

In The Vanguard®

SPRING 2003

Investing Your Money

Experts See Many Challenges For Investors, But Offer Solutions Too

What's the biggest challenge facing investors today? Clearly, recovering from the stock market's three-year downturn is high on the list. But as the stock slide continues, the list seems to be lengthening.

At the end of February, *In The Vanguard* asked seven prominent investment managers, researchers, and authors to reflect on the tests confronting today's investors and to suggest the best ways to respond. Interestingly, many of the current challenges are not unlike those we faced during the roaring bull market of the late 1990s; they just feel tougher in the midst of the longest, and deepest, stock market decline since the Great Depression. Much of the advice offered by these experts is timeless, and is equally valuable whether stocks are rallying or crashing—"keeping the faith," knowing your limitations, and watching costs. Only bearish investment manager Jeremy Grantham suggested that the outlook for stocks may be bleak enough to warrant "evasive action" by some investors.



Andrew Tobias

Andrew Tobias is the author of The Only Investment Guide You'll Ever Need: How to Manage Your Money in Today's Economy.

The hardest thing is to sit on the sidelines in "cash" earning some pathetic 1% or 2%, waiting for the right time to recommit. But better to earn 2% than lose 20%. The *even harder* hardest thing is recognizing when to jump back in. (One answer: when valuations, once unreasonably high, have gone well past reasonable to unreasonably low.) But the *hardest* hardest thing is successfully "timing the market." So if you're really in it for the very long term—and especially if you can keep making additional periodic investments if/as the stock market goes further down—then you should begin getting back in for the long haul.

Whatever you do: Keep your expenses and fees low.



Jeremy J. Siegel

Jeremy J. Siegel is a professor of finance at the Wharton School of the University of Pennsylvania and the author of Stocks for the Long Run.

The biggest challenge for investors is forgetting about March 2000, when the S&P 500 and Nasdaq hit their peaks. Deal with the market opportunities from today's date forward. Despite the bear market, stocks are more attractive now than they have been in many years. Do not try to make up your losses by taking on more risk than you should. I estimate that stocks will return 5% to 7% per year after inflation for long-term investors.

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Special Section: Investing On The Web

Waves of Vanguard shareholders are surfing to Vanguard.com® to monitor and manage their money online. Find out why in our special section on online investing, starting on page 8.

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You can read *In The Vanguard* online at **Vanguard.com**. Simply log in and click on "news & views" at the top of your homepage.

Fund News

Vanguard Bond Chief To Retire

Ian A. MacKinnon, managing director of Vanguard's Fixed Income Group, will retire after 21 years at Vanguard, effective June 30, 2003. Mr. MacKinnon established the company's fixed income management function in 1981, and in the ensuing two decades oversaw its growth into an industry leader.

Upon Mr. MacKinnon's retirement, George U. "Gus" Sauter, managing director of Vanguard's Quantitative Equity Group, will assume a new, expanded role as Vanguard's chief investment officer responsible for all in-house stock and fixed income investment management functions. Mr. Sauter joined Vanguard in 1987 and will oversee nearly \$400 billion in assets, or about 70% of Vanguard's \$550 billion in U.S. mutual fund assets. •

Forbes "Best Buys" Feature 33 Vanguard Funds

Vanguard again dominated the "Best Buys" rankings in *Forbes* (February 3, 2003, edition), with 33 funds named to the select list of 110 portfolios honored by the magazine. The rankings were based on risk-adjusted performance and cost-efficiency. Vanguard® funds rated as "Best Buys" were 7 equity, 5 balanced, 12 taxable bond, and 9 tax-exempt bond portfolios. •

Vanguard Health Care Fund Raises Limits On Foreign Assets

The board of trustees of Vanguard® Health Care Fund recently approved an increase in the fund's international investment limit from 30% to 50% of the fund's assets. The policy change will give the fund's adviser, Wellington Management Company, LLP, greater flexibility to adapt to an increasingly global industry. The fund currently has a 26% position in non-U.S. companies; it is not expected that the fund's international holdings will approach a 50% weighting on a routine basis. •

International Growth Fund Adopts Multimanager Approach

In February, Baillie Gifford Overseas Ltd., a Scotland-based investment management firm, joined Vanguard® International Growth Fund's advisory team, complementing the fund's existing adviser, Schroder Investment Management North America. Under the new multimanager structure, London-based Schroder will serve as the primary investment manager, with responsibility for 75%-80% of the fund's \$5.5 billion in net assets (as of January 31). Baillie Gifford will manage approximately 20%-25% of the portfolio. The fund's investment objective and policies will not change. •

Vanguard To Add Two Annuity Portfolios

Two new portfolios of Vanguard® Variable Insurance Fund will be available for investment in the coming months. The **Capital Growth Portfolio** will seek long-term capital growth by investing primarily in large and midsized U.S. companies believed by the adviser—PRIMECAP Management—to have above-average earnings-growth potential. The **Total Stock Market Index Portfolio** will seek to track the performance of the Wilshire 5000 Total Market Index. •



John J. Brennan

From The Chairman: A Look At Vanguard's Progress, Promise

Since becoming CEO of The Vanguard Group in 1996, Jack Brennan has witnessed both an extraordinary run-up in stock prices and a precipitous decline. In The Vanguard spoke with Mr. Brennan recently about how Vanguard has progressed in both types of markets, as well as how investors can apply the lessons taught by the current tough environment.

How has Vanguard changed?

At a high level, we haven't changed at all. Vanguard has a singular goal, which is to be the world's highest-value provider of investment services. That was our focus when we were founded 28 years ago, and it is what we will stand for 100 years from now. But in a narrower sense, Vanguard always has to adapt to the technology that's available to help our clients invest better, and to meet changing client needs.

How would you define Vanguard's idea of value for clients?

Value has three components. One is investment results. You can be low-cost and have poor investment results, and who cares? The second thing is exceptional service—which is responsive and attentive to the client. Third, and only third, are low costs. If we have the other characteristics, and are focused and disciplined as an organization, we'll deliver on costs.

What differentiates Vanguard from its competition?

It always comes down to being owned by our clients. Ours is a unique setup in the investment management business. Our only duty is to our clients—we return our profits as a business venture to them alone.

Second, we recognize that our greatest asset is the trust that millions of people put in us. They trust that we will always put their interests ahead of our own, that we will always operate with the highest level of integrity and ethics. Integrity is not only the right thing but also a great business strategy because it in turn engenders trust and loyalty.

Is Vanguard's culture a distinguishing trait?

It's a huge competitive advantage, but it's driven by our client-focused structure. At Vanguard, there is no "me." There is no "I." Our crew members are here, no matter their position, because they understand who the number-one constituent is: the client. We don't want people who put themselves first; we want people who put themselves third.

Our client-focused structure is simply a better way to do business. We are never put into a position of conflict with our clients, something inherent in the rest of the investment management business. In most organizations, what's good for the business is higher fees, but that's bad for the client. In our case, what's good for the client is better value. I think that's a compelling way to work.

What are the biggest challenges facing Vanguard today?

Clearly, investor confidence in stocks is the top one. We had a wonderful ride from 1982 until the beginning of 2000, but with the past three years, I worry that people will give up on stocks, which would be to their disadvantage.

A related challenge is that clients may give up on risk altogether and say, "I'll take a CD." There's nothing wrong with a CD in some cases, but one of the great things that happened over the first ten years of the bull market for stocks was that people began to think about their risk tolerance, time horizon, and asset allocation. The steadfast way our investors have behaved during the bear market makes an extraordinary statement about their staying power and their knowledge.

I'm also concerned that regulatory cost burdens and potential overregulation of our business will impair our ability to serve clients and to provide the products and services they need. It's a reaction to the problems that occurred in the Enrons and the WorldComs, which had nothing to do with the mutual fund industry except that we were investors in those companies. But the broad brush is painting us as well.

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An expanded version of this interview is featured on Vanguard.com

Experts See Many Challenges For Investors, But Offer Solutions Too (continued from page 1)

Government and other high-grade bonds are very risky now, since the only scenario in which interest rates will continue to fall is a Japanese-style deflation, which the Fed is committed to—and capable of—avoiding.



William J. Bernstein

William J. Bernstein is the author of *The Four Pillars of Investing: Lessons for Building a Winning Portfolio*.

Investors face two equally important challenges. The first is to educate themselves. Investors continue to believe in the “returns fairy”—the fallacy that there are persistently superior managers—and the “timing fairy”—the myth that it is possible to divine the direction of the market. The sooner they learn about market efficiency and the importance of a long-term strategy that takes this efficiency into account, the better off they will be.

The second is to turn off the TV, stop browsing the Internet, toss out their financial publications, and *read books*. There are two classics that everyone should digest before they invest a dime: Burton Malkiel’s *A Random Walk Down Wall Street* and John Bogle’s *Common Sense on Mutual Funds*. They should then move on to works by others in the pantheon of useful finance writers: Charles Ellis, Roger Gibson, James Grant, and Edward Chancellor. Investing properly is like any other profession: You take out of it what you put in. If you don’t expend any educational effort, then you shouldn’t expect much.



Jeremy Grantham

Jeremy Grantham is chairman of the board of *Grantham, Mayo, Van Otterloo & Co. LLC*, investment adviser to several *Vanguard mutual funds*.

Investors have to learn to ignore general, publicly available advice. It’s overwhelmingly self-serving and driven by the concept that bullishness sells. Their other challenge is to get it into their brains that we live in a mean-reverting world—a *mean*

mean-reverting world. After rising above normal levels, prices always fall below normal. There are no exceptions to that rule. Today, P/Es would have to fall 20% to hit normal, and could then be expected to sustain a further decline of unknown magnitude. If you can take that on the chin, by all means stand your ground. If you can’t, and you mean to dump stocks at the bottom, then better to take evasive action and put your money into bonds to a level where you could stand it.

There’s also another very important feature. Collectively, foreign stocks are a decent value. The combination of taking your risk units in foreign stocks and putting more into fixed income—and surviving—is very much better than standing your ground and trying to prove your bravery.



Jane Bryant Quinn

Jane Bryant Quinn is a personal finance columnist for *Newsweek magazine* and author of *Making the Most of Your Money*.

The challenge for investors is to rebuild their retirement funds. Young people have time. But many of the middle-aged won’t be able to save enough. They’ll be working into their 70s (assuming good health) or returning to work (at low pay) if they have already retired.

Young investors can still gamble heavily on well-diversified stock funds. But older investors can’t take the same risks. What if they poured their remaining money into stocks and turned out to be wrong? Their challenge is to cut their standard of living, save more, and quit taking cash out of their houses. (You’ll need that equity when you retire.) On the financial side, invest half your money or less (depending on your age) in a total market stock fund and the rest in safer places, such as a short-term bond fund, savings bonds, or intermediate-term Treasuries, held to maturity.



Brad M. Barber

Brad M. Barber, a professor of management at the University of California, Davis, has conducted extensive research on the behavior of investors, market valuations, and market efficiency.

“The investor’s chief problem—and even his worst enemy—is likely to be himself,” to quote Benjamin Graham. Many investors trade too aggressively and fail to minimize investment costs and taxes. Stock picking and market-timing are pure folly for the average investor.

When you are your own worst enemy, the solution is self-discipline. Investors should hold a well-diversified portfolio of stocks and bonds. For many, the choice should be a mix of low-cost, no-load, tax-efficient mutual funds. Once you’ve made these sensible investments, leave it alone. Sound easy? It’s not.



Don Phillips

Don Phillips is managing director of Morningstar, the Chicago-based investment research firm.

The biggest challenge investors face today is keeping the faith. Recent returns have been so bad, and the investment landscape is currently so uncertain, that it’s easy to lose faith and abandon a sensible long-term investment plan. Investors need to discipline themselves to focus on the bigger picture, to recognize that many of today’s concerns will fade, and to realize that over time markets will rebound. It’s important to grasp the value of broad diversification and the benefits of rebalancing or dollar-cost averaging. •

Dollar-cost averaging does not guarantee that your investments will make a profit, nor does it protect you against losses when stock or bond prices are falling.

Investing Your Money

Plan With Perspective, Says Vanguard Expert



Catherine Gordon

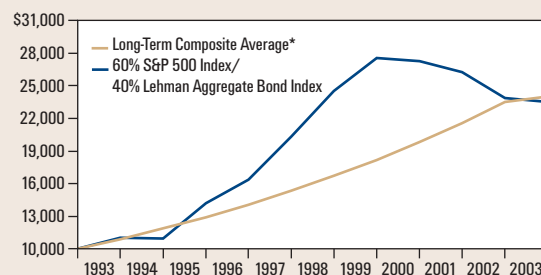
Catherine Gordon heads Vanguard’s Investment Counseling & Research group.

Diversify. Invest steadily. Watch costs. These common themes expressed by the seven experts in our cover story are among principles of sound investing that Vanguard has long embraced.

Here are two other critical precepts for successful investing: setting realistic expectations and maintaining perspective.

Despite some wild ups and downs during the past decade, the actual return of a 60%/40% stock/bond mix was equal to the average annual return produced by this same allocation over the entire history of the modern stock market. That average, for 1926–2002, was 8.9%. The table shows results for hypothetical \$10,000 investments.

Two Routes To The Same Result



Source: The Vanguard Group.

*Average annualized return from 1926 to 2002.

In the same manner that the extraordinarily generous returns provided by stocks in the late 1990s skewed many investors’ expectations for future returns, the three-year bear market has clouded their perspectives on the true performance of their portfolios. The proof is in the investment results. A \$10,000 investment in a 60% stock/40% bond portfolio made a decade ago is today worth \$23,546—about what you could have expected using the long-term average returns for a comparable stock/bond composite benchmark.

We discourage you from simply extrapolating investment returns from the *recent* past to guide your future expectations. Focus, instead, on establishing a sound asset allocation based on your time horizon and unique financial needs, with the expectation that future returns earned by various asset classes will approximate their historical averages over longer time periods. Be prepared, however, for periods when returns may deviate—sometimes considerably—from the average. •

From The Chairman: A Look At Vanguard's Progress, Promise (continued from page 3)

The fourth thing is making sure that as a large organization we stay flexible, adaptive, and responsive. I'm incredibly impressed and proud of the people I work with and how they've handled extraordinary difficulties over the last three years. Most of our competitors have regressed and retrenched. Our people have moved forward.

How have investors fared in the bear market?

We recently conducted a study that showed investors have fared much better than the stock market in the past three years because of balance and diversification. From a total-return standpoint, our investors have fared *far* better. For example, although the stock market declined 15% per year during the bear market, the retirement account of our average 401(k) participant declined 6% annually. Painful, but not disastrous.

The second aspect of how investors have fared is that the majority of our investors are regular contributors to the funds. If you're investing in IRAs or 401(k)s for the long term, market declines are not devastating to your portfolio because you get the opportunity to buy shares at lower prices. We see that behavior manifested by investors as they continue to invest in all market environments.

What lesson should we take from the boom and bust?

I think perspective is all-important. You can never step out of the market environment, but you really need perspective in both euphoric and despondent periods. Discipline is really important, yet it's harder and harder to keep when you are inundated with news. This isn't 1962 when you could only read the stock prices at night in the evening paper; websites and television make them available all of the time. So the temptation to "get in the game" is great, and most people shouldn't be in the "game"—they ought to deal with their finances with discipline and perspective.

Are there things investors should be doing right now that they aren't doing?

This is the perfect time to test your true risk tolerance and time horizon. Fill out our risk

questionnaire, but take it in the context of the last five years and ask yourself, "How have I *really* reacted? Does the fact that the stock portion of my portfolio has gone down significantly keep me up at night?" Were you jealous if you were underinvested in stocks in 1998 and 1999, or worse, did you find you just couldn't stand it anymore and loaded up on all the risk you could find right before the market pullback? Ask yourself what you can learn from your reaction to tumultuous markets.

Then, take that knowledge of the past and apply it to the future. Invest your assets strategically, not tactically. That means that you should review your portfolio on an annual basis, learning from the past but using that knowledge to make decisions for the next five to ten years.

When you're retired from Vanguard, what will the company look like?

When I'm not working here, Vanguard will be in charge of all of my money, just as it is today. I think that's a big statement. I can't imagine investing assets anywhere else. Because the thing that's most important to me is whether the people who are stewarding those assets have my family's best interests in mind.

In 20 years, we will still be owned by our clients. We'll still be focused on the mission of being the highest-value provider of funds and services; we'll still recognize that trust is our greatest asset; and we'll be far better at everything we do because at that time, we will have nearly 50 years of experience in this structure.

The rate of our organizational improvement, which was pretty steep over the past 20 years, is going to accelerate. I think back to when I joined Vanguard 20 years ago and reflect on what it was like to be a client in terms of the breadth, depth, quality, and cost of the services we provided. It doesn't even look like the same organization. I look forward 20 years and say, "Boy, am I happy Vanguard's going to be around to take care of my family's money so I can do something else." •

Market Barometer: First-Quarter 2003

The Investment Environment

- During the first three months of 2003, investors seemed unable to shake concerns about the length, cost, and potential aftermath of war with Iraq. The faltering recovery of the U.S. economy also weighed heavily on investors' minds, as did continued doubts about the trustworthiness of corporate America's accounting.
- Amid the prevailing mood of uncertainty, U.S. and international stock indexes declined and the U.S. bond market rose; volatility was high all over.

S&P 500 Price/Earnings Ratio



The ratio is based on operating earnings. Last observation: March 2003. Shaded areas indicate recessions. Sources: Standard & Poor's Corporation; Crandall, Pierce & Company.

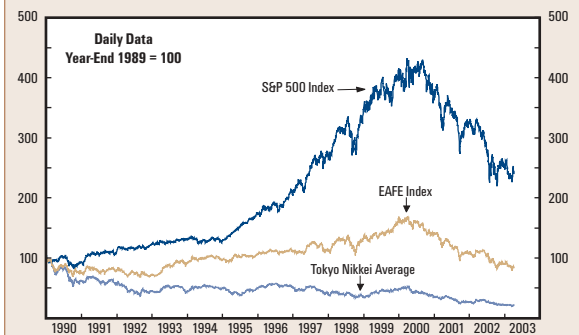
U.S. Stocks

- The broad U.S. stock market, as represented by the Wilshire 5000 Index, returned -3.1% during the January–March quarter. The market's quarterly return would have been far lower had there not been a huge two-week rally in mid-March.
- Generally, large-capitalization stocks fared better than small-caps, and growth-oriented stocks outpaced value shares.

Global Equity Markets

- The MSCI EAFE Index returned -8.2% in U.S. dollars. European exchanges were hit hard by the double whammy of war concerns and weak economic demand. The dollar weakened against the euro.

Global Market Indexes



Last observations: March 31, 2003. Sources: Standard & Poor's Corporation; Dow Jones and Company; Crandall, Pierce & Company.

U.S. Treasury Issue Yields

Maturity	Dec. 31, 2002	Mar. 31, 2003	Year-to-Date Change (percentage points)
3 Months	1.19%	1.10%	-0.09
2 Years	1.60	1.48	-0.12
5 Years	2.73	2.71	-0.02
10 Years	3.81	3.80	-0.01
30 Years	4.78	4.82	0.04

Source: The Vanguard Group.

Bonds

- The yield of the benchmark 10-year U.S. Treasury note ended 2002 at 3.81%—near a four-decade low—and slipped further in early 2003. Bond prices slumped (and yields rose) in mid-March, and the 10-year note's yield ended the quarter just about where it started.
- The Lehman Aggregate Bond Index, a broad measure of taxable, investment-grade bonds, returned 1.4%. High-yield bonds—the riskiest corporate issues—performed extremely well during the quarter, returning 7.6%, according to Lehman Brothers.

Go Online To Save Time And Take Control

Looking for information about one of your Vanguard investments? Want to buy or sell shares? Interested in moving money between your bank account and your Vanguard account? Need to do all of this now, and as quickly as possible? You can, through Vanguard.com.

With prompt, round-the-clock access to your account information and simple “point-and-click” self-service transactions, our website lets you take control of your Vanguard investments. Your account information is always up-to-date, and you’ll never again have to hunt for your last account statement or a copy of a check you’ve written. They’re always available online. Did Vanguard receive a check you mailed? How much dividend income did you earn this month? The answers are waiting for you online. Planning to add to—or withdraw from—one of your Vanguard accounts? Save yourself the time and trouble of writing and mailing a check or waiting for one to arrive (and then having to make a trip to the bank to deposit it, followed by more waiting for it to clear). Use our electronic bank transfer service to move money between your bank and Vanguard promptly, safely, and effortlessly.

While there are many reasons to go online with Vanguard, we’ll give you five good ones to head for the nearest computer and see for yourself.

1. Monitor Your Portfolio

Vanguard’s simple, secure registration process gives you online access to your accounts. (Registering is easy: Just go to the Personal Investors homepage and click “sign up for account access today.”) Once registered, you can log on to see all your account balances, including your IRAs, taxable accounts, brokerage holdings, annuities, and, if it’s with Vanguard, your employer-sponsored plan.

You can also:

- Buy, exchange, or sell within each account.
- See transaction confirmations and distribution dates and amounts.

- Know when a check clears, and review an image of the check.
- View and print account statements and tax forms.

2. Analyze Your Holdings

Here’s something you might not have thought about: It’s one thing to see a *fund’s* five- and ten-year returns, but it’s quite another to see your *personal* return, which takes into account not only when you made your original investment but all your deposits and withdrawals as well. Vanguard.com is the only place you can see your personal performance for the past five years. And later this year our site expects to begin offering personalized returns for the past ten years.

You can even add investments from outside Vanguard to your Consolidated View™ and use our sophisticated analytical tools to get a complete picture of how your assets are allocated. If you want an analysis of how your stock portfolio is split among investment styles, sectors, and market capitalization, the answers are just clicks away. You can also see where your bond holdings fit on a grid that measures interest rate sensitivity and credit quality. And one more click gets you a detailed breakdown of how your holdings are allocated among the categories listed in each asset allocation view.

3. Get Up-To-The-Minute Information

Vanguard.com puts current and detailed information at your fingertips, including real-time and historical information on distributions and transactions. For instance, you can see when a check clears *on the day it clears* instead of having to wait for a monthly statement to arrive in the mail. You can see the amount of a fund distribution *on the day it’s posted to your account* instead of waiting for a quarterly statement. And you can see nine years of mutual fund transactions in one place instead of having to wade through reams of paper confirmations—and we do the filing for you!



Saving time is one of the biggest benefits of conducting your investment activities on the 'Net.

4. Shut Off Paper

Concerned about all the paper you receive from Vanguard? You can turn some—or all—of it off by choosing to receive some or all of your Vanguard mailings online instead of via U.S. mail. Hundreds of thousands of clients have decided they don't need a printed prospectus, annual report, and semiannual report each year for every fund they own. They read them online instead. They do the same for portfolio summary statements, transaction confirmations, and proxy materials. By shutting off paper delivery, you will receive information using a more secure form of delivery and save Vanguard the cost of printing and mailing information, which in turn boosts *your* returns. You'll save a few trees, too!

5. Transact Quickly

To speed the time it takes to get your money, sign up online for our electronic funds transfer options. By linking an income-producing mutual fund account to your checking account electronically, you can have dividends deposited at your

bank one day after the payable date, instead of having to wait seven to ten days to get a check in your mailbox. And as mentioned earlier, the same is true for withdrawals requested on a Vanguard account.

Similarly, you can open a new, or add to an existing, account online by linking your bank and Vanguard accounts electronically, a simple process that makes your investing life less time-consuming and more secure.

What's On The Way?

The benefits keep coming, as Vanguard continually works to improve its online offerings in response to user feedback. This summer, Vanguard.com will debut an improved "expanded view" of your accounts, showing, in an easy-to-read spreadsheet format, all the funds you own. You'll also be able to perform transactions directly from that page, with fewer clicks. Other improvements in the works include making our site friendlier for users of Apple computers and AOL. •

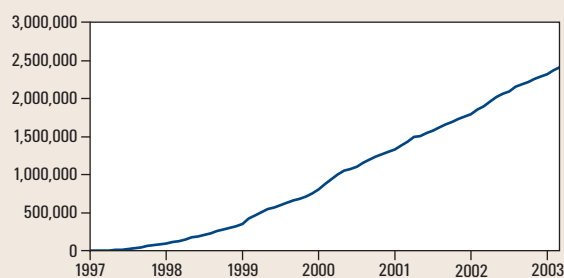
A Rising Trend

The Numbers Tell The Story

The number of registered users of Vanguard.com is rising by some 1,800 new users every day. Daily log-ons to the site have risen to 135,000, on average. Take a look at what our 2.4 million registered users are doing:

- 30% of mutual fund transactions are completed by investors who logged on to Vanguard.com.

Registrations For Vanguard.com



Source: The Vanguard Group.

- 70% of trades at Vanguard Brokerage Services® are completed online.
- 75% of all accounts opened online are funded with electronic bank transfers.
- 224,000 clients have opted for online delivery of all but their year-end statements.
- 520,000 clients have opted for online delivery of fund reports and prospectuses.
- 664,000 clients receive "Economic Week in Review," a weekly e-mail providing a roundup of market and economic news.
- 925,000 clients receive "What's New at Vanguard," a monthly e-mail summarizing news articles on Vanguard.com.

To join our online shareholders and explore all that our website has to offer, go to Vanguard.com, click on Personal Investors, then click "sign up for account access today." •

Vanguard.com offers the services and information you need to confidently plan and manage your investments. To discover five ways you can use our website to become a better investor, go to www.vanguard.com/?betterinvesting.

Shareholders Tell Why Going Online Is Fine At Vanguard.com

The number of shareholders using our website grows every year as more and more people learn the ease and convenience of managing their accounts online. We asked a few of our investors to tell us the benefits they derive from using Vanguard.com.

'I like being able to get online whenever I want.'

L. James Wallace could be considered a veteran among Vanguard.com users. The Ohio resident started visiting the website in the mid-1990s to learn the ins and outs of mutual funds, and today uses the site to manage his investment portfolio.

"I like being able to get online whenever I want and see my account balances," said Mr. Wallace. "For example, if I've written a check recently, I can look at my transaction history to see if the check has cleared. I also find it very convenient that when I need to make a transfer between funds, I can do it online—and by the next day it's done."

He said he also appreciates the ability to easily download his account information from the website to a spreadsheet he maintains at home.

'I can . . . move money electronically.'

Lem Greer learned the benefits of managing his finances online when he was traveling and living abroad as part of his job. So when the Washington resident moved assets to Vanguard early last year, it was only natural that he started using Vanguard.com.

"If I have funds in my bank account that I want to invest, I can use the website to move money electronically to my Vanguard account quickly and easily," Mr. Greer said. Recently, he went online to research fund choices before rolling over money from an employer-sponsored retirement plan to a Vanguard IRA®.

"With the website, I can track what's happening in my accounts or the movement of my funds,

and I don't have to bother anyone at all," he said. "Why should I have someone else check something when I can check it myself?"

'It saves me a lot of time.'

Until about three years ago, Jeri Fanta did all her business with Vanguard by telephone. But then she tried Vanguard.com and found that she liked the added convenience and speed.

The Florida resident uses the website to track not only her Vanguard investments but also those she holds with other financial institutions. "It gives me a complete overview of what I have, and it saves me a lot of time," she said.

Ms. Fanta also likes the website's portfolio analysis tools. She uses them to check, for example, how her portfolio is divided among large-, mid-, and small-capitalization stocks.

"People pay for services on other websites that Vanguard.com has available for free," she said. "And when I have questions about the website, Vanguard is very responsive in answering my questions."

'I never thought it would be this easy.'

Vanguard.com allows Eric Bredenberg, a California resident, to help manage his mother's accounts, even though she lives 2,500 miles away in Florida. With Consolidated View, Mr. Bredenberg can see all her investments—at Vanguard and elsewhere—for which she's granted him online access.

"I never thought it would be this easy," said Mr. Bredenberg, who also manages his family's accounts online. "What used to take my father a weekend to calculate with pencil and paper, I can now get instantly on Vanguard.com.

"I like the comfort of knowing exactly where I stand with my finances and where my mother stands, and she's reassured, knowing that I can keep an eye on what's happening in her accounts," he said. •



Gus Sauter

On Track With MSCI Indexes: Our Index Chief Explains Changes

The board of trustees of seven Vanguard U.S. stock index funds recently approved adopting Morgan Stanley Capital International (MSCI) indexes as the new target benchmarks. *In The Vanguard* asked Gus Sauter—Vanguard’s future chief investment officer and the manager of Vanguard’s stock index fund group—to share his views about the new indexes.

Why change the target indexes?

Over time, we have formulated ideas about optimal stock index construction. No commercially available indexes satisfy all of our criteria, but the MSCI indexes come close. We believe the new indexes will provide an extremely high degree of style integrity in defining the performance of their targeted market segments. And they should do so with lower turnover, resulting in modestly lower transaction costs and even better tax efficiency.

What are the characteristics of the ideal index?

First, an index should be determined by an objective set of rules—that is, there should be no uncertainty as to why a stock is in the index. Second, index weightings should be adjusted for crossholdings and “float,” reflecting only those shares that are available to the public.

Third, the distinction between market capitalizations should not be defined rigidly, such as the 800th largest stock being large-cap and the 801st as mid-cap. There should be overlapping “bands” rather than hard cutoff points. Fourth, indexes shouldn’t measure growth and value by just one variable or rank.

Finally, the migration of stocks between indexes should be a gradual transition over time, rather than a 100% move on one day. This recognizes that a stock doesn’t morph from value to growth or large to small overnight. The new MSCI indexes address all but the last item.

Are you concerned about switching to indexes with no track record?

No. Since the MSCI indexes use objective rules, we are satisfied that historical back tests of the indexes accurately reflect their makeup and performance. MSCI also has a proven track record with its international equity, bond, and hedge fund indexes. I wouldn’t be too concerned about moving into a new house designed by a top architect and built by a premier builder.

Do you expect better fund performance with the new indexes?

We don’t judge an index on absolute performance. All indexes start with the total market and carve up its return into size and style segments. If an index performs systematically better than the same size and style index created by another provider, then the complementary size or style index of the first provider must systematically underperform the competition.

So, in aggregate, the MSCI indexes won’t have higher returns, but they may allocate the returns more appropriately. If an index is constructed well, the banding concept will not reduce style purity, but it will reduce turnover. As a result, funds tracking such an index should lose a slightly smaller portion of their gross returns to taxes and transaction costs.

What’s the likely impact on taxable accounts because of the transition?

Simulations we have run indicate no capital gains will be realized, with the possible exception of the Small-Cap Growth Index Fund, which may realize a slight gain. However, that capital gain will be offset by capital losses previously realized by the fund. In all of the other funds, capital losses will be realized. Realizing capital losses benefits fund investors because there’s no real economic loss to them, but they get to defer paying capital gains taxes.

For an expanded version of this interview, please visit Vanguard.com. •

The following funds will adopt new indexes:

- Vanguard® Growth Index Fund
- Vanguard® Value Index Fund
- Vanguard® Mid-Cap Index Fund
- Vanguard® Small-Cap Index Fund
- Vanguard® Small-Cap Growth Index Fund
- Vanguard® Small-Cap Value Index Fund
- Vanguard® Variable Insurance Fund–Mid-Cap Index Portfolio

Tough Measures For Tough Times

Three years into the stock market downturn, investors near or in retirement are worried about meeting their financial goals, according to a recent AARP survey of some 1,000 stockowners 50 to 70 years old. Some respondents have postponed retirement; others have returned to the workforce. Some said they've scaled back on vacations and other extras. All in all, two-thirds of those who lost money in stocks during 2001 and 2002 have made adjustments to their lifestyles.

The survey results indicate that many investors are making wise, if difficult, decisions in response to the toughest stock market in a generation. Suppose you retired at the end of 1999 with a \$500,000 portfolio made up of 60% stocks and 40% bonds. At that time, historical patterns of financial market returns suggested that you could spend \$17,500 a year for 40 years, adjusted for inflation, with very little risk of running out of money (a 2% chance in this hypothetical simulation). At the end of 2002, however, the same analysis revealed that your battered portfolio (now worth \$386,100)—still allocated 60% stocks and 40% bonds—could support annual spending of just \$13,500 per year with the same risk of running out of cash.

Although the long downturn may call for some response, large changes to a sensible long-term asset allocation are likely to be counterproductive. "The problem we're seeing now is people throwing in the towel on stocks," said Francis M. Kinniry, a principal in Vanguard's Investment Counseling & Research group. "The average person should plan to live until age 90. If you're 60, you have another 30 to 40 years. Depending on your appetite for risk, that calls for a significant dose of equity exposure."

What Can You Do?

Rather than fiddle with your asset mix, consider these tactical responses to the stock market's slide.

- **Cut spending.** "Businesses cut back when the economic environment is unfavorable," said

Mr. Kinniry. "Households may have to do the same." This may not be as painful as it sounds. In recent years, the prices of many goods have been deflating, so spending less may not mean consuming less. On the other hand, the costs of services such as health care have been rising fast—yet another reason that your asset allocation should account for your unique set of expected liabilities. If you anticipate heavy spending on health care, for example, you may need to be more aggressive in your pursuit of growth.

- **Save more.** This may be impossible for those already retired, but if you haven't yet left the workforce, increasing your savings is the single-most powerful thing you can do to ensure your financial security in retirement.
- **Return to the workforce.** Finding full- or part-time work isn't feasible for many retirees, especially at pay comparable to their preretirement incomes. If work is an option, however, it's worth considering. You can save more and postpone tapping your retirement assets.
- **Stretch for yield (carefully).** Short-term fixed income securities are paying miserly yields. As of February 28, 2003, according to data from Lipper Inc., the average money market fund offered a yield of 0.60%, and the average short-term government bond fund paid 2.05%. But the average intermediate-term bond fund yielded 3.37%. Longer-term securities are more volatile, but if stability of principal is not an important objective, they can enhance your income.
- **Consider annuities (cautiously).** An annuity can generate a fixed or variable income stream for as long as you live, subject to the claims-paying ability of the insurance company. But buying an annuity is both an insurance decision and an investment decision. If you don't need the insurance, you'll most likely generate higher returns from a simple investment portfolio. If you want to ensure a cash flow, however, an annuity is your best option. •



Vanguard has the resources to help retirees get their financial houses in order:

Vanguard® Asset Management and Trust Services provides ongoing asset management and advice for a modest asset-based fee. For more information, call 1-800-547-3332.

Vanguard® Personal Financial Planning Service prepares detailed and personalized investment, retirement, or estate plans for a flat, one-time fee. For more information, call 1-800-547-3332.

Vanguard® Annuity and Insurance Services offers fixed and variable annuities at low cost. For more information, call 1-800-522-5555.

Vanguard Rolls Out Solutions For IRA Rollovers, Transfers

Are you reluctant to move your retirement assets because you fear a mound of forms and lengthy delays? If so, then consult a Vanguard retirement specialist, who can help make the paperwork painless and advise you on the most expedient way to bring your money to Vanguard.

Each year, Vanguard assists tens of thousands of investors in finding the optimal solution for their retirement assets. While the personalized service we provide is unique to each individual's needs, there are some situations common to many investors today. Here are a few:

Situation: I have an IRA invested in mutual funds with another financial firm and want to move my money to Vanguard.

Solution: What you want is called an *asset transfer*. To initiate the tax-free transfer, call one of our retirement specialists, who will identify the easiest and quickest way to move your assets to Vanguard. Not only that, he or she will walk you through the entire process. In some cases, it may be as easy as completing a form on Vanguard.com and confirming your request with an e-signature.

Help Is Only A Call Away

If you have a retirement-related question or need assistance with an IRA transfer or rollover, call our Retirement Resource Center at 1-800-523-7708. Our highly trained retirement specialists can:

- Discuss Vanguard investment offerings.
- Offer information on traditional IRAs and Roth IRAs.
- Assist with direct rollovers from employer-sponsored retirement plans.
- Expedite transfers of IRA assets from other custodians.
- Provide guidance on designating beneficiaries.
- Help with IRA withdrawals and distributions.
- Discuss the Vanguard financial planning service right for you.

Please call between 8 a.m. and 8 p.m. Monday through Friday, or on Saturday between 9 a.m. and 1 p.m., Eastern time.

If your IRA assets are held at one of the major fund families, there is a good chance that they can be transferred electronically to a Vanguard account within a week. Otherwise, your specialist will help you to complete the proper form and have you mail it to us. We'll then contact your current custodian on your behalf and have the assets moved to Vanguard, a process that usually takes four to six weeks.

Note, too, that you can move individual stocks and bonds held at a brokerage firm—without selling them—to Vanguard Brokerage Services. Please alert your representative to any brokerage holdings, so we can send you the proper adoption agreement to sign.

Situation: I am retiring and want to move my 401(k) plan assets to a Vanguard IRA.

Solution: You need a *direct rollover*. (It's called that because your assets move directly from your employer plan's current custodian to Vanguard, preserving any tax-deferral.) Start by checking with your employer to learn what paperwork you'll need to complete. Many employers will handle a direct rollover for you if you can provide an IRA account number. That's easy—you can usually obtain one from Vanguard in 15 minutes or less by completing our online form (www.vanguard.com/?rollover). If you don't have Internet access, simply call. In minutes, a retirement specialist can complete the form with your help and send it to you via mail for your signature.

Situation: I will soon begin taking required minimum distributions (RMDs) and want to consolidate my IRAs at Vanguard for simplicity.

Solution: Conduct an *asset transfer* for each IRA you need to move. Whether you hold a traditional, Roth, or SEP-IRA, Vanguard offers a variety of services to help when it's time to begin taking money out, including a free RMD calculation service for traditional and SEP-IRA owners.

Situation: I am planning to consolidate my IRAs at Vanguard and want to simplify my portfolio, but I need help constructing a streamlined portfolio and selecting funds for my retirement assets.

Solution: Call! Our retirement specialists can discuss our no-load, low-cost investment offerings and help you to develop an asset allocation that suits your risk tolerance and time horizon. For a more comprehensive plan, consider Vanguard® Personal Financial Planning Service (see page 14). An experienced financial planner can design a long-term, customized plan for a modest fee. If you're transferring \$250,000 or more, there is no charge for the plan. •

Facing An Important Financial Decision?

Every day, we hear from investors who are uncertain about how to handle an important financial matter. Maybe you can relate to one of these situations:

- An executive rolling over her substantial retirement plan savings into an IRA wants a second opinion on her asset allocation.
- A recent college graduate receives a large inheritance and isn't sure how to invest it.
- A couple approaching retirement wants to know whether they have enough savings to live comfortably.
- A widow worries that the bear market has damaged her nest egg irreparably.

Whenever you're facing an important financial decision—or even if you simply want to develop or reevaluate long-term financial plans—seeking professional advice can be a smart idea. Brokers, insurance agents, CPAs, and independent financial planners aren't hard to find.

Talk To A Vanguard Planner

But there's one choice you may not have considered: Vanguard. Over the years, thousands of investors have turned to Vanguard's financial planners for help in making the right choices.

Susan, a 42-year-old Vanguard shareholder, recently inherited a six-figure sum that represented a much larger amount than she had ever owned before. "At the time, I knew almost nothing about investments," Susan said. "My Vanguard planner explained everything to me in language I could understand as she advised me on investment strategies. I really appreciated that."

When you begin the planning process, you can talk with one of our planners, who will work with you to evaluate your life circumstances, current investments, financial goals, and tolerance for risk. After your planner helps you compile the necessary information, you and your planner will discuss your needs in even more detail.

It's Advice You Can Trust

Drawing on Vanguard's expertise and resources, the planner then prepares formal recommendations for your situation in a report that explains the rationale for our suggestions. After you and your planner review the report's recommendations and all your questions are answered, your planner will discuss how to implement the recommendations.

You should know that our planners are salaried and are not paid commissions, so you can be confident that our advice will be in *your* best interests. Each of our planners is fully licensed, and most maintain the Certified Financial Planner™ certification.

Choose From Three Areas Of Advice

When you enlist the help of Vanguard Personal Financial Planning Service, you can request one or more of the following planning solutions:

Investment planning. Your planner will work with you to develop the best asset mix for your portfolio, taking into account both your Vanguard investments and other holdings.

Retirement planning. After carefully evaluating your current financial situation, your planner will prepare a detailed analysis showing what you'll need for a comfortable retirement. If appropriate, he or she will also address retirement-savings vehicles, distribution strategies, and life insurance issues.

Estate planning. Your planner will review with you a variety of issues, including the potential impact of taxes and other transfer costs on your assets, opportunities to distribute assets more efficiently during your lifetime, and the benefits of trusts.

Each planning solution costs \$500. We'll provide one solution on a complimentary basis if you invest an additional \$250,000 at Vanguard. And if you're not sure which plan is best for you, we can help you decide before you proceed. For more information, call Vanguard Personal Financial Planning Service at 1-800-567-5162. •

Vanguard Personal Financial Planning Service is provided by Vanguard Advisers, Inc., a registered investment adviser.

At Your Service

How To Cut The IRA Custodial Fee

To cover the cost of tax reporting, Vanguard charges a custodial fee of \$10 a year for each IRA fund account—traditional, Roth, or SEP—having a balance of less than \$5,000. (A \$15 fee applies to individual 403(b)(7) fund accounts and a \$25 fee for SIMPLE IRAs, regardless of fund balance.) For example, if you have an IRA invested in two funds and each has a balance of less than \$5,000, you'll owe two fees, or \$20, for the year. The fees are automatically deducted from your account in early June.

There are several ways to reduce or eliminate the fees you pay:

- If you are eligible, contribute soon if it will get you over the \$5,000 mark. (Remember, you can contribute up to \$3,000 to an IRA for 2003, and \$3,500 if you're age 50 or over.)
- Consolidate your assets at Vanguard. IRA custodial fees are waived regardless of fund account size if the total of your Vanguard investments—nonretirement, IRA, 403(b)(7), annuity, employer-sponsored retirement plan, and brokerage accounts—exceeds \$50,000 (or \$100,000 to waive fees for SIMPLE IRAs; fees for 403(b)(7) accounts are never waived, regardless of fund or aggregate balances). For more information on consolidating assets, see the article on page 13.

You can also prepay the custodial fee if you don't want it deducted from your account. To do so, complete an Invest-by-Mail form (found at the bottom of your Portfolio Summary statement) and mail it, along with a check payable to Vanguard Fiduciary Trust Company, in one of our postage-paid envelopes. Or simply send the check, together with a brief explanatory note (including your fund and account numbers), to The Vanguard Group, P.O. Box 1110, Valley Forge, PA 19482. We must receive the prepayment by June 4. •

IRS Form 5498—What's It For?

If you contributed to an IRA or an Education Savings Account (formerly called Education IRA) for the 2002 tax year, we will mail IRS Form 5498 to you in May. Vanguard must also furnish a copy to the IRS. The form reports the calendar year-end balance of your IRA or ESA; contributions made for tax-year 2002 through your tax-filing deadline; money rolled over from another IRA or employer-sponsored retirement plan in calendar 2002; and any Roth IRA conversion completed in calendar 2002. It also reports employer contributions to SEP-IRAs and SIMPLE IRAs during calendar 2002, regardless of the tax year of the contribution.

When you receive the form, you should review it for accuracy and then store it with your records. Make sure that the total of your individual employee contributions to traditional IRAs, Roth IRAs, and SEP-IRAs (excluding employer contributions and salary deferrals to SAR-SEPs) for tax year 2002 did not exceed \$3,000, or \$3,500 if you were at least 50 years old. (For ESAs, the annual maximum contribution is \$2,000.) For those aged 70½ or older, the year-end balance provided on the forms is useful in calculating required minimum distributions from your traditional, SEP, and SIMPLE IRAs. (Roth IRAs have no distribution requirements during the account holder's lifetime.) •

PlainTalk Library Expanding Online And In Print

Vanguard is adding new titles to its highly regarded PlainTalk® library. Two new online modules—*Rescue Your Retirement* and *Plan Your Estate*—are set to be available on Vanguard.com by early May: Click on the **Planning & Advice** tab at the top of the Personal Investors home-page. A new print guide, *Save for College*, is also available; please call for your free copy. •

Vanguard's Value Proposition: Performance, Quality, Low Cost

If Oscar Wilde were alive today, he might observe that the typical Vanguard shareholder—unlike Wilde's "cynic"—is an investor who knows the price of everything and the value of everything.

Indeed, Vanguard's no-load, low-expense investment offerings attract those who know the *price* that high fees and expenses can extract from long-term returns. And such economy-minded investors soon come to appreciate the *value* of their relationship with Vanguard.

Defining 'Value'

The Vanguard value proposition has three critical components:

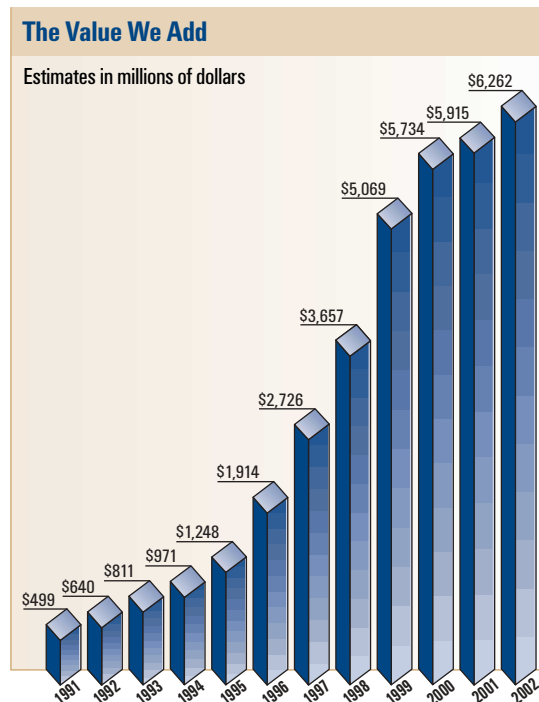
- **Performance.** We cannot control the returns provided by the financial markets, but our disciplined investment approach and our low costs help us to control how we perform relative to our peers. In our internal business measures, everything else is secondary to investment performance.
- **High quality.** We seek to provide unmatched excellence in the service we provide to clients—in particular, service that is attentive, prompt, efficient, and accessible.
- **Low cost.** Investment costs erode returns, and the effects are magnified over time. Low cost will always be a key to Vanguard.

One Measure Of Value

We quantify our value proposition with the Vanguard Value-Added Index (see graph). Each

year, the index indicates how much more our shareholders would have paid in fund operating costs if we had charged the industry average expense ratio. Instead of being spent, that money stayed at work in shareholder accounts.

In 2002, the average expense ratio for our funds fell to 0.26%, an improvement of 4% from 2001. The industry's average expense ratio rose to 1.36%—more than five times higher than ours, according to the latest available data from Lipper Inc. As a result, the Value-Added Index for 2002 totaled nearly \$6.3 billion (the 1.10% difference in expense ratios multiplied by our average net assets, \$569.3 billion). •



Source: The Vanguard Group.

Our funds' shareholders kept \$6.3 billion more in their pockets than if Vanguard had charged the industry average expense ratio.



It's easy to obtain information about Vanguard funds or your account.

For automated fund and account information 24 hours a day, 7 days a week, visit our website or call Vanguard Tele-Account®.

World Wide Web:
www.vanguard.com

Vanguard Tele-Account:
1-800-662-6273

To speak with a Vanguard associate about fund information or your account, call us toll-free Monday through Friday from 8 a.m. to 10 p.m. or Saturday from 9 a.m. to 4 p.m., Eastern time.

Vanguard Fund Information:
1-800-982-6333

Vanguard Client Services:
1-800-662-2739

Text Telephone:
1-800-749-7273

Vanguard Brokerage Services®
To speak with a Vanguard® Brokerage Associate, call toll-free Monday through Friday from 8 a.m. to 8 p.m., Eastern time:
1-877-817-7304.

Send your written comments to:
The Vanguard Group
P.O. Box 2600
Valley Forge, PA 19482-2600

Overnight Mailing Address
The Vanguard Group
455 Devon Park Drive
Wayne, PA 19087-1815

We welcome your feedback via e-mail:
itveditor@vanguard.com

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The Vanguard® Variable Annuity is a flexible-premium variable annuity issued by Peoples Benefit Life Insurance Company, Cedar Rapids, Iowa (NAIC No. 66605), Form No. Series NA 100A (in Florida, Form No. NA 100A-FL; in Oregon, Form No. NA 100A-OR) and, in New York State only, by AUSA Life Insurance Company, Inc., Purchase, New York (NAIC No. 15615), Form No. AV423 101 109 498 CRT, without agent representation. The Vanguard Group administers the contract for its issuers. Neither The Vanguard Group, Peoples Benefit Life Insurance Company, nor AUSA Life Insurance Company, Inc., provides tax advice. Investors are encouraged to consult a tax adviser for information on how annuity taxation applies to their individual situations.

Past performance cannot be used to predict future returns. The investment return and principal value of an investment will fluctuate, so an investor's shares, when redeemed, may be worth more or less than their original cost.

Vanguard® funds, non-Vanguard funds offered through our FundAccess® program, and the Vanguard® Variable Annuity are offered by prospectus only. Prospectuses contain more complete information on risks, advisory fees, distribution charges, and other expenses and should be read carefully before you invest or send money. Prospectuses for Vanguard funds can be obtained directly from The Vanguard Group. Prospectuses for the Vanguard Variable Annuity contract can be obtained by calling 1-800-522-5555. A preliminary prospectus for the enhanced Vanguard Variable Annuity can be obtained by calling 1-800-522-5555. The information in the preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted. Pending approval, the Vanguard Variable Annuity may not be available in all states. Prospectuses for non-Vanguard funds offered through FundAccess can be obtained from Vanguard Brokerage Services (1-877-817-7304).

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Vanguard Performance Profile

SPRING 2003

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2003				Next Report/ Prospectus Online††
				1 Year	5 Years	10 Years	Since Inception*	
Growth and Income Funds								
40	500 Index Investor Shares (8/31/1976)	VFINX	-3.19%	-24.80%	-3.79%	8.45%	11.62%	4/2003 P
540	500 Index Admiral™ Shares (11/13/2000)	VFIAX	-3.17	-24.76	—	—	-16.57	4/2003 P
328	Capital Value (12/17/2001)	VCVLX	-4.24	-29.26	—	—	-23.67	5/2003 S
82	Convertible Securities (6/17/1986)	VCSVX	2.50	-3.81	2.29	7.10	7.95	3/2003 P
57	Dividend Growth (5/15/1992)	VDIGX	-5.46	-29.55	-5.44	3.34	5.06	5/2003 P
65	Equity Income Investor Shares (3/21/1988)	VEIPX	-5.73	-23.26	-1.41	8.65	9.98	5/2003 S
565	Equity Income Admiral™ Shares (8/13/2001)	VEIRX	-5.72	-23.22	—	—	-13.59	5/2003 S
93	Growth and Income Investor Shares (12/10/1986)	VQNPX	-2.99	-24.18	-3.39	8.75	10.63	5/2003 S
593	Growth and Income Admiral™ Shares (5/14/2001)	VGIAX	-2.96	-24.07	—	—	-16.88	5/2003 S
123	REIT Index Investor Shares (5/13/1996)	VGSIX	1.01	-3.04	3.71	—	9.32	5/2003 P
5123	REIT Index Admiral™ Shares (11/12/2001)	VGSLX	1.03	-3.03	—	—	7.94	5/2003 P
934	Selected Value (2/15/1996)	VASVX	-6.54	-24.69	-2.40	—	3.43	6/2003 S
101	Tax-Managed Growth and Income Investor Shares (9/6/1994)	VTGIX	-3.19	-24.62	-3.70	—	9.00	4/2003 P
5101	Tax-Managed Growth and Income Admiral™ Shares (11/12/2001)	VTGLX	-3.18	-24.58	—	—	-16.65	4/2003 P
85	Total Stock Market Index Investor Shares (4/27/1992)	VTSMX	-3.14	-24.18	-3.86	7.83	8.51	4/2003 P
585	Total Stock Market Index Admiral™ Shares (11/13/2000)	VTSAX	-3.13	-24.14	—	—	-15.77	4/2003 P
124	U.S. Value (6/29/2000)	VUVLX	-6.59	-24.73	—	—	-2.97	5/2003 S
6	Value Index Investor Shares (11/2/1992)	VIVAX	-5.61	-26.32	-4.18	7.70	8.67	4/2003 P
506	Value Index Admiral™ Shares (11/13/2000)	VVIAX	-5.59	-26.26	—	—	-15.00	4/2003 P
22	Windsor™ Investor Shares (10/23/1958)	VWNDX	-3.75	-25.88	-1.79	8.52	11.94	6/2003 S
5022	Windsor™ Admiral™ Shares (11/12/2001)	VWNEK	-3.78	-25.87	—	—	-14.05	6/2003 S
73	Windsor™ II Investor Shares (6/24/1985)	VWNFX	-4.23	-23.46	-2.67	9.00	11.48	6/2003 S
573	Windsor™ II Admiral™ Shares (5/14/2001)	VWNAX	-4.23	-23.39	—	—	-14.58	6/2003 S
Growth Funds								
213	Calvert Social Index (5/31/2000)	VCSIX	-2.58%	-24.93%	—	—	-17.64%	4/2003 S
98	Extended Market Index Investor Shares (12/21/1987)	VEXMX	-3.30	-22.21	-4.26%	6.82%	9.67	4/2003 P
598	Extended Market Index Admiral™ Shares (11/13/2000)	VEXAX	-3.28	-22.16	—	—	-14.46	4/2003 P
9	Growth Index Investor Shares (11/2/1992)	VIGRX	-0.91	-23.70	-4.19	8.66	8.58	4/2003 P
509	Growth Index Admiral™ Shares (11/13/2000)	VIGAX	-0.84	-23.61	—	—	-18.78	4/2003 P
859	Mid-Cap Index Investor Shares (5/21/1998)	VIMSX	-4.45	-23.54	—	—	3.82	4/2003 P
5859	Mid-Cap Index Admiral™ Shares (11/12/2001)	VIMAX	-4.46	-23.50	—	—	-8.67	4/2003 P
26	Morgan™ Growth Investor Shares (12/31/1968)	VMRGX	-1.35	-23.13	-3.74	7.80	10.30	5/2003 S
526	Morgan™ Growth Admiral™ Shares (5/14/2001)	VMRAX	-1.27	-22.98	—	—	-17.90	5/2003 S
59	PRIMECAP Investor Shares (11/1/1984)	VPMCX	-0.85	-26.19	1.68	12.65	14.29	4/2003 S
559	PRIMECAP Admiral™ Shares (11/12/2001)	VPMAX	-0.82	-26.11	—	—	-14.41	4/2003 S
114	Strategic Equity (8/14/1995)	VSEQX	-0.92	-17.62	1.28	—	9.44	6/2003 S
102	Tax-Managed Capital Appreciation Investor Shares (9/6/1994)	VMCAX	-2.31	-25.31	-3.24	—	8.43	4/2003 P
5102	Tax-Managed Capital Appreciation Admiral™ Shares (11/12/2001)	VTCLX	-2.32	-25.26	—	—	-16.44	4/2003 P
23	U.S. Growth Investor Shares (1/6/1959)	VWUSX	-0.25	-30.55	-12.35	3.32	10.64	4/2003 S
523	U.S. Growth Admiral™ Shares (8/13/2001)	VWUAX	-0.22	-30.44	—	—	-24.85	4/2003 S
Aggressive Growth Funds								
111	Capital Opportunity Investor Shares (8/14/1995)	VHCOX	-2.59%	-28.72%	11.60%	—	9.54%	6/2003 S
5111	Capital Opportunity Admiral™ Shares (11/12/2001)	VHCAX	-2.57	-28.64	—	—	-17.34	6/2003 S
51	Energy Investor Shares (5/23/1984)	VGENX	0.99	-10.23	4.13	9.76%	11.03	5/2003 P
551	Energy Admiral™ Shares (11/12/2001)	VGELX	1.01	-10.19	—	—	2.28	5/2003 P
24	Explorer™ Investor Shares (12/11/1967)	VEXPX	-4.35	-28.80	0.48	8.03	8.44	6/2003 S
5024	Explorer™ Admiral™ Shares (11/12/2001)	VEXRX	-4.31	-28.72	—	—	-14.11	6/2003 S
544	Growth Equity (3/11/1992)	VGEQX	0.30	-28.50	-6.08	5.59	6.63	5/2003 S
52	Health Care Investor Shares (5/23/1984)	VGHGX	-2.62	-16.30	11.08	19.33	19.57	5/2003 P
552	Health Care Admiral™ Shares (11/12/2001)	VGHAX	-2.60	-16.23	—	—	-8.19	5/2003 P
301	Mid-Cap Growth (12/31/1997)	VMGRX	1.39	-27.60	3.76	—	6.83	6/2003 S
53	Precious Metals*** (5/23/1984)	VGPMX	-8.17	-2.76	8.34	3.41	3.06	5/2003 P
861	Small-Cap Growth Index (5/21/1998)	VISGX	-3.60	-21.28	—	—	-1.31	4/2003 P
48	Small-Cap Index Investor Shares (10/3/1960)	NAESX	-4.53	-26.58	-3.56	6.95	10.13	4/2003 P
548	Small-Cap Index Admiral™ Shares (11/13/2000)	VSMAX	-4.47	-26.49	—	—	-8.82	4/2003 P
860	Small-Cap Value Index (5/21/1998)	VISVX	-7.98	-28.49	—	—	-0.21	4/2003 P
116	Tax-Managed Small-Cap (3/25/1999)	VTMSX	-5.76	-24.53	—	—	5.03	4/2003 P
Comparative Indexes								
	Wilshire 5000		-3.08%	-24.03%	-3.91%	7.95%		
	S&P 500		-3.15	-24.76	-3.77	8.53		
	Wilshire 4500		-3.23	-21.86	-4.33	6.54		
	Russell 2000		-4.49	-26.96	-4.12	6.22		
	MSCI EAFE		-8.21	-23.23	-7.13	1.96		

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2003				Next Report/ Prospectus Online††
				1 Year	5 Years	10 Years	Since Inception*	
Exchange-Traded Shares								
965	Extended Market VIPERs® (12/27/2001)	VXF						4/2003 P
	Return based on net asset value		-3.30%	-22.18%	—	—	-16.82%	
	Return based on market price		-3.19	-21.87	—	—	-16.66	
970	Total Stock Market VIPERs® (5/24/2001)	VTI						4/2003 P
	Return based on net asset value		-3.13	-24.13	—	—	-18.11	
	Return based on market price		-3.12	-28.92	—	—	-18.11	
International Funds								
227	Developed Markets Index (5/8/2000)	VDMIX	-8.19%	-23.38%	—	—	-18.34%	6/2003 S
533	Emerging Markets Stock Index (5/4/1994)	VEIEX	-5.64	-20.87	-5.28%	—	-1.62	6/2003 S
79	European Stock Index Investor Shares (6/18/1990)	VEURX	-9.25	-25.58	-7.42	6.47%	5.57	6/2003 S
579	European Stock Index Admiral™ Shares (8/13/2001)	VEUSX	-9.20	-25.49	—	—	-17.92	6/2003 S
129	Global Equity (8/14/1995)	VHGX	-4.34	-16.62	1.25	—	6.02	6/2003 S
126	International Explorer™ (11/4/1996)	VINEX	-5.98	-22.20	4.01	—	3.50	6/2003 S
81	International Growth Investor Shares (9/30/1981)	VWIGX	-7.57	-24.31	-5.91	4.44	10.79	4/2003 S
581	International Growth Admiral™ Shares (8/13/2001)	VWILX	-7.53	-24.20	—	—	-16.76	4/2003 S
46	International Value (5/16/1983)	VTRIX	-9.51	-24.99	-5.17	2.71	8.66	6/2003 S
72	Pacific Stock Index Investor Shares (6/18/1990)	VPACX	-5.61	-17.30	-6.07	-3.59	-3.52	6/2003 S
572	Pacific Stock Index Admiral™ Shares (8/13/2001)	VPADX	-5.64	-17.27	—	—	-16.96	6/2003 S
127	Tax-Managed International (8/17/1999)	VTMGX	-8.24	-23.36	—	—	-12.31	4/2003 P
113	Total International Stock Index (4/29/1996)	VGTSX	-7.90	-23.12	-6.99	—	-3.36	6/2003 S
Balanced Funds								
78	Asset Allocation Investor Shares (11/3/1988)	VAAPX	-3.32%	-18.11%	-0.54%	8.43%	10.34%	5/2003 S
578	Asset Allocation Admiral™ Shares (8/13/2001)	VAARX	-3.25	-18.04	—	—	-11.90	5/2003 S
2	Balanced Index Investor Shares (11/9/1992)	VBINX	-1.28	-11.28	0.93	7.82	8.28	4/2003 P
502	Balanced Index Admiral™ Shares (11/13/2000)	VBIAX	-1.27	-11.22	—	—	-5.88	4/2003 P
724	LifeStrategy® Conservative Growth (9/30/1994)	VSCGX	-1.02	-6.73	2.51	—	8.08	6/2003 S
122	LifeStrategy® Growth (9/30/1994)	VASGX	-3.41	-19.31	-2.16	—	7.29	6/2003 S
723	LifeStrategy® Income (9/30/1994)	VASIX	0.08	0.04	4.69	—	8.41	6/2003 S
914	LifeStrategy® Moderate Growth (9/30/1994)	VSMGX	-2.24	-12.87	0.32	—	7.83	6/2003 S
56	STAR™ (3/29/1985)	VGSTX	-1.81	-12.46	1.86	8.56	10.39	6/2003 S
103	Tax-Managed Balanced (9/6/1994)	VTMFV	-0.58	-8.10	2.19	—	7.93	4/2003 P
27	Wellesley® Income Investor Shares (7/1/1970)	VWINX	-1.56	0.98	5.66	9.13	10.94	5/2003 S
527	Wellesley® Income Admiral™ Shares (5/14/2001)	VWIAV	-1.52	1.10	—	—	3.70	5/2003 S
21	Wellington™ Investor Shares (7/1/1929)	VWELX	-3.35	-12.89	2.35	9.49	8.09	3/2003 P
521	Wellington™ Admiral™ Shares (5/14/2001)	VWENX	-3.29	-12.80	—	—	-5.02	3/2003 P

	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2003				Current Yield†		
			1 Year	5 Years	10 Years	Since Inception*			
Bond Funds									
36	GNMA Investor Shares* (6/27/1980)	VFIX	1.04%	9.71%	7.17%	7.06%	9.41%	4.83%	5/2003 P
536	GNMA Admiral™ Shares* (2/12/2001)	VFIJX	1.05	9.77	—	—	8.04	4.91	5/2003 P
29	High-Yield Corporate Investor Shares (12/27/1978)	VWEHX	4.27	4.72	2.60	6.43	9.39	7.70	5/2003 P
529	High-Yield Corporate Admiral™ Shares (11/12/2001)	VWEAX	4.29	4.78	—	—	4.84	7.80	5/2003 P
119	Inflation-Protected Securities (6/29/2000)	VIPSX	2.62	17.89	—	—	11.98♦♦	1.61	5/2003 P
314	Intermediate-Term Bond Index Investor Shares (3/1/1994)	VBIX	1.82	13.64	7.88	—	7.69	4.25	4/2003 P
5314	Intermediate-Term Bond Index Admiral™ Shares (11/12/2001)	VBILX	1.83	13.69	—	—	7.08	4.30	4/2003 P
71	Intermediate-Term Corporate Investor Shares (11/1/1993)	VFICX	1.97	12.44	7.40	—	7.03	4.94	5/2003 P
571	Intermediate-Term Corporate Admiral™ Shares (2/12/2001)	VFIX	1.99	12.51	—	—	9.30	5.03	5/2003 P
35	Intermediate-Term Treasury Investor Shares* (10/28/1991)	VFITX	1.08	16.07	8.27	7.37	8.19	2.77	5/2003 P
535	Intermediate-Term Treasury Admiral™ Shares* (2/12/2001)	VFIUX	1.11	16.22	—	—	10.04	2.92	5/2003 P
522	Long-Term Bond Index (3/1/1994)	VBLTX	1.85	17.61	8.39	—	8.74	5.14	4/2003 P
28	Long-Term Corporate Investor Shares (7/9/1973)	VWESX	1.96	16.13	7.40	7.96	9.25	5.43	5/2003 P
568	Long-Term Corporate Admiral™ Shares (2/12/2001)	VWETX	1.99	16.24	—	—	10.45	5.55	5/2003 P
83	Long-Term Treasury Investor Shares* (5/19/1986)	VUSTX	1.40	20.11	8.54	8.59	9.08	4.28	5/2003 P
583	Long-Term Treasury Admiral™ Shares* (2/12/2001)	VUSUX	1.44	20.26	—	—	10.15	4.43	5/2003 P
132	Short-Term Bond Index Investor Shares (3/1/1994)	VBISX	1.15	7.38	6.60	—	6.41	2.27	4/2003 P
5132	Short-Term Bond Index Admiral™ Shares (11/12/2001)	VBIRX	1.16	7.43	—	—	4.47	2.32	4/2003 P
39	Short-Term Corporate Investor Shares (10/29/1982)	VFSTX	1.39	6.40	6.24	6.07	8.18	3.59	5/2003 P
539	Short-Term Corporate Admiral™ Shares (2/12/2001)	VFSUX	1.41	6.47	—	—	6.24	3.70	5/2003 P
49	Short-Term Federal Investor Shares* (12/31/1987)	VSGBX	0.83	8.03	6.76	6.12	7.15	2.22	5/2003 P
549	Short-Term Federal Admiral™ Shares* (2/12/2001)	VSGDX	0.85	8.08	—	—	7.20	2.31	5/2003 P
32	Short-Term Treasury Investor Shares* (10/28/1991)	VFISX	0.78	8.55	6.62	5.98	6.37	1.63	5/2003 P
532	Short-Term Treasury Admiral™ Shares* (2/13/2001)	VFIRX	0.81	8.70	—	—	7.28	1.78	5/2003 P
84	Total Bond Market Index Investor Shares (12/11/1986)	VBMFX	1.30	9.59	7.04	6.96	7.74	4.72	4/2003 P
584	Total Bond Market Index Admiral™ Shares (11/12/2001)	VBTIX	1.31	9.65	—	—	5.41	4.77	4/2003 P

Comparative Indexes

Wilshire 5000	-3.08%	-24.03%	-3.91%	7.95%
S&P 500	-3.15	-24.76	-3.77	8.53
Lehman Aggregate Bond	1.39	11.69	7.51	7.23
Lehman Municipal Bond	1.20	9.89	6.07	6.45
Citigroup 3-Month Treasury Bill	0.30	1.57	4.10	4.45
MSCI EAFE	-8.21	-23.23	-7.13	1.96

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Year To Date	Average Annual Total Returns For Periods Ended March 31, 2003				Current Yield†	Next Report/ Prospectus Online††
				1 Year	5 Years	10 Years	Since Inception*		
Tax-Exempt Income and Money Market Funds									
100	CA Intermediate-Term Tax-Exempt Investor Shares (3/4/1994)	VCAIX	0.65%	9.51%	5.89%	—	6.32%	3.11%	3/2003 P
5100	CA Intermediate-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VCADX	0.67	9.56	—	—	4.95	3.18	3/2003 P
75	CA Long-Term Tax-Exempt Investor Shares (4/7/1986)	VCITX	0.79	9.95	6.10	6.50%	7.35	3.59	3/2003 P
575	CA Long-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VCLAX	0.80	10.01	—	—	4.72	3.66	3/2003 P
62	CA Tax-Exempt Money Market (6/1/1987)	VCTX	0.24	1.22	2.50	2.82	3.50	1.05	3/2003 P
18	FL Long-Term Tax-Exempt Investor Shares (9/1/1992)	VFLT	1.31	11.32	6.46	6.68	7.13	3.50	3/2003 P
518	FL Long-Term Tax-Exempt Admiral™ Shares (11/12/2001)	VFLRX	1.33	11.38	—	—	6.42	3.57	3/2003 P
44	High-Yield Tax-Exempt Investor Shares (12/27/1978)	VWAHX	0.68	6.93	5.05	6.05	7.60	4.36	6/2003 S
5044	High-Yield Tax-Exempt Admiral™ Shares (11/12/2001)	VWALX	0.70	6.99	—	—	4.22	4.43	6/2003 S
58	Insured Long-Term Tax-Exempt Investor Shares (9/30/1984)	VILPX	1.04	10.23	6.11	6.42	8.62	3.58	6/2003 S
558	Insured Long-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VILQX	1.06	10.29	—	—	6.56	3.65	6/2003 S
42	Intermediate-Term Tax-Exempt Investor Shares (9/1/1977)	VWITX	0.60	7.58	5.37	5.77	6.29	3.00	6/2003 S
542	Intermediate-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWIUX	0.61	7.64	—	—	5.51	3.07	6/2003 S
31	Limited-Term Tax-Exempt Investor Shares (8/31/1987)	VMLTX	0.64	6.61	4.86	4.74	5.73	2.04	6/2003 S
531	Limited-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VMLUX	0.66	6.67	—	—	5.05	2.11	6/2003 S
43	Long-Term Tax-Exempt Investor Shares (9/1/1977)	VWLTX	0.72	9.66	5.88	6.44	6.72	3.75	6/2003 S
543	Long-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWLUX	0.73	9.73	—	—	6.46	3.82	6/2003 S
168	MA Tax-Exempt (12/9/1998)	VMATX	1.01	9.47	—	—	5.37	3.90	3/2003 P
14	NJ Long-Term Tax-Exempt Investor Shares (2/3/1988)	VNJTX	1.22	9.93	6.17	6.28	7.50	3.42	3/2003 P
514	NJ Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VNJUX	1.24	9.99	—	—	7.65	3.49	3/2003 P
95	NJ Tax-Exempt Money Market (2/3/1988)	VNJXX	0.23	1.16	2.61	2.83	3.49	0.98	3/2003 P
76	NY Long-Term Tax-Exempt Investor Shares (4/7/1986)	VNYTX	1.05	10.78	6.18	6.41	7.04	3.35	3/2003 P
576	NY Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VNYUX	1.07	10.85	—	—	7.84	3.42	3/2003 P
163	NY Tax-Exempt Money Market (9/3/1997)	VYFXX	0.23	1.20	2.70	—	2.77	1.00	3/2003 P
97	OH Long-Term Tax-Exempt (6/18/1990)	VOHIX	1.11	10.81	6.20	6.37	7.47	3.42	3/2003 P
96	OH Tax-Exempt Money Market (6/18/1990)	VOHXX	0.25	1.29	2.80	3.00	3.21	1.06	3/2003 P
77	PA Long-Term Tax-Exempt Investor Shares (4/7/1986)	VPAIX	1.27	10.52	6.14	6.37	7.38	3.38	3/2003 P
577	PA Long-Term Tax-Exempt Admiral™ Shares (5/14/2001)	VPALX	1.28	10.58	—	—	7.94	3.45	3/2003 P
63	PA Tax-Exempt Money Market (6/13/1988)	VPTXX	0.24	1.21	2.74	2.95	3.55	1.00	3/2003 P
41	Short-Term Tax-Exempt Investor Shares (9/1/1977)	VWSTX	0.46	3.63	3.89	3.86	5.17	1.31	6/2003 S
541	Short-Term Tax-Exempt Admiral™ Shares (2/12/2001)	VWSUX	0.47	3.68	—	—	3.59	1.38	6/2003 S
45	Tax-Exempt Money Market (6/10/1980)	VMSXX	0.25	1.31	2.81	3.01	4.24	1.05	6/2003 S
Money Market Funds									
11	Admiral™ Treasury Money Market* (12/14/1992)	VUSXX	0.29%	1.52%	4.13%	4.44%	4.40%	1.10%	4/2003 S
33	Federal Money Market* (7/13/1981)	VMFXX	0.27	1.44	4.23	4.51	6.34	1.01	4/2003 S
30	Prime Money Market (6/4/1975)	VMMXX	0.28	1.47	4.27	4.55	7.05	1.00	4/2003 S
50	Treasury Money Market* (3/9/1983)	VMPXX	0.25	1.34	3.95	4.27	5.61	0.92	4/2003 S
Standardized Average Annual Total Returns As Of March 31, 2003									
				1 Year	5 Years	10 Years	Since Inception*	Current Yield†	
Vanguard® Variable Annuity**									
69	Balanced (5/23/1991)			-12.96%	2.03%	8.94%	9.22%	—	
145	Diversified Value (2/8/1999)			-22.32	—	—	-2.65	—	
8	Equity Income (6/7/1993)			-21.46	-2.18	—	8.46	—	
68	Equity Index (4/29/1991)			-25.04	-4.13	7.96	8.67	—	
10	Growth (6/7/1993)			-31.01	-12.59	—	3.59	—	
146	High Yield Bond (6/3/1996)			4.36	1.74	—	4.64	7.20%	
86	International (6/3/1994)			-24.03	-5.55	—	1.73	—	
143	Mid-Cap Index (2/9/1999)			-23.89	—	—	4.03	—	
64	Money Market (5/2/1991)			1.18	4.04	4.22	4.12	0.79	
147	REIT Index (2/9/1999)			-3.58	—	—	8.92	—	
144	Short-Term Corporate (2/8/1999)			6.99	—	—	5.80	3.14	
160	Small Company Growth (6/3/1996)			-27.35	6.31	—	7.80	—	
67	Total Bond Market Index (4/29/1991)			9.49	6.63	6.45	7.09	3.67	
Vanguard® Fixed Annuity*									
Vanguard Fixed Annuity—Single 5						Annual Effective Interest Rate As Of March 31, 2003 (Subject To Change)			
						3.50%			
Comparative Indexes									
Wilshire 5000			-3.08%	-24.03%	-3.91%	7.95%			
S&P 500			-3.15	-24.76	-3.77	8.53			
Lehman Aggregate Bond			1.39	11.69	7.51	7.23			
Citigroup 3-Month Treasury Bill			0.30	1.57	4.10	4.45			

All Vanguard funds and the Vanguard Variable Annuity are offered by prospectus only. Prospectuses contain more complete information on risks, advisory fees, distribution charges, and other expenses, and should be read carefully before you invest. You can obtain Vanguard fund and annuity prospectuses by writing to us at P.O. Box 2600, Valley Forge, PA 19482-2600. The Vanguard fund and annuity total return data provided represent past performance. Past performance—and especially short-term past performance—cannot be used to predict future returns. Share prices of the funds will fluctuate, so investors could lose money if they sell shares when prices have fallen. Performance figures assume the reinvestment of dividends and capital gains distributions; the figures are pre-tax and net of expenses. Vanguard® VIPER® Shares are available through registered broker/dealers, who have copies of the shares' prospectuses and product descriptions, which should be read carefully before you invest or send money. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the fund. All figures are unaudited.

After-Tax Returns. The after-tax returns are shown in two ways: (1) assuming that an investor owned the fund during the entire period and paid taxes on the fund's distributions, and (2) assuming that an investor paid taxes on the fund's distributions and sold all shares at the end of each period. If a fund incurs a loss, which generates a tax benefit, the post-liquidation after-tax return may exceed the fund's other return figures.

Fund No.	Vanguard® Fund Name (Inception Date)	Average Annual Total Returns After Taxes On Distributions For Periods Ended March 31, 2003				Average Annual Total Returns After Taxes On Distributions And Sale Of Fund Shares For Periods Ended March 31, 2003			
		1 Year	5 Years	10 Years	Since Inception*	1 Year	5 Years	10 Years	Since Inception*
Vanguard Tax-Managed Funds®									
103	Balanced (9/6/1994)	-9.17%	2.06%	—	7.78%	-4.72%	2.19%	—	7.05%
102	Capital Appreciation Investor Shares (9/6/1994)	-26.35	-3.47	—	8.17	-15.99	-2.65	—	6.97
5102	Capital Appreciation Admiral™ Shares (11/12/2001)	-26.32	—	—	-17.45	-15.96	—	—	-13.71
101	Growth & Income Investor Shares (9/6/1994)	-25.85	-4.17	—	8.36	-15.56	-3.09	—	7.26
5101	Growth & Income Admiral™ Shares (11/12/2001)	-25.83	—	—	-17.81	-15.54	—	—	-13.93
127	International (8/17/1999)	-24.63	—	—	-12.94	-14.65	—	—	-9.73
116	Small-Cap (3/25/1999)	-25.50	—	—	4.54	-15.51	—	—	3.76

Fee-Adjusted Returns. In accordance with SEC regulations, the returns presented below take into account certain fees that may apply to Vanguard funds. For some funds, fees are levied on purchases or redemptions to offset the costs of buying and selling portfolio securities. For others, fees are assessed on redemptions made within certain time periods after a purchase to discourage short-term trading. All purchase or redemption fees are paid directly to the fund to compensate long-term shareholders for the costs of trading activity. In addition, Vanguard index funds apply a \$10 annual maintenance fee, which is not reflected in the figures, to accounts with balances below \$10,000.

Fund No.	Vanguard® Fund Name (Inception Date)	Ticker Symbol	Average Annual Total Returns For Periods Ended March 31, 2003			
			1 Year	5 Years	10 Years	Since Inception*
Growth and Income Funds						
934	Selected Value (2/15/1996)	VASVX	-25.43%	-2.40%	—	3.43%
101	Tax-Managed Growth and Income Investor Shares (9/6/1994)	VTGIX	-25.36	-3.70	—	9.00
5101	Tax-Managed Growth and Income Admiral™ Shares (11/12/2001)	VTGLX	-25.32	—	—	-17.24
Growth Funds						
59	PRIMECAP Investor Shares (11/1/1984)	VPMCX	-26.93%	1.68%	12.65%	14.29%
559	PRIMECAP Admiral™ Shares (11/12/2001)	VPMAX	-26.85	—	—	-15.02
102	Tax-Managed Capital Appreciation Investor Shares (9/6/1994)	VMCAX	-26.05	-3.24	—	8.43
5102	Tax-Managed Capital Appreciation Admiral™ Shares (11/12/2001)	VTCLX	-26.00	—	—	-17.04
Aggressive Growth Funds						
111	Capital Opportunity Investor Shares (8/14/1995)	VHCOX	-29.43%	11.60%	—	9.54%
5111	Capital Opportunity Admiral™ Shares (11/12/2001)	VHCAX	-29.35	—	—	-17.94
52	Health Care Investor Shares (5/23/1984)	VGHGX	-17.08	11.08	19.33%	19.57
552	Health Care Admiral™ Shares (11/12/2001)	VGHAX	-17.01	—	—	-8.79
116	Tax-Managed Small-Cap (3/25/1999)	VTMSX	-25.28	—	—	4.77
International Funds						
533	Emerging Markets Stock Index (5/4/1994)	VEIEX	-21.65%	-5.45%	—	-1.72%
127	Tax-Managed International (8/17/1999)	VTMGX	-24.11	—	—	-12.54
Balanced Fund						
103	Tax-Managed Balanced (9/6/1994)	VTMFX	-8.99%	2.19%	—	7.93%

*The U.S. government backs the fund's underlying investments but not its shares' net asset value.

**Share prices for the Vanguard Variable Annuity Contract are accumulation unit values that reflect the investment results of the respective portfolios as well as the reinvestment of all dividends and capital gains, reduced by daily mortality, expense risk, and administrative expense charges. The one-, five-, ten-year, and since inception period returns, considered "Standardized," are adjusted for the \$25 annual fee charged on contracts valued at less than \$25,000. With respect to contracts issued in New York State, performance figures shown are based on the actual performance of Vanguard Variable Insurance Fund as if the contracts were being offered in New York prior to their first New York offering date in November 1992. The Contract is a flexible-premium, multifund variable annuity issued by Peoples Benefit Life Insurance Company, Form No. Series NA 100A (AUSA Life Insurance Company, Inc., in New York only, Form No. Series AV423 101 109 498 CRT).

***Closed to new investor accounts and additional investments by current shareholders.

†30-day yield for bond funds; 7-day yield for money market funds (as of March 31, 2003). The money market yields listed more closely reflect the current earnings of the portfolio than the average annual total returns shown.

††**Next Report/Prospectus Online:** The fund's next annual report (A), semiannual report (S), or prospectus (P) is expected to be available on our website (Vanguard.com) no later than the last day of the indicated month. Account statements are posted online approximately eight days after the end of each calendar quarter.

•The Vanguard Fixed Annuity—Single 5, single premium deferred annuity, Policy Form 94-522, or applicable state variation, is issued by **Jefferson Pilot LifeAmerica Insurance Company**, service address: Greensboro, NC.

Except for a few authorized institutions, investors may not purchase or redeem Vanguard® Total Stock Market VIPERs® or Vanguard® Extended Market VIPERs® directly from the issuing fund. Instead, investors must buy or sell VIPER® Shares in the secondary market with the assistance of a stock broker. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling. The total returns shown do not reflect any payments of brokerage commissions.

◆Since inception returns for less than one year are not annualized.

◆◆Yield stated in real terms; not adjusted for projected inflation.

After-tax returns are calculated using the highest individual federal income tax rates in effect at the time of each distribution. They do not reflect the impact of state and local taxes. Your after-tax return depends on your individual tax situation and, therefore, may differ from the return presented here. If you own fund shares in a tax-deferred account such as an individual retirement account or 401(k) plan, this information does not apply to your investment because these accounts are not subject to current taxes. The fund's past performance—whether before or after taxes—does not indicate how it will perform in the future.

After-tax total returns are available for many of the Vanguard funds on our website, **Vanguard.com®**.

To view after-tax returns, select a Vanguard fund in the "Research Funds & Stocks" area of the website and click on "after-tax returns" in the fund's Snapshot.

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