

# Vanguard Australian Fixed Interest Index Fund

## Product Disclosure Statement

Dated 3 August 2006



This Product Disclosure Statement is only for use by investors investing through a nominee and custody service such as a master trust or wrap account or an investor directed portfolio service (IDPS).



## The Vanguard Group

The Vanguard Group, Inc., based in the United States, is one of the largest fund managers in the world, managing over A\$1.25 trillion for more than 18 million investor accounts. The Vanguard Group, Inc. also has offices in Europe, Japan and South-East Asia and has particular expertise in index fund management, having established the world's first public offer index fund in 1976.

Established in 1996, Vanguard Investments Australia Ltd (Vanguard) is the Australian arm of The Vanguard Group, Inc. Vanguard combines the skills of its team of Australian investment professionals with the strength of one of the world's largest investment management companies. Vanguard has established a reputation in Australia as an index specialist, managing over A\$36 billion in index funds as at March 2006.

### *About this PDS*

This Product Disclosure Statement (PDS) dated 3 August 2006 is issued in connection with the Vanguard® Australian Fixed Interest Index Fund ARSN 090 939 941 ABN 52 931 145 473 APIR code VAN0001AU (which is referred to in this PDS as 'the Fund').

The Fund is managed by Vanguard Investments Australia Ltd (ABN 72 072 881 086 AFSL 227263) (Vanguard) which is the Australian arm of The Vanguard Group, Inc.

Vanguard is the Responsible Entity and issuer of interests in the Fund.

### *Important information*

If you have received this PDS electronically and would like a paper copy, please contact Client Services on 1300 655 102 and a copy will be provided free of charge.

Unless otherwise stated data sources are Vanguard, using market data and all material is current as at the date of this PDS.

Information in this PDS that is not materially adverse to investors is subject to change from time to time and may be updated by Vanguard by publishing such information on the Vanguard website at [www.vanguard.com.au](http://www.vanguard.com.au). A paper copy of any updated information will be given to a person free of charge upon request.

### *Indirect Investors*

This PDS is only for use by investors investing in the Fund through a nominee and custody service such as a master trust or wrap account or

an investor directed portfolio service (IDPS). Such investors are referred to collectively throughout this PDS as 'you' or 'Indirect Investor'.

As an Indirect Investor, you may rely on, and are authorised to use the information in this PDS, to direct the Operator of the IDPS to invest in the Fund on your behalf. Please contact your IDPS Operator for information on how to invest in the Fund.

Indirect Investors do not become investors in the Fund. Accordingly, Indirect Investors do not acquire the rights of an investor in the Fund or acquire any direct interests in the Fund. The Operator of the IDPS acquires these rights and can exercise or decline to exercise them on your behalf according to the arrangement governing the IDPS. Vanguard will not issue you with any reports or other documentation relating to the Fund – instead these will be provided to your IDPS Operator.

Enquiries relating to your investment in the Fund should be directed to your IDPS Operator.

### *Disclaimers*

Your investment in the Fund is subject to investment and other risks, including possible delays in repayment and loss of income and principal invested. None of the Vanguard Group, Inc. (including Vanguard Investments Australia Ltd) or their related entities, directors or officers gives any guarantee or assurance as to the performance of, or the repayment of capital, or income reinvested in the Fund described in this PDS. Members of the Vanguard Group, Inc. may invest in, lend to or provide some other services to the Fund.

This PDS is prepared for your general information only. It is not intended to be a recommendation by Vanguard, any of our associates or any other person to invest in the Fund. In preparing this PDS, Vanguard did not take into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision, investors need to consider (with or without the assistance of an adviser) whether an investment in the Fund is appropriate to their needs, objectives and circumstances.

In this PDS, references to 'Vanguard', 'the Responsible Entity', 'Manager', 'we', 'our' and 'us' refer to Vanguard Investments Australia Ltd.

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## Indexing and its benefits

Before you make an investment decision, it is important for you to read this Product Disclosure Statement (PDS) and assess whether the investment is appropriate to your objectives, financial situation and needs.

### What is an index?

An index measures the performance or change in the value of a particular group of securities, such as shares, bonds or other investments, over a period of time. Today, there are indexes measuring investment results of all major asset classes.

### What are index funds?

There are two types of managed funds, those that are actively invested and which usually try to outperform pre-defined indexes or benchmarks ('active funds') and those that invest in securities structured to deliver investment returns which closely match the total returns of selected indexes ('index funds').

Active funds attempt to meet their performance objectives with a combination of stock picking, market timing and asset allocation decisions. Active funds typically hold far fewer securities than index funds but will generally have a high level of trading activity within the fund (i.e. buying and selling of securities), otherwise known as portfolio turnover. There is also the associated risk with active funds of underperformance.

Index managers do not try to pick the hot stocks in an attempt to outperform the market. Nor do they try to time the market – e.g. selling when they think the market will fall and buying when they think it will rise. The value or return of an index fund typically goes up or down in line with the market. An index fund may hold all of the securities included in the selected index or a representative sample of these securities. Index funds employ a buy and hold strategy that will result in low portfolio turnover.

Unlike indexes – which are theoretical measures – index funds face the real, and often significant costs associated with investing in securities. While index funds will seek to minimise these costs the returns are usually less than returns of the relevant index to the extent of these costs.

### Key benefits

#### *Competitive long-term performance*

Over the long term, it is very difficult to continually pick winners and outperform the major investment markets, such as Australian shares, international shares, bonds, property or cash. In fact, in most asset sectors over the long term, the majority of active funds have historically failed to outperform comparable market indexes, after fees and costs.

The Vanguard Index Funds are structured to track the market index. Historically, this has meant that the returns of the Funds have been competitive over the long term relative to the returns of active funds. Past performance is not an indicator of future performance.

#### *Broad diversification*

Index funds are broadly diversified, which means that you are less exposed to the performance fluctuations of individual shares or securities. The overall effect is that you moderate the volatility of your portfolio and 'smooth out' your investment returns over time. Index funds invest in a wide selection of securities in the relevant index, holding significantly more securities than most active funds with the same benchmark.

#### *Simplicity*

Index funds take the guesswork out of investing and eliminate the worry of trying to 'pick winners' or attempting to time the markets. You don't have to try to analyse the strategies of various managers to choose one you think can outperform the market.

#### *Low cost advantage*

**Lower management fees** – index funds have lower ongoing fees than most active funds investing in similar assets. In other words, it costs less to manage and operate an index fund compared to active funds.

**Lower transaction costs** – index funds have lower portfolio turnover than most active funds resulting in lower trading costs.

#### *Tax efficiency*

Funds which have a high level of portfolio turnover generally create greater capital gains tax liabilities for investors than funds with lower turnover rates. Generally, the lower the portfolio turnover, the longer securities are held within a portfolio, and if securities are held for more than 12 months, any capital gain on the disposal of those securities will attract a lower tax rate for investors who are eligible for the capital gains discount.

## Risks

Investors in the Fund face a number of investment risks.

It is important to keep in mind one of the main principles of investing – the higher the potential reward, the higher the risk of losing money. The reverse is also generally true – the lower the risk, the lower the potential reward. When you consider an investment in the Fund, you should take into account your personal tolerance for fluctuating market values.

There is no guarantee that the value of your investment principal will be maintained – *you can lose money*.

### Market risk

Market risk is the possibility that the market has negative returns over short or even extended periods. Cash investments have the lowest market risk. Bonds, then property securities and then equities have increasing levels of market risk. Short-term market risks are high to very high for most asset classes.

In any asset sector the returns of individual securities are a combination of the market return and returns specific to each security.

By diversifying their holdings across the market, index funds are generally well protected from the specific risk of individual securities. Their specific returns tend to cancel each other out leaving the fund with market return and its associated risk.

### Derivative risk

The primary risks associated with the use of derivative contracts by the Fund are:

- the values of the derivative failing to move in line with the underlying asset (a performance difference);
- the potential lack of liquidity of the derivative;
- the Fund may not be able to meet payment obligations as they arise; and
- the counterparty to the derivative contract may not meet its obligations under the contract.

The Fund does not use derivative contracts for speculative purposes or to leverage the assets of the Fund.

The risk of a performance difference is minimised by investing in derivative contracts where the behaviour is expected to resemble that of the Fund's underlying securities. The risk that a Fund may not be able to close out a derivatives position is minimised by entering into such transactions on an exchange with an active and liquid secondary market.

### Regulatory risk

This is the risk that a government or regulator may introduce regulatory or tax changes which affect the value of securities which the Fund invests in.

The Fund may be affected by changes to legislation or government policy in Australia and in other countries. These changes are monitored by Vanguard and action taken where appropriate to facilitate the achievement of the Fund's investment objective.

### Manager risk

The Fund may fail to meet its objective as a result of:

- Vanguard's selection of securities from the relevant index; and
- the costs of managing the portfolios that are not measured by the relevant index.

Because of the indexing investment strategy that Vanguard employs for the Fund, the risk of short-term underperformance relative to the target index is significantly lower than for managers who employ an active investment strategy, relative to their own (index) benchmark.

### Fund risk

Fund risk relates to risks which are particular to the Fund. These may include risks that the Fund could terminate, the fees and expenses could change or Vanguard could be replaced as Manager. There is also a risk that investing in the Fund may give different results than investing individually because of income or capital gains accrued in the Fund and the consequences of investment and withdrawal by other investors.

## About the Fund

### Investment objective

The Fund seeks to match the total return of the UBS Australian Composite Bond Index before taking into account Fund fees and expenses.

### The index

The UBS Australian Composite Bond Index is a value weighted index of approximately 310 securities (bonds) issued by the Commonwealth Government, the State Government guaranteed treasury corporations and semi-government authorities, as well as investment-grade corporate issues.

### Investment policy

To closely track the index, Vanguard employs optimisation techniques to select a representative sample of available bonds to form the Fund's portfolio.

Bond indexes change far more quickly than share indexes as bonds have a finite life. Every maturity and inclusion of new issues changes the composition of the index and requires Vanguard to modify the portfolio. Accordingly, Vanguard pays careful attention to reducing the transaction costs associated with investing cash flows and making adjustments to the portfolio.

Vanguard may make deviations from the index by holding an above-index weighting to short-term corporate bonds to benefit from the higher yield offered. This overweighting is limited to 20%.

There is credit risk associated with bonds. Vanguard seeks to minimise this risk by selecting only bonds with a sufficiently high credit rating and by diversifying the Fund's holdings across issuers.

Futures may be used to gain market exposure without investing directly in fixed interest securities. This allows Vanguard to maintain Fund liquidity without being under invested. Importantly, derivatives are not used to leverage the Fund's portfolio.

### Asset allocation as at 31 March 2006

| Sector           | Fund weight % | Index weight % |
|------------------|---------------|----------------|
| Government       | 6.8           | 24.2           |
| Semi-Government  | 27.4          | 27.5           |
| Corporate/Credit | 65.8          | 48.3           |
| <b>Total</b>     | <b>100.0</b>  | <b>100.0</b>   |

Actual asset allocations will vary from time to time.

### Fund performance

The Fund returns shown in the table below are for the period ending 31 March 2006.

| Fund and Index returns                 | 1 year % | 3 years % p.a. | 5 years % p.a. |
|--|----------|----------------|----------------|
| Fund return (after fees and expenses)  | 6.6      | 5.1            | 5.5            |
| Fund return (before fees and expenses) | 6.9      | 5.4            | 5.8            |
| Index return                           | 6.7      | 5.2            | 5.6            |

All Fund and index returns assume reinvestment of income and take no account of an individual investor's tax position. All index returns are calculated, with net dividends reinvested, in Australian dollar terms. *Investors should be aware that past performance is not necessarily an indicator of future returns.*

### Fund features

|                              |   |
|------------------------------|---|
| Fund commencement date       | 6 June 1997   |
| Fund size at 31 March 2006   | \$2,824.1 million   |
| Income distributions         | Quarterly (31 March, 30 June, 30 September and 31 December) |
| Access to funds              | Withdrawals are normally paid within seven business days    |
| Unit pricing frequency       | Daily   |
| Application/contribution fee | Nil   |
| Withdrawal fee               | Nil   |
| Switching fee                | Nil   |
| <i>Buy/sell spread</i>       |   |
| Buy                          | +0.10%  |
| Sell                         | -0.10% <sup>A</sup>   |
| Management costs             | 0.29% p.a.  |

Visit [www.vanguard.com.au](http://www.vanguard.com.au) or contact Client Services on 1300 655 102 for a free written statement of any updates or changes relating to the Fund which are not materially adverse to investors.

## Fees and other costs

### Consumer advisory warning

The consumer advisory warning is required under Australian law in the form that appears below, to alert investors to the importance of value for money and the compounding value of fees and costs and their impact over time on end benefits.

#### **DID YOU KNOW?**

**Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.**

**For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).**

**You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.**

**You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.**

#### **TO FIND OUT MORE**

**If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website ([www.fido.asic.gov.au](http://www.fido.asic.gov.au)) has a managed investment fee calculator to help you check out different fee options.**

## Vanguard's fees and other costs

This PDS shows fees and other costs that you may be charged.<sup>A</sup> These fees and costs may be deducted from your money, from the returns on your investment or from the Fund's assets as a whole.

Taxes are set out in another part of this PDS.

You should read all of the information about fees and costs because it is important to understand their impact on your investment.

| Type of fee or cost   | Amount     | How and when paid  |
|---|------------|--|
| <i>Fees when your money moves in or out of the Funds<sup>B</sup></i>  |            |  |
| <b>Establishment fee:</b><br>The fee to open your investment  | Nil        | Not applicable   |
| <b>Application/Contribution fee:</b><br>The fee on each amount contributed to your investment                           | Nil        | Not applicable   |
| <b>Withdrawal fee:</b><br>The fee on each amount you take out of your investment  | Nil        | Not applicable   |
| <b>Termination fee:</b><br>The fee to close your investment   | Nil        | Not applicable   |
| <i>Management costs<sup>C,D</sup></i>   |            |  |
| <b>The fees and costs for managing your investment:</b>   |            |  |
| Vanguard International Shares Index Fund  | 0.29% p.a. | The management cost for the Fund is calculated as a percentage of the Fund's net asset value. <sup>E</sup> The fee is accrued daily and paid monthly. The fee for a month is paid on or after the 1st day of the following month. This fee is taken from the assets of the Fund, and is reflected in the Fund's daily unit prices. |
| <i>Service fees</i>   |            |  |
| <b>Investment switching fee:</b><br>The fee for switching between the Fund and other Vanguard Index Funds. <sup>B</sup> | Nil        | Not applicable   |

<sup>A</sup> The fees and costs you pay as an Indirect Investor are set out in the offer document or client agreement for the IDPS and may include fees and costs in addition to the fees and costs set out in this section. Please refer to your IDPS Operator's offer document or client agreement for the fees applicable to your investment.

<sup>B</sup> You may also incur a buy/sell spread when your money moves in or out of the Fund. Please refer to page 8 for an explanation of buy/sell spreads.

<sup>C</sup> The management costs for the Fund incorporate Goods and Services Tax (GST) after taking into account any expected input tax credits. Please refer to page 8 for an explanation of management costs.

<sup>D</sup> A different management cost may be negotiated with certain wholesale investors at Vanguard's absolute discretion. Please refer to page 9 for more information.

<sup>E</sup> Please refer to page 10 for an explanation of the net asset value for the Fund.

### Example of annual fees and costs

The following table provides an example of how the fees and costs for the Fund can affect your investment over a one-year period. You should use this table to compare an investment in the Fund with other managed investment products.

| Vanguard Australian Fixed Interest Index Fund |            | Balance of \$50,000 with a contribution of \$5,000 during year  |
|---|------------|---|
| Contribution fees                             | Nil        |   |
| <b>PLUS</b> Management costs                  | 0.29% p.a. | For every \$50,000 you will be charged \$145 each year  |
| <b>EQUALS</b> cost of Fund                    |            | If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 <sup>A</sup> during that year, you would be charged fees of <b>\$145</b> |

<sup>A</sup> Assumes that the \$5,000 investment occurs on the last business day of the year

You may incur a buy/sell spread when your money moves in and out of the Fund. Please refer to page 8 for an explanation of the buy/sell spreads.



## **Additional explanation of fees and costs**

### *Fees and costs for Indirect Investors*

The fees and costs you pay as an Indirect Investor are set out in the offer document or client agreement for the IDPS and may include amounts in addition to the fees and costs set out in this section. Please refer to your IDPS Operator's offer document or client agreement for the fees applicable to your investment.

### *Management costs*

The management costs for the Fund incorporate all relevant fees and other costs involved in managing the Fund and deriving investment returns, other than transaction and operational costs (as described below). They include:

- Responsible Entity/Manager's fee;
- custodian fees (excluding transaction based fees);
- accounting and audit fees; and
- any other recoverable expenses under the Constitution of the Fund such as the cost of preparing and amending the Constitution, the cost of producing the PDS, cost of investor meetings, postage and other Fund administration expenses.

The management costs for the Fund incorporate Goods and Services Tax (GST) after taking into account any expected input tax credits. In calculating taxable income (and therefore income distributions) for the Fund, all available tax deductions are taken into account. This means that the effective after-tax cost to investors of investing in the Fund may be lower than the amounts specified on page 6 to the extent that management costs are a tax deductible expense and reduce the taxable income of the Fund. Please refer to page 12 for more information on taxation.

The management costs of investing in the Fund are capped while this PDS is current.

### *Transaction and operational costs*

In addition to the management costs there are other costs incurred by the Fund which are an additional cost to investors. They include government taxes and charges, regulatory fees and charges, bank charges, and transaction costs. Most of these costs would also be incurred by an investor acting directly on their own account.

The most significant of these costs are transaction costs – brokerage commission, buy/sell spreads in underlying securities and, in some markets, stamp duty. They arise whenever the Fund buys or sells assets to invest application monies, meet withdrawals or maintain its portfolio in line with its investment objective. The buy/sell spread – see the discussion below – protects ongoing investors from the transaction activity driven by applications and withdrawals. Due to the very low turnover inherent in index funds, the transaction costs arising from 'maintenance' activity

has been and is expected to be less than 0.05% per annum (of net asset value) for the Fund.

### *Buy/sell spread*

The buy/sell spread for the Fund is Vanguard's reasonable estimate of the transaction costs that the Fund will incur when buying and selling assets to invest application amounts and meet withdrawals. The buy/sell spread is paid to the Fund to meet these expenses and is not received by Vanguard.

The purpose of the buy/sell spread is to protect investors from the costs generated by the transaction activity of other investors. Investors who invest into the Fund will pay the purchase price calculated by adding the buy spread to the Fund's net asset value per unit. Investors who withdraw from the Fund will receive the withdrawal price calculated by deducting the sell spread from the Fund's net asset value per unit. The buy spread for the Fund is 0.10% (i.e. \$5 on an investment of \$5,000) and the sell spread for the Fund is 0.10% (i.e. \$5 on an investment of \$5,000).

If the Fund receives applications and withdrawals on the same day there may be a reduction in either or both the buy and sell spreads, as Vanguard may not need to buy or sell as many assets as would otherwise be the case. As a result, the Fund's transaction costs may be lower than normal. Vanguard passes its reasonable estimate of the reduction in transaction costs to investors in the form of a reduced spread. Investors should note that this reduction in the buy/sell spread depends on investors' application and withdrawal activity on a particular day and cannot be predetermined.

### *Notification of changes to fees and the buy/sell spread*

The management costs include a management fee component which is Vanguard's remuneration for managing the Fund. Management costs also include an expense reimbursement component. The Constitution governing the Fund limits the amount of the management fee component. The management fee component for the Fund cannot be increased above 0.20% per annum.

The Fund's Constitution allows Vanguard to charge an amount, determined by Vanguard, as an early withdrawal fee on units withdrawn or switched from the Fund within 90 days if appropriate relief has been obtained from the Australian Securities and Investments Commission (ASIC). There are currently no early withdrawal fees charged for the Fund.

Vanguard currently has no intention to increase the fees it currently charges, or to introduce new fees. At least 30 days' prior notice will be given to investors before any fee increase or the introduction of a new fee takes effect. Investors will generally be given 30 days' prior notice of any increases in

## *Additional information*

the buy/sell spread. Vanguard may increase the buy/sell spread without notice when it is necessary to protect the interests of existing investors and if permitted by law.

### *Rebates and related payments*

Vanguard may from time to time enter into arrangements with clients under which there may be a reduction in the management fees for investing sizable amounts in the Fund. The amount of the fee reduction is at Vanguard's discretion. Vanguard makes these payments from its own resources. Wholesale investors may contact Vanguard on 1300 655 102 if they wish to negotiate a rebate of management costs.

Vanguard's reduction in management costs for an IDPS Operator in its capacity as a wholesale client is defined by the Investment and Financial Services Association as a 'fund manager payment'. Such payment may be passed on to the clients of the IDPS or retained by the IDPS Operator.

Vanguard also pays one-off or annual product access payments to IDPS Operators for including Vanguard's Funds in their IDPS offering. These payments are determined by Vanguard at its discretion with the agreement of the IDPS Operator. Vanguard makes these payments from its own resources.



## Your guide to investing

### Valuations and pricing

The net asset value per unit is determined by dividing the net asset value of the Fund by the number of units on issue in the Fund at the time of valuation (the valuation point). The net asset value for the Fund is the value of assets of the Fund less liabilities of the Fund. A valuation point for the Fund is generally the close of business on a particular day in relevant markets.

The prices are calculated as follows:

|                         |   |   |
|-------------------------|---|---|
| <b>Purchase price</b>   | = | <b>net asset value per unit plus the buy spread</b>   |
| <b>Withdrawal price</b> | = | <b>net asset value per unit minus the sell spread</b> |

The buy/sell spread is explained on page 8.

#### *Impact of significant market events on unit pricing*

Vanguard does not price the units on days which are public holidays or where markets are closed in relevant countries or where there are other factors preventing the accurate calculation of the unit prices.

Applications or withdrawals for the Fund which are received on these days (or after the cut-off time on the previous day) will be processed as if they had been received on the business day following the affected dates.

### What unit price will an investor get?

If a completed application and payment or withdrawal request is received and accepted by Vanguard before 2.00pm Eastern Standard Time (EST) on a business day, it will be processed at the application or withdrawal unit price to be applied for that day. The unit price applicable for that day will not be known until the next business day. If an application and payment or withdrawal request is received and accepted by Vanguard after 2.00 pm EST on a business day, or on a non-business day, Vanguard will process the application and/or withdrawal at the respective unit purchase or unit withdrawal price applicable on the next business day. Please note that there may be days throughout the year where we will bring forward the application and/or withdrawal cut-off times such as when the stock market closes early.

Please also note that 2.00 pm is our cut-off time for receiving instructions from your IDPS Operator. Please contact your IDPS Operator for details of their cut-off times for communicating your instructions to them.

Where Vanguard cannot accurately determine the net asset value of the Fund's investments, such as where there is a closure of trading on the Australian Stock Exchange,

Vanguard may suspend the application and/or withdrawal of units.

### Applications

To invest in this Fund, you should complete the application form supplied by the Operator of the IDPS. The minimum investment amounts that apply to you are stated in the offer document or client agreement of the Operator of the IDPS. Please contact your IDPS Operator regarding their cut-off times for application purposes.

Vanguard reserves the right to refuse any investment application.

### Withdrawals

If you wish to withdraw from the Fund, you must direct the Operator of the IDPS to make the withdrawal. Please contact your IDPS Operator regarding their cut-off times for withdrawal purposes.

Vanguard will normally remit withdrawal proceeds within seven business days. Withdrawals of over 5% in value of the Fund may be processed progressively over a period of 20 business days at the withdrawal price applicable for each day on which a withdrawal is processed. Withdrawals can be suspended in exceptional circumstances, subject to the Constitution of the Fund.

Vanguard and the investor may agree to meet the value of a withdrawal by transferring authorised investments from the Fund to the investor. Investors should note that withdrawal proceeds will normally be funded out of the assets of the Fund and not from the Manager's own resources.

While the Fund is liquid, for the purposes of the *Corporations Act 2001*, if you make a withdrawal request, Vanguard must redeem your units in accordance with the Fund's Constitution. The Fund is liquid if 80% of the value of the Fund's assets comprise liquid assets as defined in the *Corporations Act 2001*.

If the Fund is illiquid, a withdrawal request must be dealt with in accordance with the Fund's Constitution and *Corporations Act 2001*. You may not be able to withdraw your investment in a timely manner if the Fund is illiquid. It is not expected that the Fund will be illiquid.

On a withdrawal of units the Manager may deduct from any amount to be paid to an investor any amount due by the investor to the Manager.

Withdrawing units may give rise to tax consequences and it is recommended that you check the tax implications with your tax adviser before withdrawing.

## Switching

If you wish to switch to another Vanguard Index Fund offered by the Operator of the IDPS, you must direct the Operator to effect the switch. Please contact your IDPS Operator to obtain a copy of the product disclosure statement for each Vanguard Index Fund offered by the IDPS.

Please contact your IDPS Operator regarding their cut-off times for switching purposes.

Switching from one Fund to another may give rise to tax consequences and it is recommended that you check the tax implications with your tax adviser before switching.

## Transfers

Investors in the Fund may transfer units of the Fund to another person as long as the value of the units transferred is at least \$500,000 and only if the investors' remaining units in the Fund are valued at more than \$500,000 (unless the Manager determines otherwise) or if the investor would have no units in the Fund after the transfer.

In the case of an Indirect Investor, units are held in the name of the IDPS Operator and therefore the transfer request would have to be made by the IDPS Operator. Please contact your IDPS Operator to find out if a transfer of units can be requested on your behalf. Information regarding cut-off times for the purposes of transferring units can also be obtained from your IDPS Operator.

Vanguard reserves the right to decline to register a transfer of units.

## Income distributions

The Fund may earn income, such as dividends and interest. The Fund may also realise capital gains or losses on the sale of investments. Income and net realised capital gains will be distributed to investors. Distributable income for the Fund is determined quarterly (i.e. as at 31 March, 30 June, 30 September and 31 December each year). Please note that the amount of distribution will vary from period to period, and there may be periods in which no distribution is made for the Fund.

Distributions are calculated in cents per unit and will be paid to the Operator of the IDPS based on the number of units held as at the end of the distribution period. Distributions will normally be paid within 15 business days after the end of the distribution period. To find out how the distribution payment will be passed on to you and whether they can be reinvested on your behalf, please contact your IDPS Operator.

In certain circumstances, Vanguard may allocate income as part of the withdrawal price of a unit to withdrawing or

switching investors. This would only be utilised to ensure a fair and reasonable allocation of income among investors in circumstances for example, where a significant withdrawal occurred just prior to the end of a distribution period.

## Reporting

You will receive no statements, tax information or other information directly from Vanguard, but should receive the information that the Operator of the IDPS is required to give you and you may request the Operator of the IDPS to provide you with communications from Vanguard.

The Fund is a disclosing entity subject to regular reporting and disclosure obligations, and copies of documents lodged with ASIC in relation to the Fund may be obtained from, or inspected at, an ASIC office.

Vanguard can also provide you free of charge with a copy of:

- the annual financial report most recently lodged with ASIC for the Fund;
- any half-yearly Fund financial reports lodged with ASIC in relation to the Fund; and
- any continuous disclosure notices given for the Fund after the lodgement of an annual report.

### Vanguard's website: [www.vanguard.com.au](http://www.vanguard.com.au)

By visiting the Vanguard website, [www.vanguard.com.au](http://www.vanguard.com.au), you can obtain up-to-date information about the Fund including:

- **Unit prices:** All Fund unit prices are generally available daily.
- **After-tax reporting:** The performance of the Fund is reported monthly on an after-tax basis based on three different tax brackets.
- **Fund Fact Sheets:** Updated monthly, Fund Fact Sheets outline the portfolio structure, composition, asset allocation and past performance of the Fund.
- **New product disclosure statements and supplementary product disclosure statements.**

## Taxation

The taxation information in this PDS is provided for general information only. Vanguard does not provide tax advice. As each investor's circumstance is different, you should obtain professional tax advice concerning the particular tax implications for you. Discussion of tax in this PDS refers to Australian taxation laws current at the time of publication, which may change.

### Taxation of Australian resident investors

#### *Distributions from the Fund*

The distributable income of the Fund for each financial year is allocated to investors during the financial year. The taxable income of the Fund to which an investor becomes entitled during a financial year (including reinvested income) forms part of their assessable income for that year even though payment may not occur until some time later.

The tax impact for an investor depends on the components of the distribution.

#### *Dividends*

Where the Fund invests in Australian equities, an investor's share of the Fund's distributable income may include an entitlement to franked dividends. These amounts are not cash receipts but will need to be included in the calculation of taxable income in an investor's tax return and, depending on their particular circumstances, may be available to offset their tax liability, or be paid as a refund if the franking credits exceed their total tax liability.

#### *Foreign income*

Income received by the Fund from sources outside Australia may be subject to taxation in the country of source. Australian resident investors may be entitled to claim a credit against their Australian tax liability in respect of their share of such foreign tax paid.

#### *Foreign Investment Fund regime*

The underlying portfolio may include investments in certain foreign companies and foreign trusts to which the Foreign Investment Fund (FIF) regime may apply. Under the FIF regime, investors may be assessed on their portion of gain in the value of interests in certain foreign companies and foreign trusts that the Fund holds at the end of the tax year, even though those gains are unrealised.

However, the Fund is unlikely to hold FIF assets in excess of the threshold at which the FIF regime applies. Vanguard will notify investors upon the distribution of any gains to which the FIF regime applies.

#### *Capital gains*

Taxable capital gains derived by the Fund to which an investor becomes entitled may form part of their assessable income. The Fund may make distributions of amounts

which are non-assessable. Receipt of certain non-assessable amounts may have capital gains tax consequences. To the extent that certain amounts distributed are non-assessable as a result of the discount capital gain concession, no adjustment to the cost base of the investor's units will be required.

#### *Other gains*

Gains and losses in relation to investments of the Fund, including any foreign currency gains arising from the investment of the Fund, may be assessed as income under provisions other than the capital gains tax provisions of the *Income Tax Assessment Act*. In some cases, the amount may be recognised for tax purposes before the relevant gain or loss is realised.

#### *Disposal of units*

Investors may be liable for tax on gains realised on the disposal of units in the Fund. Disposal of units may be in the form of a withdrawal or a switch out of the Fund.

Under the capital gains tax provisions, any taxable capital gain arising on disposal of an investor's units may form part of their assessable income. Some investors may be eligible for the discount capital gain concession upon disposal of their units if the units are held for 12 months or more and the Fund satisfies certain requirements. Investors should obtain professional advice about the availability of the concession.

Any capital loss arising on a disposal of units may be able to be offset against capital gains arising in that year or subsequent years. The withdrawal price of a unit may include an entitlement to distributable income of the Fund. The entitlement to distributable income may affect the amount of net capital gain realised on disposal of an investor's unit.

Certain investors (for example, those carrying on a business of trading in units) may be assessed to tax on any gains made on the disposal of units under provisions other than the capital gains tax rules. Investors should seek professional tax advice about the capital gains tax treatment of their units in the Fund.

#### *Goods and Services Tax*

The issue and withdrawal of units in the Fund will not be subject to the Goods and Services Tax (GST). However, fees and expenses incurred by the Fund, such as management costs, will attract GST at the rate of 10%.

Given the nature of the activities of the Fund, the Fund will not be entitled to claim input tax credits for the full amount of GST incurred. However, for the majority of the expenses, a Reduced Input Tax Credit (RITC) of 75% of GST paid can be claimed.

The management cost for the Fund incorporates GST and any expected input tax credits.

## Other information

### Indirect Investor

As an Indirect Investor, you do not become an investor in the Fund and accordingly, you do not acquire the rights of an investor of the Fund or acquire any direct interest in the Fund. The Operator of the IDPS acquires these rights and can exercise, or decline to exercise them, on your behalf according to the arrangements governing the IDPS.

### Vanguard as the Responsible Entity

Vanguard, as the Responsible Entity, is solely responsible for the management and administration of the Fund. Vanguard holds an Australian Financial Services Licence (AFSL 227263) that authorises it to act as the Responsible Entity of the Fund. The powers and duties of Vanguard are set out in the Constitution, the *Corporations Act 2001* and general trust law. The duties of Vanguard under the *Corporations Act 2001* include:

- acting in the best interests of investors and, if there is a conflict between investors' interests and Vanguard's interests, giving priority to investors' interests;
- ensuring that Fund property is clearly identified as Fund property and held separately from property of Vanguard and property of any other fund and is valued at regular intervals;
- ensuring that payments out of Fund property are made in accordance with the Fund's Constitution and the *Corporations Act 2001*; and
- reporting to the Australian Securities and Investments Commission (ASIC) any breach of the *Corporations Act 2001* in relation to a Fund which has had, or is likely to have, a materially adverse effect on the interests of investors.

### The Constitution

The Fund is a managed investment scheme governed by a Constitution. Under the Constitution, Vanguard has all the powers of a natural person in respect of the Fund as absolute owner of the assets of the Fund. The Constitution for the Fund sets out the rights and obligations of investors and Vanguard, as Responsible Entity of the Fund. This PDS outlines some of the more important provisions of the Constitution. A copy of the Fund Constitution may be inspected by investors at Vanguard's office, during business hours.

### Amendments to the Constitution

Vanguard may amend the Constitution of the Fund from time to time, subject to the provisions of the Constitution and the *Corporations Act 2001*. Generally Vanguard can only amend the Constitution where Vanguard reasonably believes that the change will not adversely affect the rights of an investor. Otherwise the Constitution can only be amended if approved at a meeting of investors.

### The Custodian

Vanguard has appointed JP Morgan Chase Bank to act as an

independent custodian to hold and have overall responsibility for holding the assets of the Fund. The Custodian may appoint sub-custodians from time to time.

### The compliance plan

Vanguard has prepared and lodged a compliance plan for the Fund with ASIC. The compliance plan sets out the key criteria that Vanguard will follow to ensure that it is complying with the *Corporations Act 2001* and the Fund's Constitution. Each year the compliance plan is independently audited, as required by the *Corporations Act 2001* and the auditor's report is lodged with ASIC.

### The compliance committee

Vanguard is required to, and has, established a compliance committee with a majority of members that are external to Vanguard. The committee's functions include:

- monitoring Vanguard's compliance with the compliance plan and reporting its findings to Vanguard;
- reporting breaches of the *Corporations Act 2001* or the Fund's Constitution to Vanguard;
- reporting to ASIC if the committee is of the view that Vanguard has not taken or does not propose to take appropriate actions to deal with breaches reported to it by the committee; and
- assessing the adequacy of the compliance plan, recommending any changes and reporting these to Vanguard.

### Application for units

Vanguard may, in its absolute discretion, accept or refuse to accept in whole or in part any application or subscription for units. Vanguard need not give any reason for refusal. If for any reason Vanguard refuses or is unable to process an application to invest in the Fund, Vanguard will return the application money. Investors will not be entitled to interest on their application money in this circumstance.

### Other operational risks

There is a risk that circumstances beyond Vanguard's reasonable control could prevent Vanguard from managing the Fund in accordance with the Fund's investment strategies and as otherwise contemplated by this PDS. For example, strikes, industrial disputes, fires or other casualty, war, civil disturbance, terrorist acts, governmental pre-emption in connection with an emergency of state and epidemics (including potential epidemics) could have this effect. By investing, investors agree that Vanguard is not liable if Vanguard is prevented from managing the Fund by circumstances beyond its reasonable control.

### Investment objective and policy

Vanguard may from time to time vary the investment objective and policy of the Fund. Such variations may include changes to the target index chosen for the Fund.

## **Rights of an investor**

A unit confers a beneficial interest on an investor in the assets of the Fund but not an entitlement or interest in the Fund or any asset. The terms and conditions of the Fund's Constitution are binding on each investor and all persons claiming through them respectively as if the investor or person were a party to the Constitution.

## **Cooling off**

You do not have a right to cool off if you invest in a Fund through an IDPS. This is because you do not acquire the rights of an investor of the Fund. The Operator of the IDPS becomes the investor of the Fund. The terms and conditions set out in the IDPS offer document or client agreement will govern your investment in relation to the Fund and any rights you may have in this regard.

## **Reimbursement of expenses**

In addition to any other right of indemnity which the Manager may have under the Fund's Constitution or at law, the Manager is indemnified and entitled to be reimbursed out of or paid from the assets of the Fund for all losses, damages and costs incurred in the course of the proper performance of its duties in the administration or management of the Fund (other than if it is incurred by the Manager's fraud, neglect or breach of trust). Without limitation, this includes amounts payable in performing any of its duties or exercising any of its powers.

## **Retirement of Vanguard**

Vanguard may retire as Manager of the Fund by calling a meeting of investors to enable investors to choose a company to be the new manager. Vanguard may be removed from office by an extraordinary resolution (i.e. 50% of the units that may be voted) passed at a meeting of investors, in accordance with the *Corporations Act 2001*.

## **Public register of alternative remuneration**

As a member of the Investment and Financial Services Association, Vanguard is obliged to keep a public register which details any alternative form of remuneration that has been paid to or by Vanguard worth more than \$300 (for example, to advisers). Investors may request a copy from Client Services on 1300 655 102.

## **Termination**

The Manager may wind up the Fund at any time on giving three months' notice. Following winding up, the net proceeds will be distributed to investors.

## **Limitation of liability of investors**

The Fund's Constitution provides that the liability of each investor is limited to its investment in the Fund. An investor

is not required to indemnify Vanguard or a creditor of Vanguard against any liability of Vanguard in respect of a Fund. However, no complete assurance can be given in this regard, as the ultimate liability of an investor has not been finally determined by the courts.

## **Proxy voting**

Vanguard votes proxies in companies/funds where a Vanguard fund has a significant economic interest and it is reasonably practicable to do so. This covers the vast majority of holdings by value. Vanguard believes the right to vote proxies for holdings is a significant asset. Vanguard will exercise votes with the goal of maximising the value of the investment. Details of Vanguard's proxy voting policy can be found at [www.vanguard.com.au](http://www.vanguard.com.au).

## **Meeting of investors**

Vanguard may convene a meeting of investors of the Fund at any time. Examples of where meetings may be called include to approve certain amendments to the Fund's Constitution or to wind up the Fund. Investors also have limited rights to call meetings and have the right to vote at any investor meetings. Except where the Fund's Constitution provides otherwise, or the *Corporations Act 2001* requires otherwise, a resolution of investors must be passed by investors who hold units exceeding 50% in value of the total value of all units held by investors who vote on the resolution.

A resolution passed at a meeting of investors held in accordance with the Fund's Constitution binds all investors of the Fund.

## **Indemnities and limitation of liability of Vanguard**

In general, Vanguard may act on the opinion of, advice of and information obtained from, advisers and experts. In those cases, Vanguard is not liable for anything done in good faith in reliance on that opinion, advice or information. Vanguard is indemnified out of the Fund against any expenses, loss, costs, damages and liabilities that may be properly incurred in performing any of its duties or prosecuting or defending any action or suit in connection with the Fund (other than if it arises out of Vanguard's fraud, negligence or breach of trust).

Vanguard is not liable personally to investors or other persons for failing to act except in the case of fraud, negligence or breach of trust.

## **Borrowings**

The Fund will only borrow where Vanguard believes it is in the best interests of investors to do so. It is not currently Vanguard's intention to borrow for the purposes of gearing.

### **If you have a complaint**

If you are investing in the Fund through an IDPS, and you wish to make a complaint in relation to an investment in the Fund, you must do so in accordance with the arrangements for the relevant IDPS.

### **Privacy policy**

Vanguard does not normally receive any personal information about Indirect Investors when they invest through an IDPS. For details on how your personal information is managed, please contact the Operator of the IDPS.

If Vanguard does receive personal information on Indirect Investors, Vanguard manages that information in accordance with Vanguard's Privacy Policy. A copy of Vanguard's Privacy Policy is available at [www.vanguard.com.au](http://www.vanguard.com.au), or by contacting Client Services on 1300 655 102.

### **Environmental, social and ethical considerations**

Vanguard does not take into account labour standards or environmental, social or ethical considerations in the selection, retention or realisation of investments.

### **Interest on amounts awaiting investment or withdrawal**

Amounts paid to the Fund may accrue interest in the Fund's accounts pending the issue of units or the return of application monies to your IDPS Operator. Similarly, amounts made available to satisfy a withdrawal request may also accrue interest pending payment to your IDPS Operator. Any such interest will be retained by the Fund for the benefit of all investors.

### **Contacting Vanguard**

#### **Registered office**

Level 34, Freshwater Place  
2 Southbank Boulevard  
Southbank Vic 3006  
Telephone: (03) 8888 3888

#### **Postal address**

GPO Box 3006FF  
Melbourne Vic 3001

#### **Vanguard Client Services**

8.00 am to 6.00 pm Monday to Friday  
(Eastern Standard Time)  
Telephone: 1300 655 102  
Facsimile: 1300 765 712  
E-mail: [clientservices@vanguard.com.au](mailto:clientservices@vanguard.com.au)  
Website: [www.vanguard.com.au](http://www.vanguard.com.au)