts (-20%), and Hospitality Properties Trust (-33%), performed poorly as a weakening economy, airline cutbacks, and soaring oil prices were expected to deflate travel plans.

In another reflection, at least in part, of a challenging economy, the performance of the fund's industrial and retail REITs offset the positive returns from other sectors. General Growth Properties (-23%) and Developers Diversified Realty (-20%),

for example, reduced their development budgets for shopping malls amid lower demand from retailers. Within the retail group, Simon Property Group (+6%), the fund's largest individual holding, bucked the trend with a positive return.

Build a balanced portfolio and then stick with it

Whether it's stocks, bonds, or REITs, investors can expect markets to be volatile and unpredictable, and this can lead to rash investment decisions. Whatever the economic outlook, it's especially important to stay the course and maintain a long-term focus.

We believe the key to investment success is to build a portfolio that includes a diversified mix of stocks, bonds, and cash that is consistent with your goals, time horizon, and risk tolerance. Vanguard REIT Index Fund's broad exposure to publicly traded real estate is an excellent, low-cost way to broaden the diversification of an already well-rounded portfolio.

Once you have established your asset allocation plan, try to stick with it and ignore the marketplace's ever-present distractions—your choice of asset mix is designed to help steer your way through these recurring periods. And always pay attention to costs.

When I wrote to you six months ago, Vanguard's board had elected F. William McNabb III as the fund's president and designated him to succeed me as chief executive officer. The board has since announced that Bill will assume the chief executive role on August 31. I will continue to serve as chairman. Bill and the rest of our team will serve you and our other clients extremely well in the years ahead.

Thank you for your ongoing confidence in Vanguard.

Sincerely,



John J. Brennan
Chairman and Chief Executive Officer
August 12, 2008

Vanguard REIT ETF

Premium/Discount: September 23, 2004¹–July 31, 2008

Basis Point Differential ²	Market Price Above or Equal to Net Asset Value		Market Price Below Net Asset Value	
	Number of Days	Percentage of Total Days	Number of Days	Percentage of Total Days
0–24.9	439	45.16%	511	52.57%
25–49.9	9	0.93	10	1.03
50–74.9	0	0.00	0	0.00
75–100.0	0	0.00	2	0.21
> 100.0	1	0.10	0	0.00
Total	449	46.19%	523	53.81%

¹ Inception.

² One basis point equals 1/100 of a percentage point.

Fund Profile

As of July 31, 2008

Portfolio Characteristics

	Fund	Comparative Index ¹	Broad Index ²
Number of Stocks	97	97	4,724
Median Market Cap	\$4.9B	\$4.9B	\$31.5B
Price/Earnings Ratio	34.6x	34.5x	16.6x
Price/Book Ratio	2.2x	2.2x	2.3x
Yield ³	—	5.2%	2.1%
Investor Shares	5.0%		
Admiral Shares	5.1%		
Signal Shares	5.1%		
Institutional Shares	5.1%		
ETF Shares	5.1%		
Return on Equity	8.9%	8.9%	19.7%
Earnings Growth Rate	1.4%	1.4%	18.5%
Foreign Holdings	0.0%	0.0%	0.0%
Turnover Rate ⁴	7%	—	—
Expense Ratio ⁴		—	—
Investor Shares	0.20%		
Admiral Shares	0.10%		
Signal Shares	0.10%		
Institutional Shares	0.09%		
ETF Shares	0.10%		
Short-Term Reserves	2.0%	—	—

Fund Allocation by REIT Type (% of portfolio)

Retail	27.0%
Specialized	22.4
Office	17.1
Residential	16.3
Industrial	8.6
Diversified	8.6

Volatility Measures⁵

	Fund Versus Target Index ⁶	Fund Versus Broad Index ²
R-Squared	1.00	0.48
Beta	1.00	1.16

Ten Largest Holdings⁷ (% of total net assets)

Simon Property Group, Inc. REIT	7.9%
Vornado Realty Trust REIT	5.0
ProLogis REIT	4.8
Equity Residential REIT	4.5
Boston Properties, Inc. REIT	4.4
Public Storage, Inc. REIT	4.0
HCP, Inc. REIT	3.2
Kimco Realty Corp. REIT	3.1
Avalonbay Communities, Inc. REIT	3.0
Host Hotels & Resorts Inc. REIT	2.5
Top Ten	42.4%

Investment Focus

Style		Value	Blend	Growth
Market Cap	Large			
	Medium			
	Small			

1 MSCI US REIT Index.

2 Dow Jones Wilshire 5000 Index.

3 This yield may include some payments that represent a return of capital, capital gains distributions, or both by the underlying REITs.

These amounts are determined by each REIT at the end of its fiscal year.

4 Annualized.

5 For an explanation of *R-squared*, *beta*, and other terms used here, see the *Glossary* on page 26.

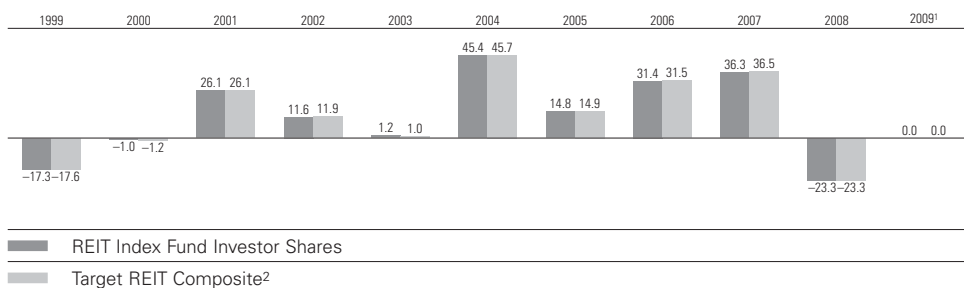
6 The Target REIT Composite consists of the MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average).

7 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.) 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, 1998–July 31, 2008



Average Annual Total Returns: Periods Ended June 30, 2008

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
Investor Shares ³	5/13/1996	-13.83%	13.80%	10.38%
Admiral Shares ³	11/12/2001	-13.74	13.88	14.05 ⁴
Signal Shares ³	6/4/2007	-13.77	-20.76 ⁴	—
Institutional Shares ³	12/2/2003	-13.72	11.36 ⁴	—
ETF Shares	9/23/2004			
Market Price		-13.62	10.00 ⁴	—
Net Asset Value		-13.75	10.01 ⁴	—

1 Six months ended July 31, 2008.

2 The Target REIT Composite consists of the MSCI US REIT Index adjusted to include a 2% cash position. (Lipper Money Market Average.)

3 Total return figures do not reflect the 1% redemption fee assessed on redemptions of shares held for less than one year, nor for the Investor Shares do they include the account service fee that may apply to certain accounts with balances below \$10,000.

4 Return since inception.

Note: See *Financial Highlights* tables on pages 14–18 for dividend and capital gains information.

Financial Statements (unaudited)

Statement of Net Assets

As of July 31, 2008

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. 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)
Real Estate Investment Trusts (98.0%)					
Diversified REITs (8.4%)					
Vornado Realty Trust REIT	5,299,298	503,804	Digital Realty Trust, Inc. REIT	2,595,074	111,355
Liberty Property Trust REIT	3,514,134	127,915	Mack-Cali Realty Corp. REIT	2,518,757	96,670
Washington REIT	1,895,919	64,954	Douglas Emmett, Inc. REIT	3,690,817	86,845
Colonial Properties Trust REIT	1,722,313	34,377	Highwood Properties, Inc. REIT	2,194,506	80,099
^Cousins Properties, Inc. REIT	1,481,590	32,551	Corporate Office Properties Trust, Inc. REIT	1,817,179	70,652
PS Business Parks, Inc. REIT	589,871	31,027	BioMed Realty Trust, Inc. REIT	2,733,777	70,531
Investors Real Estate Trust REIT	2,194,964	23,047	HRPT Properties Trust REIT	8,649,064	60,630
CapLease, Inc. REIT	1,612,072	12,606	Kilroy Realty Corp. REIT	1,261,679	57,798
^Gramercy Capital Corp. REIT	1,650,327	11,156	Brandywine Realty Trust REIT	3,339,226	53,595
		841,437	Lexington Realty Trust REIT	2,442,723	35,175
Industrial REITs (8.4%)					
ProLogis REIT	9,912,379	484,517	^Franklin Street Properties Corp. REIT	2,307,881	28,318
AMB Property Corp. REIT	3,802,397	186,165	Parkway Properties Inc. REIT	582,798	20,567
DCT Industrial Trust Inc. REIT	6,459,848	54,715	^Maguire Properties, Inc. REIT	1,443,824	15,579
EastGroup Properties, Inc. REIT	913,399	42,382			1,683,143
^First Industrial Realty Trust REIT	1,671,610	41,439	Residential REITs (16.0%)		
DuPont Fabros Technology Inc. REIT	1,365,866	22,332	Equity Residential REIT	10,351,118	446,858
First Potomac REIT	927,882	14,735	Avalonbay Communities, Inc. REIT	2,968,301	295,969
		846,285	UDR, Inc. REIT	5,150,927	131,555
Office REITs (16.8%)					
Boston Properties, Inc. REIT	4,587,699	441,291	Apartment Investment & Management Co. Class A REIT	3,666,260	125,276
SL Green Realty Corp. REIT	2,260,296	188,373	Essex Property Trust, Inc. REIT	954,810	115,866
Duke Realty Corp. REIT	5,611,900	138,782	Camden Property Trust REIT	2,022,820	99,482
Alexandria Real Estate Equities, Inc. REIT	1,228,773	126,883			

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
BRE Properties Inc. Class A REIT	1,955,522	95,586	Kite Realty Group Trust REIT	1,053,464	13,084
Home Properties, Inc. REIT	1,250,496	68,802	Urstadt Biddle Properties Class A REIT	735,513	12,173
Mid-America Apartment Communities, Inc. REIT	988,801	56,826	Urstadt Biddle Properties REIT	29,909	503
Post Properties, Inc. REIT	1,681,251	53,447			<u>2,651,212</u>
American Campus Communities, Inc. REIT	1,529,457	44,783	Specialized REITs (21.9%)		
Equity Lifestyle Properties, Inc. REIT	887,316	42,600	Public Storage, Inc. REIT	4,910,856	402,150
Education Realty Trust, Inc. REIT	1,088,626	12,193	HCP, Inc. REIT	8,999,646	324,617
Sun Communities, Inc. REIT	628,702	10,675	Host Hotels & Resorts Inc. REIT	19,093,548	250,316
		<u>1,599,918</u>	Ventas, Inc. REIT	5,309,500	238,184
Retail REITs (26.5%)			Health Care Inc. REIT	3,292,326	164,188
Simon Property Group, Inc. REIT	8,561,671	793,068	Nationwide Health Properties, Inc. REIT	3,656,463	135,691
Kimco Realty Corp. REIT	8,735,914	308,290	Senior Housing Properties Trust REIT	4,293,696	90,382
General Growth Properties Inc. REIT	8,427,788	231,006	Hospitality Properties Trust REIT	3,602,107	76,725
Federal Realty Investment Trust REIT	2,255,589	163,778	Entertainment Properties Trust REIT	1,218,871	65,380
Regency Centers Corp. REIT	2,671,530	158,956	Healthcare Realty Trust Inc. REIT	1,946,273	56,461
The Macerich Co. REIT	2,777,032	153,653	Omega Healthcare Investors, Inc. REIT	2,642,519	45,636
Developers Diversified Realty Corp. REIT	4,588,724	146,656	Extra Space Storage Inc. REIT	2,894,610	41,017
^ Realty Income Corp. REIT	3,888,117	97,942	LaSalle Hotel Properties REIT	1,545,388	35,096
Taubman Co. REIT	2,020,511	96,985	Sovran Self Storage, Inc. REIT	834,704	34,899
Weingarten Realty Investors REIT	2,894,727	88,260	DiamondRock Hospitality Co. REIT	3,633,632	33,502
National Retail Properties REIT	2,782,755	58,827	National Health Investors REIT	962,192	29,722
CBL & Associates Properties, Inc. REIT	2,394,817	46,507	Medical Properties Trust Inc. REIT	2,492,916	27,646
^ Tanger Factory Outlet Centers, Inc. REIT	1,202,304	44,894	Sunstone Hotel Investors, Inc. REIT	1,966,258	25,443
Inland Real Estate Corp. REIT	2,279,366	34,077	Strategic Hotels and Resorts, Inc. REIT	2,846,737	22,461
Equity One, Inc. REIT	1,565,925	30,238	U-Store-It Trust REIT	1,889,401	22,012
Pennsylvania REIT	1,507,640	27,771	LTC Properties, Inc. REIT	744,399	21,759
* Alexander's, Inc. REIT	77,733	27,575	FelCor Lodging Trust, Inc. REIT	2,405,370	19,219
Saul Centers, Inc. REIT	548,868	26,604	Ashford Hospitality Trust REIT	4,405,441	17,490
Acadia Realty Trust REIT	1,170,289	26,554	Universal Health Realty Income REIT	433,299	15,152
Cedar Shopping Centers, Inc. REIT	1,703,958	21,743			<u>2,195,148</u>
Ramco-Gershenson Properties Trust REIT	709,896	15,348			
^ Glimcher Realty Trust REIT	1,441,697	13,422			
Getty Realty Holding Corp. REIT	710,744	13,298			
			Total Real Estate Investment Trusts (Cost \$9,304,718)		9,817,143

	Shares	Market Value* (\$000)
Temporary Cash Investments (2.6%)		
¹ Vanguard Market Liquidity Fund, 2.386%	197,399,834	197,400
¹ Vanguard Market Liquidity Fund, 2.386%—Note E	60,432,100	60,432
Total Temporary Cash Investments (Cost \$257,832)		257,832
Total Investments (100.6%) (Cost \$9,562,550)		10,074,975
Other Assets and Liabilities (-0.6%)		
Other Assets—Note B		170,954
Liabilities—Note E		(228,848)
		(57,894)
Net Assets (100%)		10,017,081

At July 31, 2008, net assets consisted of:²

	Amount (\$000)
Paid-in Capital	9,552,073
Overdistributed Net Investment Income	(57,739)
Accumulated Net Realized Gains	10,322
Unrealized Appreciation	512,425
Net Assets	10,017,081
Investor Shares—Net Assets	
Applicable to 216,327,817 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)	4,319,065
Net Asset Value Per Share—Investor Shares	\$19.97
Admiral Shares—Net Assets	
Applicable to 20,773,892 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)	1,769,812
Net Asset Value Per Share—Admiral Shares	\$85.19
Signal Shares—Net Assets	
Applicable to 28,686,309 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)	652,394
Net Asset Value Per Share—Signal Shares	\$22.74
Institutional Shares—Net Assets	
Applicable to 66,719,942 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)	879,655
Net Asset Value Per Share—Institutional Shares	\$13.18
ETF Shares—Net Assets	
Applicable to 39,881,298 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)	2,396,155
Net Asset Value Per Share—ETF Shares	\$60.08

• See Note A in *Notes to Financial Statements*.

* Non-income-producing security.

[^] Part of security position is on loan to broker-dealers. See Note E in *Notes to Financial Statements*.

¹ Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

² See Note C in *Notes to Financial Statements* for the tax-basis components of net assets.

Statement of Operations

Six Months Ended
July 31, 2008

	(\$000)
Investment Income	
Income	
Dividends	159,522
Interest ¹	2,717
Security Lending	794
Total Income	163,033
Expenses	
The Vanguard Group—Note B	
Investment Advisory Services	103
Management and Administrative	
Investor Shares	3,584
Admiral Shares	635
Signal Shares	224
Institutional Shares	237
ETF Shares	817
Marketing and Distribution	
Investor Shares	512
Admiral Shares	195
Signal Shares	59
Institutional Shares	94
ETF Shares	268
Custodian Fees	83
Shareholders' Reports	
Investor Shares	45
Admiral Shares	1
Signal Shares	2
Institutional Shares	5
ETF Shares	28
Trustees' Fees and Expenses	8
Total Expenses	6,900
Net Investment Income	156,133
Realized Net Gain (Loss)	
Investment Securities Sold	363,622
Capital Gain Distributions Received	61,144
Realized Net Gain (Loss)	424,766
Change in Unrealized Appreciation (Depreciation) of Investment Securities	(602,782)
Net Increase (Decrease) in Net Assets Resulting from Operations	(21,883)

¹ Interest income from an affiliated company of the fund was \$2,717,000.

Statement of Changes in Net Assets

	Six Months Ended July 31, 2008	Year Ended January 31, 2008
	(\$000)	(\$000)
Increase (Decrease) in Net Assets		
Operations		
Net Investment Income	156,133	277,469
Realized Net Gain (Loss)	424,766	764,385
Change in Unrealized Appreciation (Depreciation)	(602,782)	(3,956,300)
Net Increase (Decrease) in Net Assets Resulting from Operations	(21,883)	(2,914,446)
Distributions		
Net Investment Income		
Investor Shares	(87,173)	(135,972)
Admiral Shares	(36,978)	(69,231)
Signal Shares	(12,876)	(5,931)
Institutional Shares	(16,653)	(22,421)
ETF Shares	(47,260)	(46,805)
Realized Capital Gain		
Investor Shares	—	(43,507)
Admiral Shares	—	(21,491)
Signal Shares	—	(1,833)
Institutional Shares	—	(6,913)
ETF Shares	—	(14,497)
Return of Capital		
Investor Shares	—	(41,347)
Admiral Shares	—	(20,900)
Signal Shares	—	(1,789)
Institutional Shares	—	(6,758)
ETF Shares	—	(14,122)
Total Distributions	(200,940)	(453,517)
Capital Share Transactions—Note F		
Investor Shares	378,181	(1,091,585)
Admiral Shares	105,455	(903,826)
Signal Shares	131,225	657,624
Institutional Shares	179,900	18,915
ETF Shares	351,669	888,417
Net Increase (Decrease) from Capital Share Transactions	1,146,430	(430,455)
Total Increase (Decrease)	923,607	(3,798,418)
Net Assets		
Beginning of Period	9,093,474	12,891,892
End of Period ¹	10,017,081	9,093,474

¹ Net Assets—End of Period includes undistributed (overdistributed) net investment income of (\$57,739,000) and (\$12,932,000).

Financial Highlights

Investor Shares

For a Share Outstanding Throughout Each Period	Six Months Ended July 31, 2008	Year Ended January 31,				
	2008	2007	2006	2005	2004	
Net Asset Value, Beginning of Period	\$20.38	\$27.76	\$21.29	\$17.20	\$15.83	\$11.52
Investment Operations						
Net Investment Income	.33	.615	.530	.562	.563	.579
Net Realized and Unrealized Gain (Loss) on Investments ¹	(.32)	(6.985)	7.000	4.692	1.759	4.511
Total from Investment Operations	.01	(6.370)	7.530	5.254	2.322	5.090
Distributions						
Dividends from Net Investment Income	(.42)	(.622)	(.534)	(.568)	(.565)	(.678)
Distributions from Realized Capital Gains	—	(.199)	(.413)	(.530)	(.387)	—
Return of Capital	—	(.189)	(.113)	(.066)	—	(.102)
Total Distributions	(.42)	(1.010)	(1.060)	(1.164)	(.952)	(.780)
Net Asset Value, End of Period	\$19.97	\$20.38	\$27.76	\$21.29	\$17.20	\$15.83
Total Return²	0.01%	-23.28%	36.32%	31.43%	14.78%	45.39%
Ratios/Supplemental Data						
Net Assets, End of Period (Millions)	\$4,319	\$4,046	\$6,827	\$4,727	\$4,311	\$3,383
Ratio of Total Expenses to Average Net Assets	0.20%*	0.20%	0.21%	0.21%	0.21%	0.24%
Ratio of Net Investment Income to Average Net Assets	3.14%*	2.52%	2.27%	2.91%	3.44%	4.10%
Portfolio Turnover Rate ³	7%*	13%	11%	17%	13%	7%

1 Includes increases from redemption fees of \$0.00, \$0.02, \$0.00, \$0.01, \$0.01, and \$0.00.

2 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.

3 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the fund's capital shares, including ETF Creation Units.

* Annualized.

Admiral Shares

For a Share Outstanding Throughout Each Period	Six Months Ended July 31, 2008	Year Ended January 31,				
	2008	2007	2006	2005	2004	
Net Asset Value, Beginning of Period	\$86.94	\$118.46	\$90.82	\$73.40	\$67.56	\$49.14
Investment Operations						
Net Investment Income	1.467	2.707	2.328	2.460	2.437	2.508
Net Realized and Unrealized Gain (Loss) on Investments ¹	(1.381)	(29.817)	29.903	19.993	7.494	19.279
Total from Investment Operations	.086	(27.110)	32.231	22.453	9.931	21.787
Distributions						
Dividends from Net Investment Income	(1.836)	(2.735)	(2.341)	(2.488)	(2.439)	(2.931)
Distributions from Realized Capital Gains	—	(.849)	(1.761)	(2.258)	(1.652)	—
Return of Capital	—	(.826)	(.489)	(.287)	—	(.436)
Total Distributions	(1.836)	(4.410)	(4.591)	(5.033)	(4.091)	(3.367)
Net Asset Value, End of Period	\$85.19	\$86.94	\$118.46	\$90.82	\$73.40	\$67.56
Total Return²	0.06%	-23.23%	36.46%	31.49%	14.82%	45.57%
Ratios/Supplemental Data						
Net Assets, End of Period (Millions)	\$1,770	\$1,706	\$3,392	\$2,025	\$938	\$733
Ratio of Total Expenses to Average Net Assets	0.10%*	0.10%	0.14%	0.14%	0.16%	0.18%
Ratio of Net Investment Income to Average Net Assets	3.24%*	2.62%	2.34%	2.98%	3.49%	4.16%
Portfolio Turnover Rate ³	7%*	13%	11%	17%	13%	7%

1 Includes increases from redemption fees of \$0.01, \$0.10, \$0.02, \$0.02, \$0.04, and \$0.01.

2 Total returns do not reflect the 1% fee assessed on redemptions of shares held for less than one year.

3 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the fund's capital shares, including ETF Creation Units.

* Annualized.

Signal Shares

	Six Months Ended July 31, 2008	June 4, 2007 ¹ to Jan. 31, 2008
For a Share Outstanding Throughout Each Period		
Net Asset Value, Beginning of Period	\$23.21	\$30.05
Investment Operations		
Net Investment Income	.392	.470
Net Realized and Unrealized Gain (Loss) on Investments ²	(.373)	(6.311)
Total from Investment Operations	.019	(5.841)
Distributions		
Dividends from Net Investment Income	(.489)	(.620)
Distributions from Realized Capital Gains	—	(.192)
Return of Capital	—	(.187)
Total Distributions	(.489)	(.999)
Net Asset Value, End of Period	\$22.74	\$23.21
Total Return³	0.04%	-19.68%
Ratios/Supplemental Data		
Net Assets, End of Period (Millions)	\$652	\$538
Ratio of Total Expenses to Average Net Assets	0.10%*	0.10%*
Ratio of Net Investment Income to Average Net Assets	3.24%*	2.62%*
Portfolio Turnover Rate ⁴	7%*	13%

1 Inception.

2 Includes increases from redemption fees of \$0.00 and \$0.01.

3 Total returns do not reflect the 1% fee assessed on redemptions of shares held for less than one year.

4 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the fund's capital shares, including ETF Creation Units.

* Annualized.

Institutional Shares

For a Share Outstanding Throughout Each Period	Six Months Ended July 31, 2008	Year Ended January 31,				Dec. 2, 2003 ¹ to Jan. 31, 2004
	2008	2008	2007	2006	2005	2004
Net Asset Value, Beginning of Period	\$13.46	\$18.33	\$14.06	\$11.36	\$10.46	\$10.00
Investment Operations						
Net Investment Income	.228	.420	.366	.385	.381	.065
Net Realized and Unrealized Gain (Loss) on Investments ²	(.223)	(4.605)	4.621	3.099	1.156	.575
Total from Investment Operations	.005	(4.185)	4.987	3.484	1.537	.640
Distributions						
Dividends from Net Investment Income	(.285)	(.426)	(.368)	(.389)	(.381)	(.157)
Distributions from Realized Capital Gains	—	(.131)	(.273)	(.350)	(.256)	—
Return of Capital	—	(.128)	(.076)	(.045)	—	(.023)
Total Distributions	(.285)	(.685)	(.717)	(.784)	(.637)	(.180)
Net Asset Value, End of Period	\$13.18	\$13.46	\$18.33	\$14.06	\$11.36	\$10.46
Total Return³	0.00%	-23.18%	36.45%	31.58%	14.81%	6.49%
Ratios/Supplemental Data						
Net Assets, End of Period (Millions)	\$880	\$722	\$960	\$571	\$297	\$63
Ratio of Total Expenses to Average Net Assets	0.09%*	0.09%	0.10%	0.10%	0.13%	0.15%*
Ratio of Net Investment Income to Average Net Assets	3.25%*	2.63%	2.38%	3.02%	3.52%	4.19%*
Portfolio Turnover Rate ⁴	7%*	13%	11%	17%	13%	7%

1 Inception.

2 Includes increases from redemption fees of \$0.00, \$0.01, \$0.00, \$0.00, \$0.00, and \$0.00.

3 Total returns do not reflect the 1% fee assessed on redemptions of shares held for less than one year.

4 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the fund's capital shares, including ETF Creation Units.

* Annualized.

ETF Shares

For a Share Outstanding Throughout Each Period	Six Months Ended July 31, 2008	Year Ended January 31,			Sept. 23, 2004 ¹ to Jan. 31, 2005
		2008	2007	2006	
Net Asset Value, Beginning of Period	\$61.31	\$83.55	\$64.07	\$51.77	\$49.41
Investment Operations					
Net Investment Income	1.034	1.908	1.654	1.745	.665
Net Realized and Unrealized Gain (Loss) on Investments ²	(.971)	(21.037)	21.080	14.116	2.965
Total from Investment Operations	.063	(19.129)	22.734	15.861	3.630
Distributions					
Dividends from Net Investment Income	(1.293)	(1.931)	(1.665)	(1.764)	(.682)
Distributions from Realized Capital Gains	—	(.598)	(1.242)	(1.594)	(.588)
Return of Capital	—	(.582)	(.347)	(.203)	—
Total Distributions	(1.293)	(3.111)	(3.254)	(3.561)	(1.270)
Net Asset Value, End of Period	\$60.08	\$61.31	\$83.55	\$64.07	\$51.77
Total Return	0.06%	-23.23%	36.48%	31.54%	7.13%
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	\$2,396	\$2,082	\$1,713	\$871	\$198
Ratio of Total Expenses to Average Net Assets	0.10%*	0.10%	0.12%	0.12%	0.18%*
Ratio of Net Investment Income to Average Net Assets	3.24%*	2.62%	2.36%	3.00%	3.47%*
Portfolio Turnover Rate ³	7%*	13%	11%	17%	13%

1 Inception.

2 Includes increases from redemption fees of \$0.00, \$0.04, \$0.01, \$0.01, and \$0.00.

3 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the fund's capital shares, including ETF Creation Units.

* Annualized.

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

Notes to Financial Statements

Vanguard REIT Index Fund is registered under the Investment Company Act of 1940 as an open-end investment company, or mutual fund. The fund files reports with the SEC under the company name Vanguard Specialized Funds. The fund offers five classes of shares: Investor Shares, Admiral Shares, Signal Shares, Institutional Shares, and ETF Shares. Investor Shares are available to any investor who meets the fund's minimum purchase requirements. Admiral Shares are designed for investors who meet certain administrative, service, tenure, and account-size criteria. Signal Shares are designed for institutional investors who meet certain administrative, service, and account-size criteria. Institutional Shares are designed for investors who meet certain administrative and service criteria and invest a minimum of \$5 million. ETF Shares are listed for trading on the American Stock Exchange; they can be purchased and sold through a broker.

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 materially affected by events occurring before the fund's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value.

2. **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, 2005–2008) and for the period ended July 31, 2008, and has concluded that no provision for federal income tax is required in the fund's financial statements.

3. **Distributions:** Distributions to shareholders are recorded on the ex-dividend date. Quarterly income dividends declared by the fund are reallocated at fiscal year-end to ordinary income, capital gain, and return of capital to reflect their tax character.

4. **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.

5. **Other:** Distributions received from REITs are recorded on the ex-dividend date. Each REIT reports annually the tax character of its distributions. Dividend income, capital gain distributions received, and unrealized appreciation (depreciation) reflect the amounts of taxable income, capital gain, and return of capital reported by the REITs, and management's estimates of such amounts for REIT distributions for which actual information has not been reported. 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.

Each class of shares has equal rights as to assets and earnings, except that each class separately bears certain class-specific expenses related to maintenance of shareholder accounts (included in Management and Administrative expenses) and shareholder reporting. Marketing and distribution expenses are allocated to each class of shares based on a method approved by the board of trustees. Income, other non-class-specific expenses, and gains and losses on investments are allocated to each class of shares based on its relative net assets.

B. The Vanguard Group furnishes at cost investment advisory, 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, 2008, the fund had contributed capital of \$813,000 to Vanguard (included in Other Assets), representing 0.01% of the fund's net assets and 0.81% of Vanguard's capitalization. The fund's trustees and officers are also directors and officers of Vanguard.

C. 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, 2008, the fund realized \$414,237,000 of net capital gains resulting from in-kind redemptions—in which shareholders exchanged fund shares for securities held by the fund rather than for cash. Because such gains are not taxable to the fund, and are not distributed to shareholders, they have been reclassified from accumulated net realized gains to paid-in capital.

At July 31, 2008, the cost of investment securities for tax purposes was \$9,562,550,000. Net unrealized appreciation of investment securities for tax purposes was \$512,425,000, consisting of unrealized gains of \$1,285,711,000 on securities that had risen in value since their purchase and \$773,286,000 in unrealized losses on securities that had fallen in value since their purchase.

D. During the six months ended July 31, 2008, the fund purchased \$2,288,835,000 of investment securities and sold \$1,111,662,000 of investment securities other than temporary cash investments.

E. The market value of securities on loan to broker-dealers at July 31, 2008, was \$56,656,000, for which the fund received cash collateral of \$60,432,000.

F. Capital share transactions for each class of shares were:

	Six Months Ended July 31, 2008		Year Ended January 31, 2008	
	Amount (\$000)	Shares (000)	Amount (\$000)	Shares (000)
Investor Shares				
Issued	682,984	32,559	1,399,642	56,790
Issued in Lieu of Cash Distributions	81,634	3,997	206,766	8,999
Redeemed ¹	(386,437)	(18,819)	(2,697,993)	(113,122)
Net Increase (Decrease)—Investor Shares	378,181	17,737	(1,091,585)	(47,333)
Admiral Shares				
Issued	209,567	2,331	767,550	7,020
Issued in Lieu of Cash Distributions	30,787	353	93,775	948
Redeemed ¹	(134,899)	(1,532)	(1,765,151)	(16,977)
Net Increase (Decrease)—Admiral Shares	105,455	1,152	(903,826)	(9,009)
Signal Shares				
Issued	198,685	8,375	744,428	26,756
Issued in Lieu of Cash Distributions	11,260	485	8,094	346
Redeemed ¹	(78,720)	(3,350)	(94,898)	(3,926)
Net Increase (Decrease)—Signal Shares	131,225	5,510	657,624	23,176
Institutional Shares				
Issued	247,986	18,016	353,251	22,005
Issued in Lieu of Cash Distributions	15,606	1,158	33,538	2,226
Redeemed ¹	(83,692)	(6,083)	(367,874)	(22,969)
Net Increase (Decrease)—Institutional Shares	179,900	13,091	18,915	1,262
ETF Shares				
Issued	1,164,212	18,930	2,480,141	33,552
Issued in Lieu of Cash Distributions	—	—	—	—
Redeemed ¹	(812,543)	(13,000)	(1,591,724)	(20,100)
Net Increase (Decrease)—ETF Shares	351,669	5,930	888,417	13,452

¹ Net of redemption fees of \$773,000 and \$7,614,000 (fund totals).

G. In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 ("FAS 157"), "Fair Value Measurements." FAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements in financial statements, effective for the fund's current fiscal period.

The various inputs that may be used to determine the value of the fund's investments are summarized in three broad levels. The inputs or methodologies used for valuing 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).

At July 31, 2008, 100% of the fund's investments were valued based on Level 1 inputs.

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 table on page 24 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.

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.

Six Months Ended July 31, 2008

REIT Index Fund	Beginning Account Value 1/31/2008	Ending Account Value 7/31/2008	Expenses Paid During Period ¹
Based on Actual Fund Return			
Investor Shares	\$1,000.00	\$1,000.11	\$0.99
Admiral Shares	1,000.00	1,000.59	0.50
Signal Shares	1,000.00	1,000.42	0.50
Institutional Shares	1,000.00	999.97	0.45
ETF Shares	1,000.00	1,000.56	0.50
Based on Hypothetical 5% Yearly Return			
Investor Shares	\$1,000.00	\$1,023.87	\$1.01
Admiral Shares	1,000.00	1,024.37	0.50
Signal Shares	1,000.00	1,024.37	0.50
Institutional Shares	1,000.00	1,024.32	0.45
ETF Shares	1,000.00	1,024.37	0.50

¹ These calculations are based on expenses incurred in the most recent six-month period. The fund's annualized six-month expense ratios for that period are 0.20% for Investor Shares, 0.10% for Admiral Shares, 0.10% for Signal Shares, 0.09% for Institutional Shares, and 0.10% for ETF Shares. 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.

Trustees Approve Advisory Arrangement

The board of trustees of Vanguard REIT Index Fund has renewed the fund's investment advisory arrangement with The Vanguard Group, Inc. Vanguard—through its Quantitative Equity Group (QEG)—serves as the investment advisor to the fund. The board determined that continuing the fund's internalized management structure 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 arrangement. 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 Vanguard has been managing investments for more than two decades. George U. Sauter, Vanguard managing director and chief investment officer, has been in the investment management business since 1985. Mr. Sauter has led QEG since 1987. QEG adheres to a sound, disciplined investment management process; the team has considerable experience, stability, and depth.

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

Investment performance

The board considered the short- and long-term performance of the fund, including any periods of outperformance or underperformance of its target benchmark and peer group. The board concluded that the fund has performed in line with expectations, and that its results have been consistent with its investment strategy. 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 far below the average expense ratio charged by funds in its peer group. The board noted that the fund's advisory expense ratio 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.

The board does not conduct a profitability analysis of Vanguard because of Vanguard's unique "at-cost" structure. Unlike most other mutual fund management companies, Vanguard is owned by the funds it oversees, and produces "profits" only in the form of reduced expenses for fund shareholders.

The benefit of economies of scale

The board concluded that the fund's low-cost arrangement with Vanguard ensures that the fund will realize economies of scale as it grows, with the cost to shareholders declining as the fund's assets increase.

The board will consider whether to renew the advisory arrangement 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 below). 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.

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.

Yield. A snapshot of the level of dividends, interest, capital gains distributions, and return-of-capital distributions received by the fund. The index yield is based on the current annualized rate of dividends and other distributions provided by securities in the index.

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.

Our independent board members bring distinguished backgrounds in business, academia, and public service to their task of working with Vanguard officers to establish the policies and oversee the activities of the funds. Among board members' responsibilities are selecting investment advisors for the funds; monitoring fund operations, performance, and costs; reviewing contracts; nominating and selecting new trustees/directors; and electing Vanguard officers.

Each trustee serves a fund until its termination; or until the trustee's retirement, resignation, or death; or otherwise as specified in the fund's organizational documents. Any trustee may be removed at a shareholders' meeting by a vote representing two-thirds of the net asset value of all shares of the fund together with shares of other Vanguard funds organized within the same trust. The table on these two pages shows information for each trustee and executive officer of the fund. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482.

Chairman of the Board, Chief Executive Officer, and Trustee

John J. Brennan¹

Born 1954
Trustee Since May 1987;
Chairman of the Board and
Chief Executive Officer
156 Vanguard Funds Overseen

Principal Occupation(s) During the Past Five Years: Chairman of the Board, Chief Executive Officer, and Director/Trustee of The Vanguard Group, Inc., and of each of the investment companies served by The Vanguard Group; Director of Vanguard Marketing Corporation.

Independent Trustees

Charles D. Ellis

Born 1937
Trustee Since January 2001
156 Vanguard Funds Overseen

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
156 Vanguard Funds Overseen

Principal Occupation(s) During the Past Five Years: Executive Chief Staff and Marketing Officer for North America since 2004 and Corporate Vice President of Xerox Corporation (photocopiers and printers); Director of SPX Corporation (multi-industry manufacturing), of the United Way of Rochester, and of the Boy Scouts of America.

Rajiv L. Gupta

Born 1945
Trustee Since December 2001²
156 Vanguard Funds Overseen

Principal Occupation(s) During the Past Five Years: Chairman, President, and Chief Executive Officer of Rohm and Haas Co. (chemicals); Board Member of the American Chemistry Council; Director of Tyco International, Ltd. (diversified manufacturing and services) since 2005.

Amy Gutmann

Born 1949
Trustee Since June 2006
156 Vanguard Funds Overseen

Principal Occupation(s) During the Past Five Years: President of the University of Pennsylvania since 2004; Professor in the School of Arts and Sciences, Annenberg School for Communication, and Graduate School of Education of the University of Pennsylvania since 2004; Provost (2001–2004) and Laurance S. Rockefeller Professor of Politics and the University Center for Human Values (1990–2004), Princeton University; Director of Carnegie Corporation of New York since 2005 and of Schuylkill River Development Corporation and Greater Philadelphia Chamber of Commerce since 2004; Trustee of the National Constitution Center since 2007.

JoAnn Heffernan Heisen

Born 1950 Trustee Since July 1998 156 Vanguard Funds Overseen	Principal Occupation(s) During the Past Five Years: Corporate Vice President and Chief Global Diversity Officer since 2006; Vice President and Chief Information Officer (1997–2005), and Member of the Executive Committee of Johnson & Johnson (pharmaceuticals/consumer products); Director of the University Medical Center at Princeton and Women's Research and Education Institute.
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André F. Perold

Born 1952 Trustee Since December 2004 156 Vanguard Funds Overseen	Principal Occupation(s) During the Past Five Years: George Gund Professor of Finance and Banking, Harvard Business School; Senior Associate Dean and Director of Faculty Recruiting, Harvard Business School; Director and Chairman of UNX, Inc. (equities trading firm); Chair of the Investment Committee of HighVista Strategies LLC (private investment firm) since 2005.
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Alfred M. Rankin, Jr.

Born 1941 Trustee Since January 1993 156 Vanguard Funds Overseen	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).
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J. Lawrence Wilson

Born 1936 Trustee Since April 1985 156 Vanguard Funds Overseen	Principal Occupation(s) During the Past Five Years: Retired Chairman and Chief Executive Officer of Rohm and Haas Co. (chemicals); Director of Cummins Inc. (diesel engines) and AmerisourceBergen Corp. (pharmaceutical distribution); Trustee of Vanderbilt University and of Culver Educational Foundation.
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Executive Officers¹**Thomas J. Higgins**

Born 1957 Treasurer Since July 1998 156 Vanguard Funds Overseen	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.
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F. William McNabb III

Born 1957 President Since March 2008 156 Vanguard Funds Overseen	Principal Occupation(s) During the Past Five Years: President of The Vanguard Group, Inc., 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).
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Heidi Stam

Born 1956 Secretary Since July 2005 156 Vanguard Funds Overseen	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).
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Vanguard Senior Management Team

R. Gregory Barton Mortimer J. Buckley	Kathleen C. Gubanich Paul A. Heller	Michael S. Miller Ralph K. Packard	Glenn W. Reed George U. Sauter
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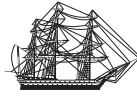
Founder**John C. Bogle**

Chairman and Chief Executive Officer, 1974–1996

¹ Officers of the funds are "interested persons" as defined in the Investment Company Act of 1940.

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

More information about the trustees is in the *Statement of Additional Information*, available from The Vanguard Group.



Vanguard®

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You can review and copy information about your fund at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your fund is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via e-mail addressed to publicinfo@sec.gov or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-0102.

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