

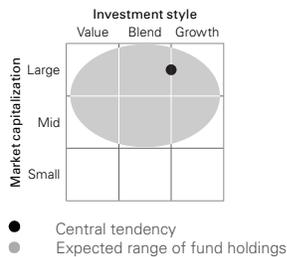
# Vanguard® FTSE Social Index Fund

## Product Summary

Seeks to track the performance of the FTSE4Good US Select Index. Large- and mid-cap stocks. Index screens for certain social and environmental criteria, leading to a growth orientation. Passively managed, full-replication approach. Fund remains fully invested. Low expenses minimize net tracking error.

## Vanguard Style View: Large Growth

Index of large- and mid-cap companies screened for certain social criteria.



## Quarterly Commentary

Monetary policy took center stage during the third quarter of 2016 as continued low interest rates generally boosted stock and bond market returns across the globe. Federal Reserve policymakers decided at their September meeting to leave the federal funds target rate at 0.25%–0.5%. Outside the United States, the Bank of Japan implemented a “yield curve control” policy designed to keep the 10-year Japanese government bond yield near 0%.

The FTSE 4Good US Select Index, which is composed of large- and mid-capitalization stocks that have been screened for certain social, human rights, and environmental criteria by FTSE, returned 5.65% for the third quarter ended September 30. The index's return was higher than that of the Russell 3000 Index (4.40%), which measures the broad U.S. stock market.

Technology (+13.6%), financials (+6.3%), and industrials (+6.3%) were the top contributors.

Utilities (–4.8%) and consumer services (–0.5%) detracted the most.

For the 12-month period ended September 30, 2016, the FTSE 4Good US Select Index returned 13.34%. Technology (+21.8%), health care (+12.6%), and financials (+8.8%) were the top contributors. Telecommunications (+21.1%) and utilities (+27.4%), which had the smallest weightings, contributed the least to the fund's performance.

## People and Process

Vanguard FTSE Social Index Fund seeks to track the investment performance of the FTSE4Good US Select Index—a benchmark of large- and mid-capitalization stocks that are screened based on social criteria such as workplace issues, environmental issues, product safety, human rights, and corporate responsibility. The index tends to have a growth orientation. Using full replication, the fund holds all stocks in the same capitalization weighting as the index. The experience and stability of Vanguard's Equity Index Group have permitted continuous refinement of techniques for reducing tracking error. The group uses proprietary software to implement trading decisions that accommodate cash flow and maintain close correlation with index characteristics. Vanguard's refined indexing process, combined with low management fees and efficient trading, has provided tight tracking net of expenses.

## Vanguard Equity Index Group

Launched in 1975, The Vanguard Group, Malvern, Pennsylvania, is among the world's largest equity and fixed income managers. As chief investment officer and managing director, Mortimer J. Buckley oversees Vanguard's Equity Index, Quantitative Equity, and Fixed Income Groups. Joseph Brennan, CFA, Principal and global head of Vanguard's Equity Index Group, is responsible for all equity index funds. The Equity Index Group manages indexed equity portfolios covering U.S. and international markets. It has developed sophisticated portfolio construction methodologies and efficient trading strategies that seek to deliver returns that are highly correlated with target portfolio benchmarks. The group has advised Vanguard FTSE Social Index Fund since 2000.

## Investment Manager Biographies

Gerard C. O'Reilly, Principal. Portfolio manager. Advised the fund since 2015. Worked in investment management since 1992. B.S., Villanova University.

William Coleman, CFA. Portfolio manager. Advised the fund since 2015. Worked in investment management since 2006. B.S., King's College. M.S., St. Joseph's University.

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**Total Returns**

|                                  | Quarter | Year<br>to Date | 1 Year | 3 Years | 5 Years | 10 Years |
|----------------------------------|---------|-----------------|--------|---------|---------|----------|
| FTSE Social Index Fund           |         |                 |        |         |         |          |
| Investor Shares (5/31/2000)      | 5.58%   | 6.37%           | 13.13% | 11.23%  | 17.08%  | 6.28%    |
| Institutional Shares (1/14/2003) | 5.61    | 6.43            | 13.22  | 11.35   | 17.20   | 6.42     |
| Spliced Social Index             | 5.65    | 6.54            | 13.34  | 11.51   | 17.36   | 6.51     |

**The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).**

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

Note: Spliced Social Index: Calvert Social Index through December 16, 2005; FTSE4Good US Select Index thereafter. Institutional class shareholders are required to maintain a minimum balance of \$5 million.

## Quarterly Returns: Investor Shares

| Year | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Year-End                  |                         | Assets<br>(Millions) |
|------|-------------|-------------|-------------|-------------|---------------------------|-------------------------|----------------------|
|      |             |             |             |             | FTSE Social<br>Index Fund | Spliced Social<br>Index |                      |
| 2016 | -0.71%      | 1.46%       | 5.58%       | —           | —                         | —                       | \$1,446              |
| 2015 | 1.73        | 0.52        | -6.98       | 6.36%       | 1.17%                     | 1.38%                   | 1,255                |
| 2014 | 2.76        | 4.11        | 1.29        | 6.82        | 15.75                     | 16.06                   | 988                  |
| 2013 | 11.99       | 4.47        | 5.87        | 10.48       | 36.84                     | 37.19                   | 654                  |
| 2012 | 13.63       | -4.87       | 6.62        | 2.25        | 17.84                     | 18.13                   | 396                  |
| 2011 | 4.50        | -0.13       | -13.18      | 9.51        | -0.78                     | -0.53                   | 345                  |
| 2010 | 7.36        | -11.89      | 9.37        | 10.61       | 14.43                     | 14.70                   | 366                  |
| 2009 | -10.04      | 20.09       | 18.96       | 5.14        | 35.12                     | 35.41                   | 326                  |
| 2008 | -11.96      | -3.33       | -7.16       | -27.09      | -42.39                    | -42.33                  | 243                  |
| 2007 | 0.33        | 4.33        | -0.83       | -5.88       | -2.31                     | -2.22                   | 492                  |
| 2006 | 3.39        | -2.46       | 5.77        | 6.02        | 13.09                     | 13.38                   | 472                  |

## Quarterly Returns: Institutional Shares

| Year | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Year-End                  |                         | Assets<br>(Millions) |
|------|-------------|-------------|-------------|-------------|---------------------------|-------------------------|----------------------|
|      |             |             |             |             | FTSE Social<br>Index Fund | Spliced Social<br>Index |                      |
| 2016 | -0.77%      | 1.56%       | 5.61%       | —           | —                         | —                       | \$864                |
| 2015 | 1.73        | 0.52        | -6.91       | 6.38%       | 1.27%                     | 1.38%                   | 783                  |
| 2014 | 2.67        | 4.19        | 1.29        | 6.92        | 15.85                     | 16.06                   | 546                  |
| 2013 | 11.99       | 4.57        | 5.86        | 10.58       | 37.09                     | 37.19                   | 328                  |
| 2012 | 13.48       | -4.75       | 6.61        | 2.27        | 17.84                     | 18.13                   | 223                  |
| 2011 | 4.63        | -0.13       | -13.16      | 9.63        | -0.52                     | -0.53                   | 164                  |
| 2010 | 7.51        | -12.01      | 9.52        | 10.59       | 14.58                     | 14.70                   | 156                  |
| 2009 | -10.04      | 20.09       | 19.14       | 5.09        | 35.27                     | 35.41                   | 113                  |
| 2008 | -11.95      | -3.33       | -7.15       | -27.03      | -42.33                    | -42.33                  | 101                  |
| 2007 | 0.43        | 4.32        | -0.83       | -5.85       | -2.17                     | -2.22                   | 128                  |
| 2006 | 3.52        | -2.34       | 5.64        | 6.15        | 13.35                     | 13.38                   | 98                   |

## Fund Facts

|                                      | Investor<br>Shares | Institutional<br>Shares |
|--------------------------------------|--------------------|-------------------------|
| Fund Number                          | 0213               | 0223                    |
| Ticker                               | VFTSX              | VFTNX                   |
| Newspaper Listing                    | FTSESoc            | FTSclnst                |
| CUSIP Number                         | 921910303          | 921910402               |
| Assets (millions)<br>(Total \$2,309) | \$1,446            | \$864                   |
| Inception                            | 5/31/2000          | 1/14/2003               |
| Expense Ratio<br>(as of 12/2015)     | 0.25%              | 0.15%                   |

## Volatility Measures

|                                     | R-Squared | Beta |
|-------------------------------------|-----------|------|
| Spliced Social Index                | 1.00      | 1.00 |
| DJ US Total Stock Mkt Float Adj Idx | 0.98      | 1.02 |

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.

## Equity Characteristics

|                                 | FTSE Social<br>Index Fund | FTSE<br>4Good<br>US Select<br>Index |
|---------------------------------|---------------------------|-------------------------------------|
| Number of stocks                | 406                       | 407                                 |
| Median market cap               | \$68.6 Billion            | \$68.6 Billion                      |
| Price/earnings ratio            | 21.2x                     | 21.2x                               |
| Price/book ratio                | 2.8x                      | 2.8x                                |
| Return on equity                | 18.4%                     | 18.4%                               |
| Earnings growth rate            | 8.8%                      | 8.8%                                |
| Equity yield (dividend)         | 1.9%                      | 1.9%                                |
| Foreign holdings                | 0.4%                      | 0.0%                                |
| Short-term reserves             | 0.0%                      | —                                   |
| Turnover rate (fiscal year end) | 16.3%                     | —                                   |

## Sector Diversification (% of Stocks)

|                    | FTSE Social<br>Index Fund | FTSE<br>4Good<br>US Select<br>Index | Overweight/<br>Underweight |
|--------------------|---------------------------|-------------------------------------|----------------------------|
| Basic Materials    | 2.0%                      | 2.0%                                | 0.0                        |
| Consumer Goods     | 10.6                      | 10.6                                | 0.0                        |
| Consumer Services  | 10.2                      | 10.1                                | 0.1                        |
| Financials         | 23.4                      | 23.4                                | 0.0                        |
| Health Care        | 18.9                      | 19.0                                | -0.1                       |
| Industrials        | 7.2                       | 7.2                                 | 0.0                        |
| Oil & Gas          | 3.3                       | 3.3                                 | 0.0                        |
| Other              | 0.0                       | 0.0                                 | 0.0                        |
| Technology         | 23.7                      | 23.7                                | 0.0                        |
| Telecommunications | 0.2                       | 0.2                                 | 0.0                        |
| Utilities          | 0.5                       | 0.5                                 | 0.0                        |
| <b>Total</b>       | <b>100.0%</b>             | <b>100.0%</b>                       |                            |

Sector categories are based on the Industry Classification Benchmark system.

## Top 10 Largest Holdings

|                      | % of<br>Total Net Assets |
|----------------------|--------------------------|
| Apple Inc.           | 4.7%                     |
| Alphabet Inc.        | 3.6                      |
| Microsoft Corp.      | 3.4                      |
| Johnson & Johnson    | 2.5                      |
| Facebook Inc.        | 2.2                      |
| Procter & Gamble Co. | 1.9                      |
| JPMorgan Chase & Co. | 1.9                      |
| Wells Fargo & Co.    | 1.7                      |
| Pfizer Inc.          | 1.6                      |
| Intel Corp.          | 1.4                      |
| <b>Total</b>         | <b>24.9%</b>             |

The holdings listed exclude any temporary cash investments and equity index products.

## Important information

*Visit our website, call 866-499-8473, or contact your broker to obtain a product description and prospectus or if available, a summary prospectus for Vanguard ETF™ Shares. Investment objectives, risks, charges, expenses, and other important information are contained in these documents; read and consider them carefully before investing. For more information about Vanguard funds, visit [www.vanguard.com](http://www.vanguard.com), or call 800-523-1036, to obtain a prospectus, or if available, a summary prospectus.*

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All investing is subject to risk, including the possible loss of the money you invest.

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