Vanguard U.S. Growth Fund adds two new advisors and announces a corporate restructuring of a current advisor

Dear Vanguard Client,

This letter is to inform you about three new advisory agreements for Vanguard U.S. Growth Fund. Under the terms of an exemptive order granted to Vanguard by the U.S. Securities and Exchange Commission, the fund’s board of trustees may hire or replace an investment advisor or change the terms of an existing advisory agreement without prior approval from shareholders, but we must communicate certain changes in the fund’s advisory arrangements to you in writing. This letter satisfies that requirement.

The board of trustees of U.S. Growth Fund has approved the restructuring of the fund’s investment advisory team. First, in conjunction with the fund’s acquisition of Vanguard Growth Equity Fund (“Growth Equity Fund”), Baillie Gifford Overseas Ltd. (“Baillie Gifford”) and Jennison Associates LLC (“Jennison”) were added as investment advisors for the fund effective February 22, 2014. Second, the Focus Growth Team at Delaware Investments Fund Advisers (“Delaware Investments”), a former advisor of the fund, has completed its spin-off to create a new advisor, Jackson Square Partners, LLC (“Jackson Square,” collectively with Baillie Gifford and Jennison, the “advisors”), which is jointly owned by the Focus Growth Team and an affiliate of Delaware Investments. This new corporate structure triggered the automatic termination of the former advisory agreement with Delaware Investments, as required by law. The fund’s new advisory agreement with Jackson Square became effective upon the completion of the spin-off on April 30, 2014.

U.S. Growth Fund now has a team of five accomplished advisory firms providing an attractive combination of investment approaches that should benefit fund shareholders over the long term. The fund’s board of trustees concluded that the advisors’ investment philosophies are consistent with the investment objectives of the fund and will complement those of the fund’s other advisors.

Baillie Gifford follows an investment approach based on making long-term investments in well-researched and well-managed businesses that the advisor believes enjoy sustainable competitive advantages in their marketplaces. Baillie Gifford uses a fundamental approach to identify quality growth companies. Ian Tabberer, Investment Manager of North American Equities Investment Team at Baillie Gifford, is portfolio manager of the Baillie Gifford portion of the fund and has more than 10 years of investment experience.

Jennison executes a research-driven investment approach that relies on in-depth company knowledge gleaned through meetings with management, customers, and suppliers. Jennison seeks to invest in stocks of large-capitalization companies with above-average growth in revenues, earnings, and cash flows that are trading at attractive valuations. Kathleen A. McCarragher, Director, Managing Director, and Head of Growth Equity at Jennison is lead portfolio manager for the Jennison portion of the fund and has more than 30 years of investment experience. Blair A. Boyer, Managing Director at Jennison, is a portfolio manager of the Jennison portion of the fund and has more than 25 years of investment experience.
Jackson Square invests primarily in common stocks of large-capitalization, growth-oriented companies that it believes have long-term capital appreciation potential and are expected to grow faster than the U.S. economy. The advisor uses a bottom-up approach, seeking companies that have large-end market potential, dominant business models, and strong free cash flow generation that is attractively priced compared with the intrinsic value of the securities. Jackson Square tends to hold a relatively focused portfolio with a limited number of stocks. Christopher J. Bonavico, Christopher M. Ericksen, Daniel J. Prislin, and Jeffrey S. Van Harte, each with more than 20 years of investment experience, have co-managed a portion of the fund since 2010.

The restructuring of the fund’s investment advisory team is not expected to result in a change in the expense ratio for the fund’s Investor Shares, which is currently 0.45% of the fund’s average net assets, or a change in the expense ratio for the fund’s Admiral™ Shares, which is currently 0.31% of the fund’s average net assets. These estimated expense ratios are substantially lower than the average expense ratio of 1.22% for large-cap growth funds in 2013 (derived from data provided by Lipper, a Thomson Reuters Company).

The restructuring will not affect the fund’s investment objective, policies, risks, or strategies.

**Advisory and other arrangements**

Each of the fund’s investment advisors is responsible for managing the investment and reinvestment of its portion of the fund’s assets and for continually reviewing, supervising, and administering the fund’s investment program. Each advisor is subject to supervision and oversight by Vanguard’s Portfolio Review Department and the officers and trustees of the fund. The board of trustees designates the proportion of fund assets to be managed by each advisor and may change these proportions at any time.

The trustees regularly evaluate the fund’s investment advisory arrangements, focusing on factors such as each advisor’s investment process, style consistency, and long-term performance, as well as the composition and depth of management and research teams.

Under the fund’s advisory agreements with Baillie Gifford and Jennison, the fund pays each of them a base fee plus or minus a performance adjustment. Each base fee, which is paid quarterly, is a percentage of average daily net assets managed by the advisor during the most recent fiscal quarter. The base fee has breakpoints, which means that the percentage declines as assets go up. The performance adjustment, also paid quarterly, is based on the cumulative total return of each advisor’s portion of the fund relative to that of the S&P 500 Index (for Baillie Gifford) or the Russell 1000 Growth Index (for Jennison) over the preceding 36-month period. When the performance adjustment is positive, the fund’s expenses increase; when it is negative, expenses decrease.

The fees paid to Jackson Square are not changing under the new agreement: The fund pays the advisor a base fee plus or minus a performance adjustment. The base fee, which is paid quarterly, is a percentage of average daily net assets managed by the advisor during the most recent fiscal quarter. The base fee has breakpoints, which means that the percentage declines as assets go up. The performance adjustment, also paid quarterly, is based on the cumulative total return of the advisor’s portion of the fund relative to that of the Russell 1000 Growth Index over the preceding 36-month period. When the performance adjustment is positive, the fund’s expenses increase; when it is negative, expenses decrease.

For the fiscal year ended August 31, 2013, the aggregate investment advisory fee represented an effective annual rate of 0.17% of the fund’s average net assets before a performance-based decrease of 0.01%.
Board approval of the investment advisory agreements with the advisors

Vanguard U.S. Growth Fund’s board of trustees approved Baillie Gifford and Jennison under the terms of new investment advisory agreements effective February 22, 2014, and retained Jackson Square under the terms of a new agreement effective April 30, 2014. The board’s decision to hire Baillie Gifford, Jennison, and Jackson Square as part of the fund’s multi-manager structure was based on the board’s evaluation of the fund’s investment staff, portfolio management process, performance results, and investment advisory arrangements. In considering whether to approve the agreements, the board also considered that Vanguard’s Portfolio Review Department had engaged in arm’s-length discussions with the advisors as well as the following factors, among others:

• The board considered the benefits to shareholders of adding Baillie Gifford and Jennison as new advisors to the fund and retaining Jackson Square as an advisor, particularly in light of the nature, extent, and quality of services to be provided by the advisors. The board considered, among other things, the investment philosophies of each advisor and the investment experience of the portfolio management teams.

• The board analyzed the performance of Baillie Gifford’s and Jennison’s sub-portfolios of Growth Equity Fund, and the performance of the Focus Growth Team’s sub-portfolio of U.S. Growth Fund. The board concluded that the performance was such that the advisory arrangements for the fund should be approved.

• The board considered the advisory fee schedule and the estimated expense ratios of the fund’s share classes and compared them with the average advisory fee and expense ratio of the fund’s peer group. It concluded that the additions of Baillie Gifford and Jennison would not result in an increase in the fund’s aggregate investment advisory fee, and that the fund’s advisory fee and expense ratio would remain significantly below the fund’s peer averages. Jackson Square’s advisory fee schedule will be the same as that of Delaware Investments and, therefore, will not impact the fund’s advisory fee.

• The board considered the extent to which economies of scale would be realized as the fund grows, including the impact of appropriate breakpoints in the advisors’ advisory fee schedules. By including asset-based breakpoints in the fee schedule, the fund’s trustees ensure that if the portions of the fund managed by Baillie Gifford, Jennison, and Jackson Square continue to grow, investors will capture economies of scale in the form of a lower advisory fee rate.

• The board did not consider profitability of the advisors in determining whether to approve the advisory agreement because Baillie Gifford, Jennison, and Jackson Square are independent of Vanguard and each advisory fee is the result of arm’s-length negotiations.

• Based on its informed business judgment, the board concluded that the course of action in the best interest of the fund and its shareholders was to approve the agreement with Baillie Gifford and Jennison and retain Jackson Square.

The new agreements will continue for two years from their respective effective dates, and each is renewable for successive one-year periods thereafter. The agreements will be reviewed annually by the fund’s board of trustees, a majority of whom are not “interested persons” of either the fund or its advisors as defined by federal securities laws. The board may, at any time, reallocate the fund’s assets among the fund’s advisors or allocate assets of the fund to other investment advisors without terminating or revising the agreement with each advisor.
Background information on the advisors

Baillie Gifford

Baillie Gifford Overseas Ltd., Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, Scotland, is an investment advisory firm founded in 1983. Baillie Gifford Overseas Ltd. is wholly owned by Baillie Gifford & Co., a Scottish investment firm. Founded in 1908, Baillie Gifford & Co., one of the largest independently owned investment management firms in the United Kingdom, manages money primarily for institutional clients. As of December 31, 2013, Baillie Gifford & Co. managed approximately $174 billion in assets. The firm is organized as a partnership with 100% ownership disbursed among 39 active partners.

The names and principal occupations of Baillie Gifford’s management team are presented below.

• Angus N. Macdonald, Chief Legal Officer
• Alison L. Warden, Group Finance Officer
• Andrew J. Telfer, Partner
• Graham Laybourn, Director
• Scott Nisbet, Director
• Peter C. Hadden, Director, Chairman
• Dickson K. Jackson, Chief Executive Officer
• William Sutcliff, Director
• Anthony R. Tait, Director
• Kathrin Hamilton, Director
• David W. Salter, Partner
• Nicholas Thomas, Partner
• Timothy Campbell, Partner
• David S. Henderson, Director
• Lindsay Gold, Director
• Sinclair Coghill, Director

The portfolio manager primarily responsible for the day-to-day management of Baillie Gifford’s portion of the fund is:

• Ian Tabberer, Investment Manager, North American Equities Investment Team at Baillie Gifford. He has managed investment portfolios since 2002, has been with Baillie Gifford since 2008, and has managed a portion of the fund since February 2014.
Jennison

Jennison Associates LLC (including its predecessor, Jennison Associates Capital Corp.), 466 Lexington Avenue, New York, NY 10017, is an investment advisory firm founded in 1969. Jennison is an indirect wholly owned subsidiary of Prudential Financial, Inc. As of December 31, 2013, Jennison managed approximately $175 billion in assets.

The names and principal occupations of Jennison’s management team are presented below.

• Spiros Segalas, President, Chief Investment Officer, and Director
• Stephanie Willis, Senior Vice President and Chief Compliance Officer
• Mehdi A. Mahmud, Chief Executive Officer, Chairman, and Director
• Kenneth Moore, CFA, Executive Vice President, Treasurer, and Chief Operating Officer
• Leslie S. Rolison, Executive Vice President and Chief Administrative Officer
• Mirry M. Hwang, Senior Vice President and Chief Legal Officer
• Kathleen A. McCarragher, Managing Director, Head of Growth Equity, and Director
• David Hunt, Director
• Mary-Lynne Driscoll, Director
• Taimur Hyat, Director
• Jurgen Muhlhauser, Director

The portfolio managers primarily responsible for the day-to-day management of Jennison’s portion of the fund are:

• Kathleen A. McCarragher, Director, Managing Director, and Head of Growth Equity at Jennison. She has worked in investment management since 1982, has been with Jennison since 1998, and has co-managed a portion of the fund since February 2014. Ms. McCarragher has final authority over all aspects of the portion of the fund that is managed by Jennison.
• Blair A. Boyer, Managing Director at Jennison. He has managed investment portfolios since 1988, has been with Jennison since 1993, and has co-managed a portion of the fund since February 2014.

Jackson Square

Jackson Square Partners, LLC, 101 California Street, Suite 3750, San Francisco, CA 94111, is an investment advisory firm founded in 2013. As of April 30, 2014, Jackson Square managed approximately $25 billion in assets.

The names and principal occupations of Jackson Square’s management team are presented below.

• Jeffrey S. Van Harte, Chairman and Chief Investment Officer
• Van Tran, Chief Financial Officer
• Kevin Brown, Managing Partner
The portfolio managers primarily responsible for the day-to-day management of Jackson Square’s portion of the fund are:

- Christopher J. Bonavico, CFA, Vice President, Senior Portfolio Manager, and Equity Analyst at Jackson Square. He has worked in investment management since 1988, has managed investment portfolios since 2005, and has co-managed a portion of the fund since 2010.

- Christopher M. Ericksen, CFA, Vice President, Portfolio Manager, and Equity Analyst at Jackson Square. He has worked in investment management since 1994, has managed investment portfolios since 2004, and has co-managed a portion of the fund since 2010.

- Daniel J. Prislin, CFA, Vice President, Senior Portfolio Manager, and Equity Analyst at Jackson Square. He has worked in investment management since 1994, has managed investment portfolios since 1996, and has co-managed a portion of the fund since 2010.

- Jeffrey S. Van Harte, CFA, Chairman and Chief Investment Officer at Jackson Square. He has worked in investment management since 1980, has managed investment portfolios since 1984, and has co-managed a portion of the fund since 2010.

To receive a free copy of the fund’s latest annual or semiannual report, prospectus, or statement of additional information, please visit vanguard.com or contact Vanguard as follows:

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