2013: The year in review
Chairman’s message

2013 was a very good year for Vanguard clients. The broad U.S. stock market returned a heady 33.6%, the best return in 15 years and the third-best in three decades. International equity markets’ returns, while not as spectacular, were nonetheless impressive at 15.3%. The broad U.S. taxable bond market posted its first negative calendar-year return since 1999. (See Figure 1.)

While I’m as pleased as anyone with the year’s equity returns, we’re always on guard against becoming so dazzled in the years that markets perform well that we lose our focus on the long-term horizon. There will be good market years and bad market years, but we’ll keep delivering value for our clients regardless of the “weather.” We stayed busy in 2013 doing that in a number of ways.

---

**Figure 1. Market barometer**

<table>
<thead>
<tr>
<th></th>
<th>One year</th>
<th>Three years</th>
<th>Five years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stocks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russell 1000 Index (Large-caps)</td>
<td>33.11%</td>
<td>16.30%</td>
<td>18.59%</td>
</tr>
<tr>
<td>Russell 2000 Index (Small-caps)</td>
<td>38.82</td>
<td>15.67</td>
<td>20.08</td>
</tr>
<tr>
<td>Russell 3000 Index (Broad U.S. market)</td>
<td>33.55</td>
<td>16.24</td>
<td>18.71</td>
</tr>
<tr>
<td>MSCI All Country World Index ex USA (International)</td>
<td>15.29</td>
<td>5.14</td>
<td>12.81</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barclays U.S. Aggregate Bond Index (Broad taxable market)</td>
<td>–2.02%</td>
<td>3.26%</td>
<td>4.44%</td>
</tr>
<tr>
<td>Barclays Municipal Bond Index (Broad tax-exempt market)</td>
<td>–2.55</td>
<td>4.83</td>
<td>5.89</td>
</tr>
<tr>
<td>Citigroup 3-Month U.S. Treasury Bill Index</td>
<td>0.05</td>
<td>0.06</td>
<td>0.09</td>
</tr>
<tr>
<td><strong>CPI</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>1.50%</td>
<td>2.07%</td>
<td>2.08%</td>
</tr>
</tbody>
</table>

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.
Vanguard funds turned in a solid performance in 2013, with 65% outperforming their respective peer-group averages. Over ten years, 92% of our funds exceeded the average returns of their competing fund peer groups. Despite the significant challenges in the U.S. and global bond markets, our actively managed fixed income funds outperformed 80% of their peer-group averages in 2013 and 100% of their peer-group averages for the ten-year period. Results like that are nothing short of extraordinary, and they reflect the skill, discipline, and experience of the investment teams who manage Vanguard funds. (See Figure 2.)

Overall, our mutual funds’ expense ratio for 2013 held steady at 19 basis points, maintaining our position as the low-cost industry leader. To put that into perspective, if we had charged the industry average expense ratio of 1.08% on our shareholders’ average assets of $2.2 trillion during the year, their returns would have been $19.8 billion lower. (See Figures 3 and 4.)

Shareholders’ wealth increased by a record $343 billion. Of all the data that I see in any given year, this figure is the single most significant piece. It’s the gem at the center of our work because it represents the collective increase in shareholder assets after all expenses are accounted for. Our clients are why we’re here, and we always want to do well by them.

Laying the groundwork for another 40 years

Next year will mark 40 years since Vanguard began serving investors on May 1, 1975. Many of the projects and initiatives that we worked on during 2013 were all about getting Vanguard positioned for another 40 years—and beyond—of helping clients reach their financial goals.

---

Figure 2. Percentage of Vanguard funds whose returns beat their peer-group averages

Note: All performance periods ended December 31, 2013.

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>65%</td>
</tr>
<tr>
<td>3 years</td>
<td>83%</td>
</tr>
<tr>
<td>5 years</td>
<td>71%</td>
</tr>
<tr>
<td>10 years</td>
<td>92%</td>
</tr>
</tbody>
</table>

For the one-year period, 9 of 10 Vanguard money market funds, 56 of 92 bond funds, 21 of 29 balanced funds, and 141 of 220 stock funds, or 227 of 351 Vanguard funds outperformed their Lipper averages. For the three-year period, 10 of 10 Vanguard money market funds, 62 of 84 bond funds, 25 of 28 balanced funds, and 178 of 208 stock funds, or 275 of 330 Vanguard funds outperformed their Lipper averages. For the five-year period, 10 of 10 Vanguard money market funds, 26 of 63 bond funds, 23 of 27 balanced funds, and 130 of 166 stock funds, or 189 of 266 Vanguard funds outperformed their Lipper averages. For the ten-year period, 10 of 10 Vanguard money market funds, 49 of 51 bond funds, 17 of 18 balanced funds, and 81 of 91 stock funds, or 157 of 170 Vanguard funds outperformed their Lipper averages. Among actively managed fixed income funds, 35 of 44 Vanguard funds outperformed their Lipper averages for one year, 34 of 44 for three years, 26 of 44 for five years, and 43 of 43 for ten years. Results will vary for other time periods. Only funds with a minimum one-, three-, five-, or ten-year history, respectively, were included in the comparison. (Source: Lipper, a Thomson Reuters company.)

Note that the competitive performance data shown represent past performance, which is not a guarantee of future results, and that all investments are subject to risks. For the most recent performance, visit our website at www.vanguard.com/performance.
Some highlights:

- **Experienced significant growth in all segments of our Institutional defined contribution (DC) business.** Our mid- and large-market segments continued to grow mainly because we eliminated our proprietary-funds requirement and streamlined our fee structure. Our small-business retirement plan, Vanguard Retirement Plan Access™, has welcomed nearly 78,000 new participants since its inception in 2011.

- **Continued to invest heavily in providing a world-class experience to sponsors and participants** through website enhancements, better access to our experts’ research and commentary, a new financial-wellness offering, and the ability to perform mobile transactions.

- **Completed the nearly $600-billion benchmark transition** of 22 index funds to CRSP and FTSE benchmarks, which allowed us to lock in long-term savings. We stayed within tracking-error targets and cost expectations, and had minimal market impact. It was the largest-ever benchmark transition of its kind, and we’ve been gratified by the acceptance in the marketplace.

- **Created a new account** to simplify the investing experience for our Retail clients who hold fund and brokerage assets.

- **Rolled out enhancements to our offerings for financial advisors.** Our online ETF Knowledge Center provides a more unified experience for advisors to access Vanguard research and insights, and our sales executives are now equipped with a mobile app so they can easily share that information when they’re visiting advisor clients.

---

**Figure 3. Average expense ratios: Vanguard versus the industry**

Expense ratios as of December 31, 2013. Vanguard expense ratios range from 0.02%–1.90%. Average expense ratios are represented as a percentage of net assets.

*Sources: Vanguard and Lipper, a Thomson Reuters company.*

**Figure 4. The value to clients of our low costs**

Estimates in millions of dollars

Source: Vanguard.

The chart shows the total additional fund operating costs that Vanguard shareholders would have paid each year if we had charged the fund industry’s average expense ratio (1.08% in 2013). 89 basis points on $2.23 trillion in mutual fund assets under management could translate into approximately $20 billion in savings. Calculation: 89 basis points comes from subtracting the Vanguard average expense ratio of 0.19% from the industry average expense ratio of 1.08%. This number is then multiplied by Vanguard’s assets under management of $2.23 trillion to get the result of $20 billion. This hypothetical illustration does not represent any particular investment and only holds true if the returns are identical. There is no assurance that individual investors will experience similar savings.
A reflection on Vanguard’s growth

Our clients’ global assets grew to $2.85 trillion by year-end, while Vanguard led the U.S. mutual fund industry in net cash flow for the fifth consecutive year with $137.9 billion. Additionally, our net cash flow from non-U.S. clients was $16.9 billion last year. Globally, net cash flow for the five-year period saw clients entrusting $616 billion to us. These numbers, taken in sum with the annual shareholder-wealth figure that I talked about earlier, are measures of growth, obviously, but I also see them as validation that investors are embracing the Vanguard way of investing. It’s been both humbling and gratifying to see more and more investors finding the path to Vanguard.

Our growth is also a reflection of your loyalty. In 2013, Vanguard’s redemption ratio, which is a measure of how long assets remain invested with us, stood at less than half the industry’s ratio. Our clients are incredibly loyal, and that’s something we never take for granted.

The Vanguard way of investing means focusing on those things you can control: creating clear investment goals, being broadly diversified, minimizing costs, and maintaining perspective and long-term discipline. Like investors in the United States, investors around the globe are increasingly adopting this core philosophy. Vanguard International marked two milestones in 2013: Total assets for Vanguard International reached $200 billion, and exchange-traded fund (ETF) assets surpassed $1 billion each in our European, Canadian, and Australian operations. We also launched a number of global initiatives with the goal of reducing operational risk, moving systems from regional to global platforms, and enhancing global trading capabilities.

To be clear, our goal isn’t to be the “biggest”; rather, it’s to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.

We don’t take our success for granted

Rest assured that we’re not sitting on our laurels—or on our leadership position. A relentless pursuit of excellence on behalf of our clients continues to drive everything we do. As Andy Grove, former CEO of Intel, put it, “Success breeds complacency. Complacency breeds failure. Only the paranoid survive.” We all have a functional paranoia here: just enough to sharpen the soft edges of success and keep us constantly searching for new and better ways to help our clients achieve their investment goals.

Thank you for investing with us.

F. William McNabb III
Chairman and CEO
Refining our investment menu
Simplification was a key theme underlying changes we made to our fund offerings throughout 2013. We streamlined our share class structure, merged several funds, and completed the transition of 22 index funds to new benchmarks. We also launched two international bond funds and a global stock fund, reopened two funds that had been partially closed, and closed another to most new investors.

The result: An even more broadly diversified—and even lower-cost—lineup that reflects our best investment thinking. It also shows our commitment to providing a range of products to help all investors achieve their goals.

More Admiral, less complication

Last October, we announced plans to combine our low-cost Admiral™ and Signal® share classes into one broadly accessible Admiral class. This meant eliminating minimum investment requirements for institutional investors and financial advisors to qualify for Admiral Shares. The phaseout of Signal Shares is to be completed later this year.

We also announced the merger of two index funds, an actively managed growth fund, and two retirement income funds into other funds:

<table>
<thead>
<tr>
<th>These Vanguard funds are merging . . .</th>
<th>Into these Vanguard funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Markets Index</td>
<td>Tax-Managed International*</td>
</tr>
<tr>
<td>Tax-Managed Growth and Income</td>
<td>500 Index</td>
</tr>
<tr>
<td>Growth Equity</td>
<td>U.S. Growth</td>
</tr>
<tr>
<td>Managed Payout Distribution Focus</td>
<td>Managed Payout Growth and Distribution**</td>
</tr>
</tbody>
</table>

* To be renamed Vanguard Developed Markets Index Fund.
** Renamed Vanguard Managed Payout Fund, effective January 17, 2014.

In addition, we added Admiral Shares to Vanguard Dividend Appreciation Index Fund, helping reduce costs for investors seeking to track the performance of large, high-quality companies with a history of increasing dividends. We also reduced or eliminated the transaction fees on three index funds.

To increase access to international markets, we launched:

- Vanguard Global Minimum Volatility Fund, an actively managed stock fund that we believe will be useful for investors seeking long-term capital appreciation with lower volatility relative to global stock markets.
- Vanguard Total International Bond Index Fund, which provides broad exposure to international fixed income markets.
- Vanguard Emerging Markets Government Bond Index Fund, focusing on dollar-denominated bonds issued by emerging market governments, government agencies, and government-owned corporations.

Among other fund changes, we reopened Vanguard Intermediate-Term Tax-Exempt Fund and Vanguard High-Yield Corporate Fund to all investors and closed Vanguard Capital Opportunity Fund to most new accounts. Two other funds, Vanguard Emerging Markets Select Stock Fund and Vanguard Explorer Value™ Fund, were opened to Institutional investors that invest directly with us.
Depth of talent reflected in transitions

Our clients have benefited from the deep expertise and acumen of a large number of world-class investment managers, both among our external advisors and within our firm. During 2013, we added two advisors and bid a fond farewell to some veteran investment managers.

The advisor changes were:

- Vanguard Fixed Income Group joined the advisory team for Vanguard Long-Term Investment-Grade Fund. Wellington Management Company, LLP, which has managed the fund since its inception in 1973, remains lead advisor.
- We also added Stephens Investment Management Group, LLC, as an advisor to Vanguard Explorer™ Fund.

We salute the retirements of four veteran investment managers with advisory firms whose depth of talent ensures strong continuity for the funds they had managed:

- Graham French, portfolio manager of Vanguard Precious Metals and Mining Fund, stepped down from day-to-day fund management responsibilities at M&G Investment Management Limited, effective in November.
- Jack Granahan, chairman of Granahan Investment Management, retired from portfolio management at year-end. He had served as a manager of Vanguard Explorer™ Fund and the Small Company Growth Portfolio of Vanguard Variable Insurance Fund.
- Amy Minella, managing partner of Cardinal Capital Management LLC, retired from the firm at year-end. She had served as a portfolio manager for Vanguard Explorer Value™ Fund.

We also marked a watershed when Vanguard’s bond chief Bob Auwaerter announced his March 2014 retirement after more than 32 years of service. His successor, Greg Davis, was chief investment officer for the Asia Pacific region and formerly headed our bond indexing team. Also during 2013, Joe Brennan became head of stock indexing, John Ameriks head of active stock investing, and Josh Barrickman head of bond indexing.

Milestones
Funds marking anniversaries during 2013 included:

- Vanguard Windsor™ Fund—55 years.
- Vanguard Morgan™ Growth Fund—45 years.
- Vanguard Long-Term Investment-Grade Fund—40 years.
- Vanguard High-Yield Corporate Fund—35 years.
- Vanguard High-Yield Tax-Exempt Fund—35 years.
- Vanguard International Value Fund—30 years.
- Vanguard Equity Income Fund—25 years.
A decade of Target Retirement Funds

We entered the target-date fund (TDF) field in 2003 to provide investors with a diversified, low-cost solution that simplified both investment selection and rebalancing. TDFs have proved to be powerful because they provide access to professionally managed solutions; and ours do so at a very low cost.

With six funds originally, the Target Retirement Fund series now includes 12 funds and represents more than $230 billion in investor assets.

Throughout their history, the funds have delivered stability. In fact, there have been only three major sets of allocation changes since inception, all aimed at enhancing their long-term investment strategy:

- In 2006, the “near-dated” funds increased the minimum equity allocation to 30% from 20% and all of the funds added exposure to emerging markets.
- In 2010, the funds increased their exposure to international equities to 30% from 20% of assets.
- In 2013, the funds added international bonds and the funds’ exposure to the broad U.S. Treasury inflation-protected securities (TIPS) market was replaced with short-term TIPS. This move also allowed the funds to eliminate their allocations to cash and become all-index.

The Morningstar investment research firm awarded a gold medal in its Analyst Rating for our Target-Date Series funds for year-end 2012. Only one other target-date provider received this distinction.

In announcing the honorees, Morningstar noted that the medals signal the analysts’ conviction, to varying degrees, in a fund’s ability to outperform. The report on Vanguard funds pointed out that “by keeping costs low and sticking with its straightforward construction, the [Vanguard] series has produced impressive results.” Our streamlined approach invests in broad asset classes contributing to low expenses, which allows investors to keep more of their returns.

The Morningstar analysis concluded that our target-date series “remains one of the best options for investors saving for retirement.”

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in a Target Retirement Fund is not guaranteed at any time, including on or after the target date.

The Vanguard glide path

Our How America Saves report found that participants using Vanguard Target Retirement Funds have more balanced portfolios, age-appropriate allocations, and less investing at the extremes than do-it-yourself investors.

Source: Vanguard.

1 Morningstar, February 2013. (See page 21 for additional information.)
What we delivered to you in 2013
Helping employers improve their employees’ retirement readiness and financial well-being is our constant focus. During 2013, we undertook a number of initiatives that have already started to make it easier for your retirement plan participants to access and manage account information from any device. From the halls of Congress to the marketplace of ideas, we engaged in discussions to identify and advance strategies to help you pursue your investment and fiduciary objectives.

Here are some highlights from our retirement businesses, along with a review of the ways Vanguard connects with other segments of our diverse client base. (See Figure 5.)

### Enhancing the institutional investor experience

Recordkeeping is one of the most crucial elements of retirement plan management, and we expended considerable energy looking for ways to keep pricing competitive and deliver value-added services for sponsors and participants.

During 2013, we identified ways to boost productivity internally and sought to encourage such practices as e-delivery adoption to make plans more cost-efficient. We also designed a Vanguard Communications Engine to efficiently deliver customized education materials to participants.

### Website updates ease access to research, tools

We completed several website updates to help position clients and plan participants for greater success. Recognizing that 82% of Vanguard participants owned a smartphone or tablet, and 20% of online visits were coming from mobile devices, we were the first investment provider to offer mobile transactions and ensured we were building our pages for optimized display on any device.

The momentum created in 2012 by our enhancements to the Retirement Plans website continued in 2013 and was well-received by plan sponsors and participants. The redesigned homepage received a Silver Quill of Merit award from the International Association of Business Communicators with high marks for setting goals and measuring results. The homepage also was honored with an APEX award by the editors of Writing that Works, based on criteria including excellence in graphic design, editorial content, and the ability to achieve overall communication excellence.

Though we appreciate the recognition, we’re most proud of the ways we’re using technology to help put participants on the path to financial success.
On the Institutional Investors site, the updated homepage brings investment research, portfolio analysis, articles, and upcoming events to the forefront. Our redesigned Research & Commentary section helps you stay informed about current thinking on investment, retirement, fiduciary, regulatory, and other topics.

We also updated the Services area with expanded details for DC plan sponsors on fiduciary support, participant experience, and recordkeeping capabilities. For defined benefit (DB) plan sponsors, we’ve highlighted strategies for managing pension risk and advisory services to help you build a suitable portfolio for your plan.

And you can connect now with Vanguard experts on investments, retirement savings and income, pensions, and fiduciary practices through the Vanguard Blog for Institutional Investors. (See related story, page 15.)

Plan participants gained a direct gateway to the Retirement Plans website from the Vanguard corporate portal, the first page reached at vanguard.com. The participant website link—which streamlines the logon process and makes plan information more readily available—is now highlighted alongside links for personal investors, institutional investors, and financial advisors.

We also started work on a multiyear project to create an updated and robust secure website that will make it easier than ever to manage your retirement plan. From the data you need to make informed choices to targeted communications that help guide your participants, you’ll have the resources you need at your fingertips once the update is complete.

**Helping participants manage savings and income**

Employees often want to enroll in their retirement plans, increase their payroll deferrals, or rebalance their portfolios, but inertia sometimes gets in the way. Using lessons from behavioral finance research, we’ve been working to eliminate enrollment barriers and help participants make better choices about retirement.

For example, we introduced Enroll Now™, a one-click enrollment process that uses default settings for payroll deductions, annual increases, and investments. Preliminary data from a pilot group using Enroll Now show a 20% increase in completion of online enrollments and a 100% increase in autoescalation participation.

We’ve added a new “Boost Your Savings” dial that makes it easier for participants to put their savings rate in the context of recommended levels and then boost their deferrals. Other data-driven prompts, such as retirement alerts, encourage participants to measure their progress and use advice services if offered within their plan.

---

**Boost your savings™**

*Increase your plan savings in seconds. Just turn the dial. Why?*

- **5%** Current savings
- **1%** Savings increase
- **6%** Total savings

**SAVE MORE NOW**
We also introduced the Retirement Income Modeler to help retirees and those close to retirement to determine how much they can sustainably spend from their retirement plan savings without running out of money too soon. This web tool is prepopulated with a participant’s plan balance, asset allocation, and age, and instantly calculates a monthly withdrawal figure that has an 85% probability of lasting to age 95. The tool is readily available at Vanguard’s online Retirement Income Center for participants, at www.vanguard.com/retirementpaycheck.

In addition, we began work with Financial Engines to expand the Vanguard Managed Account Program (VMAP™) into retirement. Retirees who elect VMAP with Income+, expected to launch in mid-2014, will receive professional advice and management of their plan accounts to provide long-term retirement income.

We also moved to expand our financial-wellness offerings by partnering with HelloWallet to help participants make appropriate retirement decisions. The service offers personalized, unbiased guidance to individuals on managing debt, spending wisely, and getting the most out of their benefits plans.

**Customized portfolio guidance for organizations**

A rising number of nonprofit organizations turned to Vanguard Institutional Advisory Services® for help overseeing their portfolios. This specialized team of investment professionals is deeply familiar with the investment objectives and fiduciary responsibilities of endowments, foundations, and charitable organizations. During the year, total assets under management increased to more than $20 billion.

**Small businesses, big progress**

Vanguard Retirement Plan Access, offering low-cost, high-quality funds and recordkeeping services for small-to mid-sized retirement plans, grew to nearly 2,000 clients with 78,000 participants and $4 billion in assets under administration. The program has proved to be an affordable, comprehensive, and transparent means of establishing 401(k) plans for many small-business owners.

**New quarters for our institutional team**

During the fall, our institutional team moved into two newly renovated office buildings totaling more than 500,000 square feet. Work neared completion on a new Vanguard Client Center where clients will be able to interact with our experts and learn about our latest technology and client services.
Understanding and influencing change

Research and commentary from Vanguard seek to provide insights to help investors and retirement plan sponsors meet investment objectives, fulfill fiduciary responsibilities, and encourage participants to take action toward their long-term financial security.

Some of the topics explored by our experts during 2013 included:

- The impact of baby boomers on equity prices; some perspective for emerging market equities; and our annual capital markets outlook.
- An update of our view on target-date funds.
- Important DB issues such as how to derisk your plan and keep your equities too, immunization versus termination, and how to assess your level of pension risk.

We also represent investors on a broad range of legislative and regulatory issues through our Strategic Retirement Consulting and Government Relations teams.

We closely followed the Supreme Court decision overturning a key section of the federal Defense of Marriage Act (DOMA) and the subsequent regulatory guidance regarding marriages between same-sex couples and the implications for employer-sponsored retirement plans. Within days of the high court’s ruling, Vanguard Strategic Retirement Consulting issued a Regulatory Brief titled *The DOMA decision and retirement plans*, along with a checklist to help plan sponsors ensure plan documents, forms, and operations are in compliance.

We also commented on proposed Department of Labor rules on lifetime income illustrations for participants’ retirement plan statements. In general, we agreed that forecasting a plan account balance and presenting it as a monthly income stream helps a participant better assess his or her retirement readiness, an approach we have used on participant statements for almost a decade. We also urged the department to allow flexibility in the use of income forecasting methodologies to avoid rigid retirement plan advice standards and not stifle research and innovation.

The rollout of expanded fee disclosure in late 2012 received a modest but positive response from plan sponsors and participants. Industrywide, more than half (53% of DC plan participants) reported they noticed the more extensive fee information—and half of those who noticed said they had made changes to their investments as a result.²

Our chairman, Bill McNabb, was elected chairman of the Investment Company Institute, the trade organization for the mutual fund industry.

---

²2013 Retirement Confidence Survey, Employee Benefit Research Institute.
Let’s be sociable

More and more investors are getting to know Vanguard experts on a personal level through social media. During 2013, we added the Vanguard Blog for Institutional Investors, featuring commentary by experts in ERISA, retirement savings, pension plans, participant education, and other economic and investment areas.

It was a busy year for social channels in other Vanguard businesses as well. Our advisor business topped 10,000 Twitter followers in August, and 15,000 by year-end. The Vanguard Blog for Advisors also saw significant growth, with a 67% increase in the number of views from a year earlier.

For all Vanguard investors, Google+ became our most popular channel with more than 700,000 followers. Facebook “power hours” made Vanguard experts more accessible during lunchtime hours to answer questions on everything from taxes and bonds to financial planning.

Approximately 50 million people viewed our tweets, and the launch of social channels for 529 college savings plans created forums where investors could learn about saving for higher education.

During 2014, we’ll add a Twitter account for institutional investors and look for more ways to keep building communities where investors and our experts can interact and learn from each other.
Key partners on the journey

Helping financial advisors stay current

Vanguard’s advisor business sought to solidify our status not only as a valued asset manager, but as a wellspring of sound investment thinking. Some of the key developments included:

• Helping advisors implement Advisor’s Alpha principles into their practices.

• Launching a quarterly publication, ETF Perspectives, to provide a broad perspective on the ETF industry.

• Creating an ETF Knowledge Center™, a comprehensive one-stop educational resource with answers to key ETF questions.

We were gratified by the response we received from advisors. In a Cogent Research³ report, advisors ranked Vanguard first in multiple categories that measure client loyalty, including integrity, honesty, and long-term performance.

Improvements in retail account experience and advice

Retail clients with both mutual fund and brokerage assets began experiencing the benefits of the largest technology project in Vanguard’s history—one that required 38 project teams and 5 million lines of code. The project delivered a single, simplified account for Vanguard mutual funds, ETFs, and other brokerage products. The project simplifies investing whether clients invest solely in Vanguard products or also have individual securities or products from other companies.

The first group of clients started using the new account platform in the fall on a pilot basis, and by year-end, they were joined by more than 11,500 users with some $1.5 billion in assets.

Vanguard Asset Management Services™, our advice service for retail clients, saw increased interest from clients. In addition, the Retail Investor Advice Services Group completed more than 100,000 one-time-only financial planning engagements, each by a Certified Financial Planner™ professional, with significant increases in client satisfaction scores and meetings via video conference.

³ Cogent Research, 2013 Advisor Brandscape.
International business continues to expand

We made progress integrating our international and U.S. businesses in 2013, as we continued to develop our global capabilities. The international business ended the year with more than $200 billion in assets under management, more than three times its size a mere five years earlier. It was a milestone year marked by continued expansion and recognition.

Vanguard Investments Canada received ETF Provider of the Year and Best Equity ETF awards at the Morningstar Canadian Investment Awards. The launch of five ETFs expanded our Canada lineup to 16.

Vanguard Investments Australia added an ETF—Vanguard FTSE Emerging Markets Shares ETF—and won four gold medals at the Money magazine Best of the Best Awards 2013: Best ETF Provider, two for Best International Share ETF, and Best Specialty ETF.

In the United Kingdom, Vanguard Asset Management was named Passive Provider of the Year, Retail Investment category (at the Investment Adviser 100 Club Awards) and European ETF Provider of the Year (by funds Europe). We also launched four Ireland-domiciled ETFs and cross-listed UCITS ETFs for the first time on the SIX Swiss Exchange and the NYSE Euronext Exchange in Amsterdam and Paris.

Vanguard Investments Hong Kong in May listed its first ETF on the Hong Kong Stock Exchange, Vanguard FTSE Asia ex Japan Index ETF. This is the first of what we expect will be a broad suite of products and solutions for the Asia region.

Technology options that maximize flexibility

A common thread throughout the year was the vital role that information technology (IT) played in creating and driving improvements. While delivering important web changes, social media, and the new retail platform, our IT team restructured itself with a global focus and established several new technology imperatives.

These imperatives included efforts to use cloud computing and enhance our mobile offerings, and we appointed a chief technology officer to help us remain a technology leader now and into the future. We also increased our already strong vigilance against cyber attacks and continued work on a global portfolio services and investment operations organization.
Vanguard directors and officers
Directors provide board oversight of Vanguard funds to ensure they are managed solely in shareholders’ interests. Ten of the 11 board members are independent directors with distinguished backgrounds in business, academia, and public service. They work with the fund officers to oversee the policies and activities of the funds and to represent shareholder interests. Here are brief biographies of each director, with the year he or she joined our board noted in parentheses.

**F. William McNabb III** (2008). Vanguard chairman of the board, president, and chief executive officer; director of Vanguard Marketing Corporation; and a former managing director of Vanguard.

**Emerson U. Fullwood** (2008). Retired executive chief staff and marketing officer for North America and corporate vice president of Xerox Corporation; executive-in-residence and 2010 Distinguished Minett Professor at the Rochester Institute of Technology; and director of SPX Corporation, Amerigroup Corporation, the University of Rochester Medical Center, Monroe Community College Foundation, United Way of Rochester, and North Carolina A&T University.

**Rajiv L. Gupta** (2001). Retired chairman and chief executive officer and former president of Rohm and Haas Company; director of Tyco International, Ltd., Hewlett-Packard Company, and Delphi Automotive LLP; and senior advisor at New Mountain Capital.

**Amy Gutmann** (2006). President of the University of Pennsylvania; Christopher H. Browne Distinguished Professor of Political Science in Penn’s School of Arts and Sciences; professor in the Annenberg School for Communication with secondary faculty appointments in the Department of Philosophy in the School of Arts and Sciences and at Penn’s Graduate School of Education; trustee of the National Constitution Center; and chair of the Presidential Commission for the Study of Bioethical Issues.

**JoAnn Heffernan Heisen** (1998). Retired corporate vice president, chief global diversity officer, chief information officer, and a former member of the executive committee of Johnson & Johnson; director of Skytop Lodge Corporation, the University Medical Center at Princeton, the Robert Wood Johnson Foundation, and the Center for Talent Innovation; and member of the advisory board of the Maxwell School of Citizenship and Public Affairs at Syracuse University.

**F. Joseph Loughrey** (2009). Retired president and chief operating officer and former board vice chairman of Cummins Inc.; board chairman of Hillenbrand, Inc., and Oxfam America; director of SKF AB, Hyster-Yale Materials Handling, Inc., the Lumina Foundation for Education, and the V Foundation for Cancer Research; member of the advisory council for the College of Arts and Letters and the advisory board to the Kellogg Institute for International Studies, both at the University of Notre Dame; and retired director of Sauer-Danfoss Inc. and of Cummins Inc.
**Mark Loughridge** (2012). Retired senior vice president, chief financial officer at IBM, and fiduciary member of IBM’s Retirement Plan Committee; former senior vice president and general manager of Global Financing, vice president and controller, and other IBM management roles; and member of the Council on Chicago Booth.

**Scott C. Malpass** (2012). Chief investment officer and vice president at the University of Notre Dame; assistant professor of finance at the Mendoza College of Business at Notre Dame; member of the Notre Dame 403(b) Investment Committee; board member of TIFF Advisory Services, Inc.; and member of the investment advisory committees of the Financial Industry Regulatory Authority (FINRA) and of Major League Baseball.

**André F. Perold** (2004). George Gund Professor of Finance and Banking Emeritus at the Harvard Business School; chief investment officer and managing partner of HighVista Strategies LLC; director of Rand Merchant Bank; overseer of the Museum of Fine Arts Boston; and former board chairman of UNX, Inc.

**Alfred M. Rankin, Jr.** (1993). Chairman, president, and chief executive officer of NACCO Industries, Inc., and of Hyster-Yale Materials Handling, Inc.; board chairman of University Hospitals of Cleveland; former director of Goodrich Corporation; and retired board chairman of the Fourth District Federal Reserve Bank.

**Peter F. Volanakis** (2008). Retired president and chief operating officer and a former director of Corning Inc.; former director of Dow Corning; former director of SPX Corporation; former overseer of the Amos Tuck School of Business Administration at Dartmouth College; trustee of Colby-Sawyer College; and member of the advisory board of the Norris Cotton Cancer Center and of the Parthenon Group.

**Senior management team**

Mortimer J. Buckley, Kathleen C. Gubanich, Paul A. Heller, Martha G. King, John T. Marcante, Chris D. McIsaac, Michael S. Miller, James M. Norris, Glenn W. Reed, Heidi Stam.

John J. Brennan, chairman emeritus and senior advisor.
Important information

The Morningstar Analyst Rating for Target-Date Series mutual funds is not a credit or risk rating. In February 2013, Vanguard’s Target Retirement Funds received a Gold rating for 2012. The Morningstar Analyst Rating for Target-Date Series mutual funds reflects a subjective evaluation of quantitative and qualitative factors performed by mutual fund analysts of Morningstar Inc. and represents a summary expression of forward-looking analysis of target-date mutual funds. The Morningstar Analyst Rating is assigned on a five-tier scale running from Gold, Silver, Bronze, Neutral, and Negative. Funds are evaluated on five key pillars: process, price, performance, people, and parent. A Gold rating means that the series has distinguished itself across all five pillars. It expresses an expectation that the funds, in a series as a whole, collectively will outperform their relevant performance benchmarks and/or peer groups within the context of the level of risk taken over the long term. The Silver rating applies to funds with notable advantages across several, but perhaps not all, of the five pillars—strengths that give the analysts a high level of conviction. A Bronze rating applies to funds with advantages that outweigh the disadvantages across the five pillars and with sufficient level of analyst conviction to warrant a positive rating. A Neutral rating is for funds that aren’t likely to deliver standout returns but also aren’t likely to significantly underperform, according to the analysts, and a Negative rating is reserved for funds that have at least one flaw likely to significantly hamper future performance and that are considered by analysts an inferior offering to their peers.

The Morningstar Analyst Rating for Target-Date Series mutual funds should not be used as the sole basis in evaluating a target-date mutual fund series. This Morningstar Analyst Rating is based on Morningstar’s current expectations about future events; therefore, in no way should the rating be considered as a guarantee of favorable performance. All Morningstar Analyst Ratings involve unknown risks and uncertainties, which may cause Morningstar’s expectations not to occur or to differ significantly from what was expected.

The Morningstar Analyst Rating for the Target-Date Series is distinct from the Analyst Rating for individual mutual funds and mutual fund families. A fund in a target-date series may have analyst ratings for both its series and a particular fund, and in some cases those ratings may not be identical. While target-date series funds are typically evaluated by Morningstar once a year, there is no set time frame for their evaluation. For additional information about the Morningstar Analyst Rating for Target-Date Series mutual funds, including its methodology, visit corporate.morningstar.com.

Cogent Research’s Advisor Brandscape™ data are collected via a web-based survey amongst a nationally representative sample of more than 1,700 registered financial advisors. Cogent Research provides custom research, syndicated research products, and evidence-based consulting to organizations in the financial services, life sciences, and consumer goods industries. The 2013 advisor survey was conducted independently by Cogent. Vanguard neither commissioned nor paid to be included. Cogent has conducted unrelated, custom market research for Vanguard in the past.
For more information about Vanguard funds and ETFs, visit institutional.vanguard.com or call 800-523-1036 to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

All investing is subject to risk, including the possible loss of the money you invest. Diversification does not ensure a profit or protect against a loss.

Advice services offered through Vanguard Institutional Advisory Services® are provided by Vanguard Advisers, Inc., a registered investment advisor.

The Vanguard Group has partnered with Financial Engines LLC to provide subadvisory services to the Vanguard Managed Account Program. Financial Engines LLC is an independent, registered investment advisor that does not sell investments or receive commission for the investments it recommends. Advisory services are provided by Vanguard Advisers, Inc. (VAI) a federally registered investment advisor and an affiliate of The Vanguard Group, Inc. (Vanguard). Vanguard is owned by the Vanguard funds, which are distributed by Vanguard Marketing Corporation, a registered broker-dealer affiliated with VAI and Vanguard. Neither Vanguard, Financial Engines, nor their respective affiliates guarantee future results.

Vanguard Asset Management Services are provided by Vanguard National Trust Company, which is a federally chartered, limited-purpose trust company operated under the supervision of the Office of the Comptroller of the Currency.

Vanguard ETF Shares are not redeemable with the issuing Fund other than in Creation Unit aggregations. Instead, investors must buy or sell Vanguard ETF Shares in the secondary market with the assistance of a stockbroker. 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.

Vanguard ETFs are protected by U.S. Patent Nos. 6,879,964; 7,337,138; 7,720,749; 7,925,573; 8,090,646; and 8,417,623.

Vanguard Managed Payout Fund is protected by U.S. Patent Nos. 8,180,695 and 8,185,464.