Video transcript: CEO Bill McNabb on Vanguard's stability

Vanguard, 03/31/2009

The past year and a half has been a tough environment for investors. It's easy to feel discouraged right now. We've seen the stock market decline more than 50% from its peak in October of 2007, and the economy is in the midst of the longest recession in several generations.

On top of that, over the past year, news has been dominated by stories of investment scandals, financial firms getting bailed out, and, in some cases, outright bank failures.

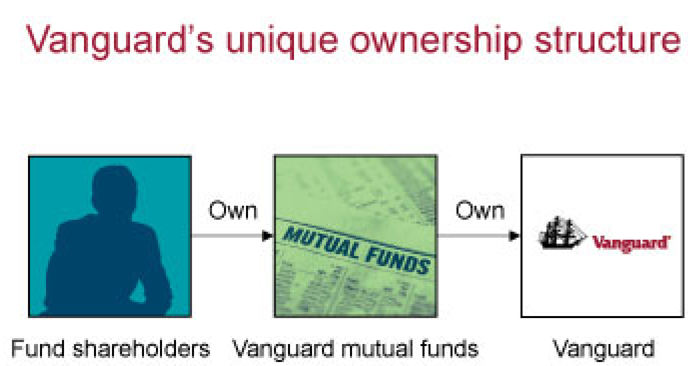
While Vanguard hasn't been touched directly by these troubles, we *have* been watching them closely.

More important, our clients have been watching these events play out, and inevitably, their thoughts turn to their own financial security. We hear it when our clients call or write to us. And frankly, I hear it when I run into acquaintances and they ask, "So, how has Vanguard been holding up through this whole mess?"

The translation is: Are my investments safe? And is Vanguard safe?

At Vanguard, we take pride in having very candid and forthright communications with our investors; we call it "plain talk." So, I'd like to have a plain-talk discussion with you about how Vanguard is doing. And I'll explain how, and why, we're different from other financial firms.

First, "the business" of our company has been doing quite respectably. We're healthy. We're stable. And we're not going anywhere. We haven't made changes to our long-term plans or strategies. We haven't started whistling a different tune. And neither have our clients. Despite the market turmoil, people have continued to invest in Vanguard funds.



Now, we're sensitive to the fact that this is not an environment in which to boast. This is a tough time for most businesses—and for many of our clients. But, at the same time, we recognize that you want to have confidence in the stability of your investment provider.

So let me tell you why Vanguard is very different from other financial firms.

You may be familiar with the ownership structure of Vanguard.

The firm is client-owned, since Vanguard is owned by our mutual funds, which in turn are owned by our shareholders. It seems almost fundamental to the concept of being a "mutual fund company." But, in fact, our structure makes us unique among our peers, and it enables us to take a different approach.

Our structure does a few things that are good for a firm in any environment, but essential in a turbulent one. I'll share 4 of the benefits with you:

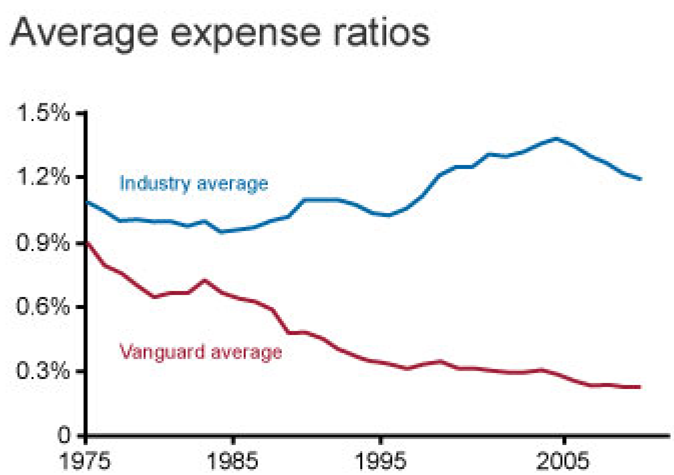
1) The first is that it puts our **clients first** in all decisions. There's no decision that we make where we have to choose between the benefit of our clients and the benefit of the firm.

Other firms say it, and might mean it, but it's part of our genetic makeup. Our success depends on the success of our shareholders—not on external pressures like hitting quarterly earnings targets or driving up a share price.

2) Second, our ownership structure allows us to have a **long-term perspective** on business matters—a true differentiator in tough times.

We are able to look at what will be good for Vanguard clients not only next week or next quarter, but also in the years and decades to come, while still carrying out our responsibilities to clients each and every day.

3) A third benefit of our ownership structure is our **low costs**.



Source: Lipper. Data as of December 31, 2008.

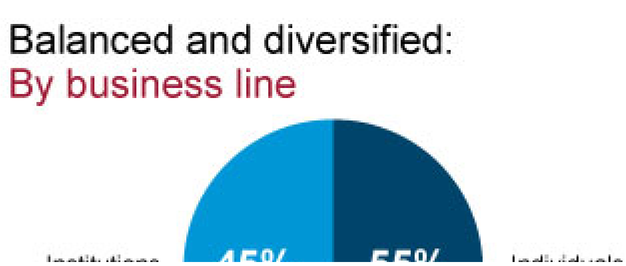
Over the years, our average expense ratio has dropped substantially, and has remained significantly lower than the industry average. As Vanguard has made improvements—and its asset base has grown larger and more efficient—we've been able to pass savings along to shareholders in the form of lower expenses.

But that does not mean that we're immune to market forces. The steep market declines of the past year have put a dent in the total assets we manage—even as the operating costs for the funds have stayed relatively constant.

As a result, the expense ratios for some Vanguard funds have risen modestly for the coming fiscal year, and we anticipate others will follow suit. This has happened in the past. In the bear market of 2002, expense ratios rose slightly before falling the next year.

We fully expect that our expense ratios will fall once more as the markets recover and as we continue our efforts to create greater operating efficiencies.

In the meantime, it's worth noting that despite these modest increases, on average, Vanguard has maintained a significant cost advantage compared to the rest of the industry. In fact, last year alone, the difference between Vanguard's average expense ratio and that of the

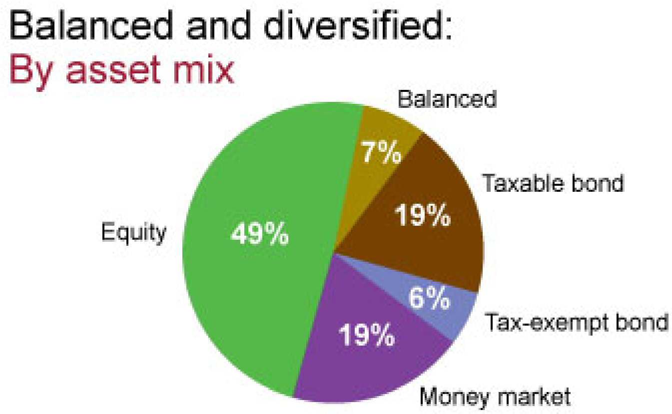


industry translated into a collective savings of almost $12 billion dollars for Vanguard investors.

4) The fourth and final benefit of our ownership structure is that it gives us the ability to operate the business in a prudent manner. We don't recklessly chase after hot business segments or investment fads. Instead, we enjoy stability through the **balance and diversification** of our business.

Our client base is a healthy mix of individual as well as institutional investors, including financial advisors, retirement plans, and endowments and foundations. We also have a growing international business. Unlike a lot of investment firms, we're positioned to serve clients across a wide array of business lines.

We are also diversified in our asset mix. You can't place Vanguard in an "investment style box." We offer funds across the major asset classes, investment styles, and strategies.



Source: Vanguard. Data as of December 31, 2008.

In many ways, Vanguard's approach to our business reflects our approach to investing. Both are built on the principles of client focus, long-term perspective, low costs, balance, and diversification. And over time, these principles have enabled Vanguard funds to compare quite favorably to those of our competitors in good markets—and bad.

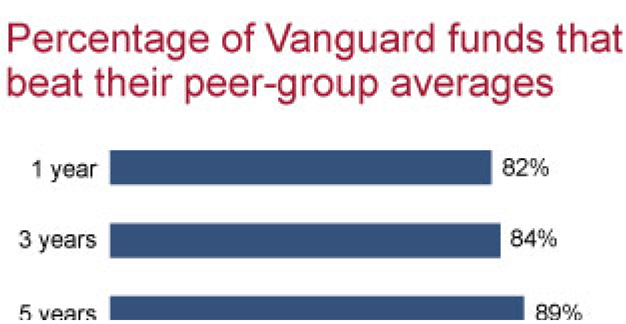
As I said, it's easy to feel discouraged right now. The markets have been bruised and battered. Account balances are down.

There is an incredible level of activity in Washington and lawmakers are discussing potentially significant changes to financial regulation.

And, certainly, no one can say exactly when things are going to turn around.

A colleague reminded me recently of the "Stockdale paradox" a lesson taken from Vietnam War hero Admiral James Stockdale, who showed incredible courage and leadership during 8 years as a prisoner of war. The Stockdale paradox holds that the key to emerging stronger, not weaker, from difficult challenges is to believe that you will prevail in the end, while at the same time confronting "the most brutal facts of your current reality." (Source: Jim Collins, *Good to Great* [2001].)

Well, our current reality is certainly brutal … We hope it's a once-in-a-lifetime economic storm.



But confidence *will* return. The markets *will* recover. And the economy *will* cycle back into growth mode. Until then, we will focus on the things we *can* control and continue to maintain a long-term perspective.

We encourage you to do the same.

Thanks for watching, and *thank you* for your continued confidence in Vanguard.

Narrator:

For more information about Vanguard funds, visit Vanguard.com to obtain a fund prospectus, which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

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 such a fund.

Note that the competitive performance data shown represent past performance, and that all investments are subject to risk. For the most recent performance, visit our website at Vanguard.com/performance.

The chart "Percentage of Vanguard funds that beat their peer-group averages" is based on the following: For the one-year period, 11 of 11 Vanguard money market funds, 61 of 67 bond funds, 24 of 26 balanced funds, and 128 of 168 stock funds outperformed their Lipper averages. For the three-year period, 11 of 11 Vanguard money market funds, 55 of 55 bond funds, 18 of 20 balanced funds, and 97 of 130 stock funds outperformed their Lipper averages. For the five-year period, 11 of 11 Vanguard money market funds, 52 of 54 bond funds, 17 of 20 balanced funds, and 80 of 95 stock funds outperformed their Lipper averages. For the ten-year period, 11 of 11 Vanguard money market funds, 28 of 28 bond funds, 8 of 9 balanced funds, and 30 of 49 stock funds outperformed their Lipper averages. Results vary for other time periods. Only funds with a minimum one-, three-, five-, or ten-year history, respectively, were included in the comparison.

All investments, including a portfolio's current and future holdings, are subject to risk. Investments in bond funds are subject to interest rate, credit and inflation risk.

Diversification does not ensure a profit or protect against a loss in a declining market.

Note that the statement "collective savings of almost $12 billion for Vanguard investors" is based on the following: In 2008, the average expense ratio for Vanguard funds was 0.20% and the average expense ratio for the industry was 1.19% (source: Lipper). If Vanguard had charged the industry average expense ratio on the $1.20 trillion in assets the firm managed, on average, in 2008, shareholders would have paid an additional $11.9 billion in operating costs. This hypothetical example does not represent the return on any particular investment.