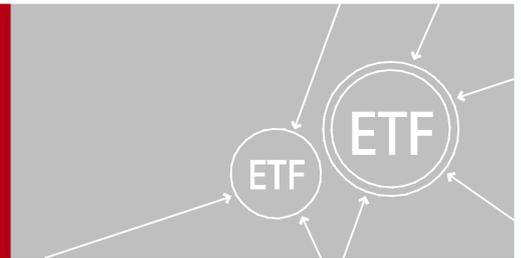




**Vanguard**

**Annual Report**  
for the Vanguard® Exchange Traded Funds

**25 September 2012**



Vanguard Investments Australia Ltd announces the following:

ETF	ASX CODE	ANNOUNCEMENT
Vanguard® MSCI Australian Large Companies Index ETF	VLC	Annual Report
Vanguard® MSCI Australian Small Companies Index ETF	VSO	Annual Report

Vanguard has prepared an Annual Report for the financial year ending 30 June 2012 for the ETFs above. The Annual Report provides financial information for each fund.

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## Further Information

If you have any queries, please contact Computershare on 1300 757 905.

We have taken your circumstances into account in preparing this material. Prior to making an investment decision please consider your circumstances, read our Australian ETF Product Disclosure Statement (PDS) and consult your investment advisor or broker before making any investment decision. You can access our PDS at [vanguard.com.au](http://vanguard.com.au). Past performance is not an indication of future performance. There is no guarantee that distributions will be declared in the future or the future availability of the Distribution Reinvestment Plan.

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The funds or securities referred to in this document are not sponsored, endorsed or promoted by MSCI and MSCI bears no liability with respect to any such funds or securities. The Product Disclosure Statement contains a more detailed description of the limited relationship MSCI has with The Vanguard Group and any related funds.

Vanguard Investments Australia, Level 34, Freshwater Place, 2 Southbank Boulevard, Southbank VIC 3006 [vanguard.com.au](http://vanguard.com.au) 03-8888 3888

# Vanguard® Wholesale Funds

Domestic ETFs (ASX Codes: VLC, VSO)

Annual Report  
30<sup>th</sup> June 2012



**Vanguard®**



Vanguard® Australian Large Companies Index Fund  
Vanguard® Australian Small Companies Index Fund

ARSN 147 936 105  
ARSN 147 936 570

ABN 17 468 108 459  
ABN 73 969 263 897

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# About Vanguard

Vanguard was founded in the United States in 1975 on a simple but revolutionary idea—that an investment company should manage the funds it offers in the sole interest of its clients. In 1976, Vanguard pioneered the concept of indexing, introducing the first index fund for individual investors in the United States. Over the decades, Vanguard has grown to become one of the world’s largest investment management companies — with a presence in Australia, Europe, Asia, and the Americas.

## What makes us different?

What sets Vanguard apart – and lets Vanguard put investors first around the world – is the ownership structure of The Vanguard Group, Inc., in the United States.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard’s US-domiciled funds and ETFs. Those funds, in turn, are owned by their investors.

This unique mutual structure aligns our interests with those of our investors and drives the culture, philosophy and policies throughout the Vanguard organisation worldwide. As a result, Australian investors benefit from Vanguard’s stability and experience, low costs and client focus.

**Stability and experience.** In Australia, Vanguard leverages the scale, experience and resources of our established global business. Vanguard’s ownership structure means that our clients don’t have to worry that we’ll be acquired. The company they invest with today will continue to serve them in the future.

The Vanguard Group established the world’s first index mutual fund for individual investors in 1976 and has been a leader in low-cost index investing ever since. The Vanguard Group also launched the first funds based on bond and international indices, and over the last decade has extended its index management expertise to exchange-traded funds.

**Low costs.** Investors can’t control the markets, but they can control the costs of investing. Providing low-cost investments isn’t a pricing strategy for us. It’s how we do business.

We can keep costs low because of our unique ownership structure in the United States, which allows us to return profits to investors through lower costs.

Vanguard’s scale also helps to keep costs low. As our assets under management increase globally, we can reduce expense ratios for the investors in our funds.

**Client focus.** The ownership structure of The Vanguard Group aligns our interests with those of our clients. Because Vanguard is not publicly traded, we can extend the benefits of that structure to our clients in Australia.

From rigorous risk management to transparent pricing to plain talk communications, we put our clients’ interests first.

Everything we do at Vanguard is designed to give our clients the best chance for investment success.

# Directors' Report

The directors of Vanguard Investments Australia Ltd, the Responsible Entity of the Vanguard Wholesale Funds, present their report together with the financial report of the following Vanguard Wholesale Funds (the Funds) for the year ended 30 June 2012:

- Vanguard Australian Large Companies Index Fund
- Vanguard Australian Small Companies Index Fund

## Principal activities

The Funds invest in accordance with the investment policy of the Funds as set out in the current Product Disclosure Statement (PDS) and in accordance with the Constitutions of the Funds. The Funds seek to track the returns of the Funds' respective indexes, before taking into account Fund fees and expenses.

The Funds commenced operations on 26 May 2011 as Exchange Traded Funds (ETF) quoted for trading on the Australian Securities Exchange.

The Funds did not have any employees during the period.

There were no significant changes in the nature of the activities of the Funds during the period.

## Directors

The following persons held office as directors of Vanguard Investments Australia Ltd during the period or since the end of the period and up to the date of this report:

J M Norris  
G W Reed  
J P Brennan  
K A Watt  
J M James

## Review and results of operations

During the period, the investment policy of the Funds continues to be that detailed in the current PDS and in accordance with the provisions of the Constitution of the Funds. There were no changes to the operations of the Funds during the period.

# Directors' Report *(continued)*

## Review and results of operations *(continued)*

### Results

The results of the operations of the Funds were as follows:

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	For the period ended 30 June		For the period ended 30 June	
	2012	2011	2012	2011
	\$	\$	\$	\$
Operating profit/(loss) before finance costs attributable to unitholders	<b>(419,480)</b>	(19,556)	<b>(954,086)</b>	(129,855)
<i>Distributions</i>				
Distribution paid and payable	<b>281,827</b>	1,237	<b>222,292</b>	45,034
Distribution (cents per unit)	<b>182.4796</b>	1.2370	<b>149.2262</b>	45.0341

# Directors' Report *(continued)*

## Review and results of operations *(continued)*

### Performance

The table below details the performance of the Funds as represented by the total return, net of fees, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total return is shown for the past 2 years to 30 June 2012 and assumes that all distributions were re-invested during

that period. These are calculated in accordance with FSC Standard 6.0 Product Performance – calculation and presentation of returns. The directors assess the performance of the Funds by comparing each Fund's total return with the corresponding Index (the Benchmark) gross of fees.

	Vanguard Australian Large Companies Index Fund	
	2012	2011
	%	%
Capital growth	<b>(9.73)</b>	(0.33)
Distribution of income	<b>3.76</b>	0.02
Total return	<b>(5.97)</b>	(0.31)
Benchmark return		
<i>MSCI Australian Large Cap Index</i>	<b>(5.75)</b>	(0.29)

*The Fund's inception date was 26 May 2011.*

	Vanguard Australian Small Companies Index Fund	
	2012	2011
	%	%
Capital growth	<b>(17.03)</b>	(3.18)
Distribution of income	<b>3.05</b>	0.90
Total return	<b>(13.98)</b>	(2.28)
Benchmark return		
<i>MSCI Australian Small Cap Index</i>	<b>(13.88)</b>	(2.60)

*The Fund's inception date was 26 May 2011.*

Investors should be aware that past performance is not necessarily an indication of future performance.

### Unit redemption prices

Unit redemption prices (quoted including distribution) are shown as follows:

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
At 30 June	<b>45.2956</b>	49.8469	<b>40.8266</b>	48.8641
High during period	<b>50.1697</b>	50.5671	<b>49.8315</b>	51.1656
Low during period	<b>42.0912</b>	47.9320	<b>39.7691</b>	47.1686

## Directors' Report *(continued)*

### Significant changes in state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Funds that occurred during the financial period.

### Matters subsequent to the end of the financial period

Except as disclosed in the financial report, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- (i) the operations of the Funds in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Funds in future financial years.

### Likely developments and expected results of operations

The Funds will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Funds and in accordance with the provisions of the Constitution of the Funds.

The results of the Funds' operations will be affected by a number of factors, including the performance of investment markets in which each Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Funds and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Funds.

### Indemnity and insurance

No insurance premiums are paid for out of the assets of the Funds in regards to insurance cover provided to Vanguard Investments Australia Ltd as Responsible Entity or the auditors of the Funds. So long as Vanguard Investments Australia Ltd acts in accordance with the Constitutions of the Funds and the Law, it remains indemnified out of the assets of the Funds against losses incurred while acting on behalf of the Funds.

The auditors of the Funds are in no way indemnified out of the assets of the Funds.

### Fees paid to and interests held in the Funds by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Funds' property during the period are disclosed in Note 13 to the financial statements.

No fees were paid out of Funds' property to the directors of the Responsible Entity during the period.

The number of interests in the Funds held by the Responsible Entity or its associates as at the end of the financial period are disclosed in Note 13 to the financial statements.

### Interests in the Fund

The movement in units on issue in the Funds during the period is set out in Note 9(a) to the financial statements.

The value of each Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 2 to the financial statements.

### Environmental regulation

The operations of the Funds are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made in accordance with a resolution of the directors.



J M James  
Managing Director  
Melbourne  
31 August 2012



## Auditor's Independence Declaration

As lead auditor for the audit of Vanguard Wholesale Index Funds (Domestic ETF) for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the following Vanguard Wholesale Index Funds (Domestic ETF) during the year:

- Vanguard Australian Large Companies Index Fund
- Vanguard Australian Small Companies Index Fund

A handwritten signature in black ink that reads 'JF Power'.

JF Power  
Partner  
PricewaterhouseCoopers

Melbourne  
31 August 2012

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

# Statement of comprehensive income

## For the period ended 30 June 2012

	Notes	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
		2012	2011	2012	2011
		\$	\$	\$	\$
<b>Investment income</b>					
Interest income from financial instruments not held at fair value through profit or loss		–	34	–	109
Dividend income		<b>332,874</b>	12,232	<b>175,515</b>	3,225
Distribution income		<b>20,340</b>	1,773	<b>72,842</b>	21,225
Net gain/(loss) on financial instruments held at fair value through profit or loss	4	<b>(755,895)</b>	(33,039)	<b>(1,176,820)</b>	(154,242)
Other operating income		<b>1,350</b>	450	<b>3,300</b>	1,450
<b>Total net investment income/(loss)</b>		<b>(401,331)</b>	(18,550)	<b>(925,163)</b>	(128,233)
<b>Expenses</b>					
Responsible entity's fees	6	<b>13,925</b>	997	<b>18,839</b>	1,496
Transaction costs		<b>238</b>	9	<b>513</b>	126
Other operating expenses		<b>3,986</b>	–	<b>9,571</b>	–
<b>Total operating expenses</b>		<b>18,149</b>	1,006	<b>28,923</b>	1,622
<b>Operating profit/(loss)</b>		<b>(419,480)</b>	(19,556)	<b>(954,086)</b>	(129,855)
<b>Financing costs attributable to unitholders</b>					
Distributions to unitholders	7	<b>(281,827)</b>	(1,237)	<b>(222,292)</b>	(45,034)
(Increase)/decrease in net assets attributable to unitholders	9(b)	<b>701,307</b>	20,793	<b>1,176,378</b>	174,889
<b>Profit/(loss) for the year</b>		–	–	–	–
Other comprehensive income		–	–	–	–
<b>Total comprehensive income</b>		–	–	–	–

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

# Balance sheet

As at 30 June 2012

	Notes	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
		2012	2011	2012	2011
		\$	\$	\$	\$
<b>Assets</b>					
Cash & cash equivalents	8	(52,824)	5,464	(26,534)	(2,394)
Futures margin deposit		–	–	–	–
Receivables		70,748	14,043	24,766	24,077
Due from Brokers – receivable for securities sold		50,600	–	107,129	42,419
Financial assets held at fair value through profit or loss		7,180,288	4,961,741	6,414,204	4,807,249
Other assets		–	–	–	–
<b>Total assets</b>		<b>7,248,812</b>	<b>4,981,248</b>	<b>6,519,565</b>	<b>4,871,351</b>
<b>Liabilities</b>					
Payables	13(b)	1,457	804	1,452	1,206
Distribution payable	7	50,159	1,237	106,116	45,034
Due to brokers – payables for securities purchased		–	–	–	–
Financial liabilities held at fair value through profit or loss		–	–	–	–
Other liabilities		–	–	–	–
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>51,616</b>	<b>2,041</b>	<b>107,568</b>	<b>46,240</b>
<b>Net assets attributable to unitholders (liability)</b>	9(b)	<b>7,197,196</b>	<b>4,979,207</b>	<b>6,411,997</b>	<b>4,825,111</b>

The above balance sheet should be read in conjunction with the accompanying notes.

# Statement of changes in equity

For the period ended 30 June 2012

Notes	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Total equity at the beginning of the financial year</b>	–	–	–	–
Profit/(loss) for the year	–	–	–	–
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	–	–	–	–
Transactions with owners in their capacity as owners	–	–	–	–
<b>Total equity at the end of the financial year</b>	–	–	–	–

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or the end of the financial year.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Statement of cash flows

## For the period ended 30 June 2012

	Notes	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
		2012	2011	2012	2011
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Proceeds from sale of financial instruments held at fair value through profit or loss		429,580	19,749	1,431,803	403,532
Purchases of financial instruments held at fair value through profit or loss		(3,454,623)	(5,014,529)	(4,280,288)	(5,407,442)
Transaction costs on purchases of financial instruments held at fair value through profit or loss		(238)	(9)	(513)	(126)
Interest received		23	11	73	12
Dividends received		277,640	–	175,851	511
Distributions received		19,265	–	72,196	–
Responsible entity's fees paid		(13,556)	(208)	(18,593)	(331)
Other expenses paid		(3,703)	–	(9,570)	–
Other income received		932	450	2,847	1,450
<b>Net cash inflow/(outflow) from operating activities</b>	14(a)	<b>(2,744,680)</b>	<b>(4,994,536)</b>	<b>(2,626,194)</b>	<b>(5,002,394)</b>
<b>Cash flows from financing activities</b>					
Proceeds from applications by unitholders		2,919,297	5,000,000	2,763,264	5,000,000
Payments for redemptions by unitholders		–	–	–	–
Distributions paid		(232,905)	–	(161,210)	–
<b>Net cash inflow/(outflow) from financing activities</b>		<b>2,686,392</b>	<b>5,000,000</b>	<b>2,602,054</b>	<b>5,000,000</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(58,288)</b>	<b>5,464</b>	<b>(24,140)</b>	<b>(2,394)</b>
Cash and cash equivalents at the beginning of the year		5,464	–	(2,394)	–
<b>Cash and cash equivalents at the end of the year</b>	8	<b>(52,824)</b>	<b>5,464</b>	<b>(26,534)</b>	<b>(2,394)</b>

Non-cash financing activities 14(b)

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the financial statements

For the period ended 30 June 2012

## 1. General information

The Responsible Entity of the Vanguard Wholesale Funds is Vanguard Investments Australia Ltd. (the 'Responsible Entity'). The Responsible Entity's registered office is Level 34, Freshwater Place, 2 Southbank Boulevard, Southbank Vic 3006.

The Funds were constituted on 17 December 2010 and will terminate on 17 December 2090 unless terminated earlier in accordance with the provisions of the Constitutions of the Funds. The Funds commenced trading on the 26 May 2011.

The Funds invest in accordance with the investment policy of the Funds as set out in the current Product Disclosure Statement (PDS) and in accordance with the Constitutions of the Funds. The Funds seek to track the returns of the Funds' respective indexes, before taking into account Fund fees and expenses.

The financial statements were authorised for issue by the directors on 31 August 2012. The directors of the Responsible Entity have the power to amend and reissue the financial report.

The financial report is presented in the Australian currency.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. The Funds are for-profit unit trusts for the purpose of preparing the financial statements.

This financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled in relation to these balances cannot be reliably determined.

### Compliance with International Financial Reporting Standards

The financial report of the Funds also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### (b) Financial instruments

#### (i) Classification

The Funds' investments are categorised as at fair value through profit or loss. They comprise:

- **Financial instruments held for trading**  
These include derivative financial instruments including futures, forward contracts, options and interest rate swaps. All derivatives in a net receivable or payable position are shown gross and reported as either derivative financial assets or derivative financial liabilities. The Funds do not designate any derivatives as hedges in a hedging relationship.
- **Financial instruments designated at fair value through profit or loss upon initial recognition**  
These include financial assets that are not held for trading purposes and which may be sold. These are investments in traded debt, unlisted trusts, unlisted equity instruments, commercial paper and exchange traded equity instruments.

Financial assets and financial liabilities designated at fair value through profit and loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Funds' documented investment strategy. The Funds' policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 2. Summary of significant accounting policies *(continued)*

### (b) Financial instruments *(continued)*

#### (ii) Recognition/derecognition

The Funds recognise financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Funds have transferred substantially all risks and rewards of ownership.

#### (iii) Measurement

At initial recognition, the Funds measure a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit and loss are expensed in the statement of comprehensive income.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Funds is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Funds recognise the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Further details on how the fair value of the financial instruments is determined are disclosed in Note 3(b).

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities as the Funds are required to distribute its taxable income. The units can

be put back to the Funds at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Funds. Because the Funds' redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the statement of comprehensive income as they arise.

### (d) Cash and cash equivalents

For cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet. Futures margin deposit accounts are restricted cash balances and accordingly are not included in cash and cash equivalents.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Funds' main income generating activity.

### (e) Investment income

Interest income and expenses are recognised in the statement of comprehensive income for all financial assets that are not held at fair value through profit or loss using the effective interest method. Interest on assets held at fair value through profit and loss is included in the net gains/(losses) on financial assets. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b).

Dividend income is recognised on the ex-dividend date net of any related foreign withholding tax, but inclusive of reclaims that are yet to be received.

Trust distributions are recognised on an entitlements basis.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 2. Summary of significant accounting policies *(continued)*

### (f) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

### (g) Income tax

Under current legislation, the Funds are not subject to income tax provided the taxable income of the Funds are fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Funds).

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, the portion of the gain that is subject to capital gains tax will be distributed so that the Funds are not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Funds to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

The Funds currently incur withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the statement of comprehensive income.

### (h) Distributions

In accordance with the Constitutions of the Funds, the Funds fully distribute their distributable income to unitholders by cash or reinvestment. Distributions payable are the amounts that the unitholders are presently entitled to as at 30 June 2012, but have not yet received. The distributions are payable at the end of September, December, March and June for Vanguard Australian Large Companies Index Fund and December and June for Vanguard Australian Small Companies Index Fund. Distributions are recognised in the income statement as finance costs attributable to unitholders.

### (i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets

attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

### (j) Functional and presentation currency

Items included in the Funds' financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Funds compete for funds and are regulated. The Australian dollar is also the Funds' presentation currency.

### (k) Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the financial year. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired.

### (l) Futures margin deposits

Deposits held with brokers for margin, represent restricted margin deposits for derivative financial instruments.

### (m) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment using the effective interest rate method. Amounts are generally received within 30 days of being recorded as receivables.

### (n) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheet as unitholders are presently entitled to the distributable income under the Constitutions of the Funds.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 2. Summary of significant accounting policies *(continued)*

### (o) Applications and redemptions

Applications received for units in the Funds are recorded net of any entry fees payable prior to the issue of units in the Funds. Redemptions from the Funds are recorded gross of any exit fees payable after the cancellation of units redeemed. There are currently no entry or exit fees charged for the Funds.

### (p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Responsible Entity by third parties, have been passed onto the Funds. The Funds qualify for Reduced Input Tax Credit recovery at a rate of 75%, hence Responsible Entity fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### (q) Use of estimates

The Funds make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Funds' financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables and the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

### (r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Funds) and interpretation is set below:

- (i) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 and AASB 10 Amendment to Australia Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013\*)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. This standard is not applicable until 1 January 2013\* but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Funds have not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Funds' financial statements as the Funds do not hold any available-for-sale investments.

\* In December 2011, the IASB delayed the application dates of IFRS 9 to 1 January 2015.

- (ii) AASB 13 *Fair Value Measurement* and AASB 2011-18 *Amendments to Australian Accounting Standards from AASB 13* (effective from 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Funds do not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 3. Financial risk management

The Funds' activities expose them to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Funds' overall risk management programme focuses on ensuring compliance with the Funds' Product Disclosure Statement and seeks to deliver investment returns which closely match the total returns of selected indexes. The Funds use derivative financial instruments to alter certain risk exposures. Financial risk management is carried out by the investment management department under the policies approved by the Board of Directors of the Responsible Entity.

### (a) Market risk

#### (i) Price risk

The Funds are exposed to price risk whereby the future prices of the Funds securities are uncertain.

In any asset sector the returns of individual securities are a combination of the market return and returns specific to each security. By diversifying 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 index funds with the market returns and their associated risk. Vanguard employs an indexing investment strategy in all asset classes in which the Fund invests.

#### (ii) Foreign exchange risk

The Funds' assets are denominated in Australian dollar. There is no foreign exchange risk to any of the Funds presented in this financial report.

#### (iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The interest rate risk disclosures have been prepared on the basis of the Funds direct investment and not on a look-through basis for investments held indirectly through unit trusts. Consequently, the disclosure of interest rate risk in the above note may not represent the true interest rate risk profile of the Funds where the Funds have significant investments in unit trusts which also have exposure to the interest rate markets.

Those Funds whose exposure to interest rate risk is significant are set out in the following table:

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 3. Financial risk management *(continued)*

### (a) Market risk *(continued)*

#### (iii) Interest rate risk *(continued)*

	Vanguard Australian Large Companies Index Fund			
	Floating interest rate	Fixed interest rate	Non- interest bearing	Total
	\$	\$	\$	\$
<b>30 June 2012</b>				
<b>Assets</b>				
Cash and cash equivalents	(52,824)	–	–	(52,824)
Futures margin deposit	–	–	–	–
Financial assets held at fair value through profit and loss	–	–	7,180,288	7,180,288
Other assets & receivables	–	–	121,348	121,348
<b>Total assets</b>	<b>(52,824)</b>	<b>–</b>	<b>7,301,636</b>	<b>7,248,812</b>
<b>Liabilities</b>				
Other liabilities	–	–	51,616	51,616
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>–</b>	<b>–</b>	<b>51,616</b>	<b>51,616</b>
<b>Net assets attributable to unitholders – liability</b>	<b>(52,824)</b>	<b>–</b>	<b>7,250,020</b>	<b>7,197,196</b>
<b>30 June 2011</b>				
<b>Assets</b>				
Cash and cash equivalents	5,464	–	–	5,464
Futures margin deposit	–	–	–	–
Financial assets held at fair value through profit and loss	–	–	4,961,741	4,961,741
Other assets & receivables	–	–	14,043	14,043
<b>Total assets</b>	<b>5,464</b>	<b>–</b>	<b>4,975,784</b>	<b>4,981,248</b>
<b>Liabilities</b>				
Other liabilities	–	–	2,041	2,041
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>–</b>	<b>–</b>	<b>2,041</b>	<b>2,041</b>
<b>Net assets attributable to unitholders – liability</b>	<b>5,464</b>	<b>–</b>	<b>4,973,743</b>	<b>4,979,207</b>

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 3. Financial risk management *(continued)*

### (a) Market risk *(continued)*

#### (iii) Interest rate risk *(continued)*

	Vanguard Australian Small Companies Index Fund			
	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
	\$	\$	\$	\$
<b>30 June 2012</b>				
<b>Assets</b>				
Cash and cash equivalents	(26,534)	–	–	(26,534)
Futures margin deposit	–	–	–	–
Financial assets held at fair value through profit and loss	–	–	6,414,204	6,414,204
Other assets & receivables	–	–	131,895	131,895
<b>Total assets</b>	<b>(26,534)</b>	<b>–</b>	<b>6,546,099</b>	<b>6,519,565</b>
<b>Liabilities</b>				
Other liabilities	–	–	107,568	107,568
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>–</b>	<b>–</b>	<b>107,568</b>	<b>107,568</b>
<b>Net assets attributable to unitholders – liability</b>	<b>(26,534)</b>	<b>–</b>	<b>6,438,531</b>	<b>6,411,997</b>
<b>30 June 2011</b>				
<b>Assets</b>				
Cash and cash equivalents	(2,394)	–	–	(2,394)
Futures margin deposit	–	–	–	–
Financial assets held at fair value through profit and loss	2,320	–	4,804,929	4,807,249
Other assets & receivables	–	–	66,496	66,496
<b>Total assets</b>	<b>(74)</b>	<b>–</b>	<b>4,871,425</b>	<b>4,871,351</b>
<b>Liabilities</b>				
Other liabilities	–	–	46,240	46,240
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>–</b>	<b>–</b>	<b>46,240</b>	<b>46,240</b>
<b>Net assets attributable to unitholders – liability</b>	<b>(74)</b>	<b>–</b>	<b>4,825,185</b>	<b>4,825,111</b>

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 3. Financial risk management *(continued)*

### (b) Fair value estimation

The carrying amounts of the Funds' assets and liabilities at the balance sheet date approximate their fair values.

Financial assets and liabilities held at fair value through profit and loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit and loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

#### Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

#### Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Funds would

receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such funds.

### (c) Credit risk

Credit risk is the risk that the Funds' trading counterparties become insolvent or cannot otherwise meet their obligations to the Funds in full when they fall due.

Funds which invest in fixed interest and debt securities are exposed to credit risk. This is the risk that an issuer of a fixed interest or debt security may not meet its payment obligations to the Funds. The Responsible Entity seeks to minimise this risk by diversifying a Fund's holdings across issuers. At 30 June 2012 there are no financial assets that are past due or impaired.

Any securities lending in the fixed interest Funds is with a selected group of counterparties, all of which have AA or better long-term and A1+ short-term Standard & Poor's credit ratings (or Moody's equivalent).

#### (i) Debt securities

There is credit risk associated with debt securities. Vanguard seeks to reduce this risk by selecting only debt securities with a sufficiently high credit rating and by diversifying the fund's holding across issuers.

Vanguard will try to minimise the credit risk associated with holding bonds by primarily holding non-domestic government and supranational (issued by government-owned or government-guaranteed entities) bonds or other investment-grade entities.

Investment-grade issuers are defined as those rated BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's.

## Notes to the financial statements *(continued)*

For the period ended 30 June 2012

### 3. Financial risk management *(continued)*

#### (c) Credit risk *(continued)*

##### (ii) Derivative financial instruments

The Responsible Entity has established counterparty limits such that, at any time, exposure to derivative financial instruments equivalent to less than 5% of the value of a Fund are with any individual counterparty, and all contracts are with counterparties included in the Board's Approved Counterparties list.

##### (iii) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has made payment. Payment is made on purchase once the securities have been received by the Fund. The trade will fail if either party fails to meet its obligations.

##### (iv) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A1+ short-term Standard & Poor's credit ratings (or Moody's equivalent).

In accordance with the Responsible Entity's derivatives policy, the Responsible Entity monitors the Funds' exposures on a daily basis, which the Board of Directors reviews quarterly. The derivatives policy is subject to annual review.

The Funds are not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets.

#### (d) Liquidity risk

The Funds' approach to managing liquidity is to ensure that they will always have sufficient liquidity to meet their liabilities when due. Unitholders are able to withdraw their units at any time, and the Funds are therefore exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Funds' financial instruments include investments in equity investments, fixed interest securities and derivative contracts traded over-the-counter. The Funds' listed securities are considered to be readily realisable as they are all listed on major stock exchanges. The Funds may use futures to gain market exposure without investing directly in the securities. This allows the Funds to maintain liquidity without being under-invested in their respective investment policies. The derivatives are not used to leverage the Funds' portfolio.

The following tables summarise the maturity profile of the Funds' financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Funds can be required to pay.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 3. Financial risk management *(continued)*

### (d) Liquidity risk *(continued)*

Vanguard Australian Large Companies Index Fund					
As at 30 June 2012					
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$	\$	\$	\$	\$
Payables	1,457	–	–	–	1,457
Distribution payable	50,159	–	–	–	50,159
Due to brokers – payables for securities purchased	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	–	–	–	–
Other liabilities	–	–	–	–	–
Net assets attributable to unitholders	7,197,196	–	–	–	7,197,196
<b>Total financial liabilities (excluding gross settled derivatives)</b>	<b>7,248,812</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>7,248,812</b>
<b>Gross settled derivatives</b>					
Derivative type 1					
Inflows	–	–	–	–	–
(Outflows)	–	–	–	–	–
<b>Total gross settled derivatives inflow (outflow)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
As at 30 June 2011					
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$	\$	\$	\$	\$
Payables	804	–	–	–	804
Distribution payable	1,237	–	–	–	1,237
Due to brokers – payables for securities purchased	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	–	–	–	–
Other liabilities	–	–	–	–	–
Net assets attributable to unitholders	4,979,207	–	–	–	4,979,207
<b>Total financial liabilities (excluding gross settled derivatives)</b>	<b>4,981,248</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,981,248</b>
<b>Gross settled derivatives</b>					
Derivative type 1					
Inflows	–	–	–	–	–
(Outflows)	–	–	–	–	–
<b>Total gross settled derivatives inflow (outflow)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 3. Financial risk management *(continued)*

### (d) Liquidity risk *(continued)*

Vanguard Australian Small Companies Index Fund					
As at 30 June 2012					
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$	\$	\$	\$	\$
Payables	1,452	–	–	–	1,452
Distribution payable	106,116	–	–	–	106,116
Due to brokers – payables for securities purchased	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	–	–	–	–
Other liabilities	–	–	–	–	–
Net assets attributable to unitholders	6,411,997	–	–	–	6,411,997
<b>Total financial liabilities (excluding gross settled derivatives)</b>	<b>6,519,565</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6,519,565</b>
<b>Gross settled derivatives</b>					
Derivative type 1					
Inflows	–	–	–	–	–
(Outflows)	–	–	–	–	–
<b>Total gross settled derivatives inflow (outflow)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
As at 30 June 2011					
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$	\$	\$	\$	\$
Payables	1,206	–	–	–	1,206
Distribution payable	45,034	–	–	–	45,034
Due to brokers – payables for securities purchased	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	–	–	–	–
Other liabilities	–	–	–	–	–
Net assets attributable to unitholders	4,825,111	–	–	–	4,825,111
<b>Total financial liabilities (excluding gross settled derivatives)</b>	<b>4,871,351</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,871,351</b>
<b>Gross settled derivatives</b>					
Derivative type 1					
Inflows	–	–	–	–	–
(Outflows)	–	–	–	–	–
<b>Total gross settled derivatives inflow (outflow)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 3. Financial risk management *(continued)*

### (e) Summarised sensitivity analysis

The following tables summarise the sensitivity of the Funds' operating profit to interest rate risk and price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correction of the Funds' investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the

economies, markets and securities in which the Funds invest. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

Price risk movement represents the range of historical returns from the average return minus one standard deviation to the average return plus one standard deviation. For a normal distribution approximately two-thirds of the outcomes are expected to fall within plus or minus one standard deviation of the mean. Outcomes are expected to occur outside these ranges, approximately one-third of the time.

Vanguard Australian Large Companies Index Fund				
Impact on operating profit/(loss) and net assets attributable to unitholders				
Price risk		Interest rate risk		
-8%	+23%	-50 bps	+50 bps	
\$	\$	\$	\$	
<b>30 June 2012</b>	<b>(574,423)</b>	<b>1,651,466</b>	<b>(264)</b>	<b>264</b>
	-10%	+23%	-25bps	+50bps
	\$	\$	\$	\$
<b>30 June 2011</b>	<b>(496,174)</b>	<b>1,141,201</b>	<b>(14)</b>	<b>27</b>

Vanguard Australian Small Companies Index Fund				
Impact on operating profit/(loss) and net assets attributable to unitholders				
Price risk		Interest rate risk		
-8%	+23%	-50 bps	+50 bps	
\$	\$	\$	\$	
<b>30 June 2012</b>	<b>(513,136)</b>	<b>1,475,267</b>	<b>(133)</b>	<b>133</b>
	-10%	+23%	-25bps	+50bps
	\$	\$	\$	\$
<b>30 June 2011</b>	<b>(480,725)</b>	<b>1,105,667</b>	<b>6</b>	<b>(12)</b>

### (f) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 3. Financial risk management *(continued)*

### (f) Fair value hierarchy *(continued)*

	Vanguard Australian Large Companies Index Fund			
	Level 1	Level 2	Level 3	Total
<b>30 June 2012</b>	\$	\$	\$	\$
<b>Financial assets</b>				
Financial assets held for trading				
Derivatives	–	–	–	–
Financial assets designated at fair value through profit or loss:				
Equity securities	<b>7,180,288</b>	–	–	<b>7,180,288</b>
Debt securities	–	–	–	–
<b>Total</b>	<b>7,180,288</b>	–	–	<b>7,180,288</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading				
Derivatives	–	–	–	–
<b>Total</b>	–	–	–	–

	Vanguard Australian Large Companies Index Fund			
	Level 1	Level 2	Level 3	Total
<b>30 June 2011</b>	\$	\$	\$	\$
<b>Financial assets</b>				
Financial assets held for trading				
Derivatives	–	–	–	–
Financial assets designated at fair value through profit or loss:				
Equity securities	4,961,741	–	–	4,961,741
Debt securities	–	–	–	–
<b>Total</b>	<b>4,961,741</b>	–	–	<b>4,961,741</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading				
Derivatives	–	–	–	–
<b>Total</b>	–	–	–	–

## Notes to the financial statements *(continued)*

For the period ended 30 June 2012

### 3. Financial risk management *(continued)*

#### (f) Fair value hierarchy *(continued)*

	Vanguard Australian Small Companies Index Fund			
	Level 1	Level 2	Level 3	Total
30 June 2012	\$	\$	\$	\$
<b>Financial assets</b>				
Financial assets held for trading				
Derivatives	–	–	–	–
Financial assets designated at fair value through profit or loss:				
Equity securities	6,405,540	8,664	–	6,414,204
Debt securities	–	–	–	–
<b>Total</b>	<b>6,405,540</b>	<b>8,664</b>	<b>–</b>	<b>6,414,204</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading				
Derivatives	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

	Vanguard Australian Small Companies Index Fund			
	Level 1	Level 2	Level 3	Total
30 June 2011	\$	\$	\$	\$
<b>Financial assets</b>				
Financial assets held for trading				
Derivatives	–	–	–	–
Financial assets designated at fair value through profit or loss:				
Equity securities	4,804,929	–	–	4,804,929
Debt securities	–	2,320	–	2,320
<b>Total</b>	<b>4,804,929</b>	<b>2,320</b>	<b>–</b>	<b>4,807,249</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading				
Derivatives	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts, exchange traded derivatives, US government treasury bills and certain non-US sovereign obligations.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing

sources supported by observable inputs are classified within level 2. These include, investment-grade corporate bonds and certain non-US sovereign obligations, certain listed equities, certain unlisted unit trusts, and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 4. Net gains/(losses) on financial assets

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Financial assets</b>				
Net gain/(loss) on financial assets held for trading	-	-	-	-
Net gain/(loss) on financial assets designated at fair value through profit or loss	(755,895)	(33,039)	(1,176,820)	(154,242)
	(755,895)	(33,039)	(1,176,820)	(154,242)
Net realised gain/(loss) on financial assets held at fair value through profit or loss	(27,597)	(22)	(106,618)	24,503
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	(728,298)	(33,017)	(1,070,202)	(178,745)
	(755,895)	(33,039)	(1,176,820)	(154,242)
<b>Financial liabilities</b>				
Net gain/(loss) on financial liabilities held for trading	-	-	-	-
Net gain/(loss) on financial liabilities designated at fair value through profit or loss	-	-	-	-
	-	-	-	-
Net realised gain/(loss) on financial liabilities held at fair value through profit or loss	-	-	-	-
Net unrealised gain/(loss) on financial liabilities held at fair value through profit or loss	-	-	-	-
	-	-	-	-
<b>Total net gains/(losses) on financial instruments held at fair value through profit or loss</b>	<b>(755,895)</b>	<b>(33,039)</b>	<b>(1,176,820)</b>	<b>(154,242)</b>

## 5. Auditor's remuneration

The auditor's remuneration is borne by the Responsible Entity. Other services include the audit of the Compliance Plans and Internal Controls Report (GS 007). During the period, the following fees were paid and payable for services provided by the auditor of the Funds.

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Auditor's remuneration</b>				
- for auditing the financial statements	16,589	12,000	16,589	12,000
- other services	13,943	4,108	13,943	4,108

## Notes to the financial statements *(continued)*

For the period ended 30 June 2012

### 6. Responsible Entity's fees

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
Responsible Entity's fees incurred by the Funds	<b>13,925</b>	997	<b>18,839</b>	1,496
Management costs per annum	<b>0.20%</b>	0.20%	<b>0.30%</b>	0.30%

### 7. Distributions paid and payable

	Vanguard Australian Large Companies Index Fund			
	2012	2012	2011	2011
	\$	GPU	\$	GPU
Interim distributions paid	<b>231,668</b>	<b>151.3569</b>	–	–
Distribution payable – 30 June	<b>50,159</b>	<b>31.1227</b>	1,237	1.2370
Total Distributions to unitholders	<b>281,827</b>	<b>182.4796</b>	1,237	1.2370

	Vanguard Australian Small Companies Index Fund			
	2012	2012	2011	2011
	\$	GPU	\$	GPU
Interim distributions paid	<b>116,176</b>	<b>83.3252</b>	–	–
Distribution payable – 30 June	<b>106,116</b>	<b>65.9010</b>	45,034	45.0341
Total Distributions to unitholders	<b>222,292</b>	<b>149.2262</b>	45,034	45.0341

### 8. Cash and cash equivalents

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
Cash at bank	<b>(52,824)</b>	5,464	<b>(26,534)</b>	(2,394)

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 9. Net assets attributable to unitholders

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
<b>(a) Units on issue</b>				
Opening balance	100,000	–	100,000	–
Applications	60,000	100,000	60,000	100,000
Distributions reinvested	67	–	293	–
Redemptions	–	–	–	–
<b>Closing balance</b>	<b>160,067</b>	100,000	<b>160,293</b>	100,000
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	\$	\$	\$	\$
<b>(b) Net assets attributable to unitholders</b>				
Opening balance	4,979,207	–	4,825,111	–
Applications	2,916,275	5,000,000	2,751,026	5,000,000
Distributions reinvested	3,021	–	12,238	–
Redemptions	–	–	–	–
Increase/(decrease) in net assets attributable to unitholders	(701,307)	(20,793)	(1,176,378)	(174,889)
<b>Closing balance</b>	<b>7,197,196</b>	4,979,207	<b>6,411,997</b>	4,825,111

Each unit represents a right to an individual share in the Funds and does not extend to a right to the underlying assets of the Funds. The Funds have no separate classes of units and each unit has the same rights attaching to it as all other units of the Funds.

Movements in the number of units and net assets attributable to unitholders are governed by the Constitution of the Funds.

### Capital risk management

The Funds manage its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Funds are subject to daily applications and redemptions at the discretion of the unitholders.

The Funds monitor the level of daily applications and redemptions relative to the net liquid assets in the Funds. The net liquid assets include cash and cash equivalents, financial assets designated at fair value through profit and loss, receivables and payables with a maturity of less than 30 days.

The ratio of net liquid assets to net applications/ (redemptions) at end of reporting periods are as follows:

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
Average daily net applications/(redemptions)	11,619	172,414	10,960	172,414
Net liquid assets of the fund	7,197,196	4,979,207	6,411,997	4,825,111
Net assets attributable to unitholders (NAATU)	7,197,196	4,979,207	6,411,997	4,825,111
Ratio of net liquid assets to NAATU	100%	100%	100%	100%

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 10. Financial assets held at fair value through profit or loss

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>Fair Value</b>	Fair Value	<b>Fair Value</b>	Fair Value
	<b>\$</b>	\$	<b>\$</b>	\$
<b>Held for trading</b>				
Derivatives	–	–	–	–
Total held for trading	–	–	–	–
<b>Designated at fair value through profit or loss</b>				
Equity securities	<b>7,180,288</b>	4,961,741	<b>6,414,204</b>	4,807,249
Total designated at fair value through profit or loss	<b>7,180,288</b>	4,961,741	<b>6,414,204</b>	4,807,249
<b>Total financial assets held at fair value through profit or loss</b>	<b>7,180,288</b>	4,961,741	<b>6,414,204</b>	4,807,249
<b>Comprising:</b>				
<b>Derivatives</b>				
Foreign currency forward contracts	–	–	–	–
Australian share price futures	–	–	–	–
International share price futures	–	–	–	–
Total derivatives	–	–	–	–
<b>Equity securities</b>				
Australian equity securities	<b>7,180,288</b>	4,961,741	<b>6,414,204</b>	4,807,249
International equity securities	–	–	–	–
Total equity securities	<b>7,180,288</b>	4,961,741	<b>6,414,204</b>	4,807,249
<b>Total financial assets held at fair value through profit or loss</b>	<b>7,180,288</b>	4,961,741	<b>6,414,204</b>	4,807,249

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in Note 3.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 11. Financial liabilities held at fair value through profit or loss

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012 Fair Value \$	2011 Fair Value \$	2012 Fair Value \$	2011 Fair Value \$
<b>Held for trading</b>				
Derivatives	–	–	–	–
Total held for trading	–	–	–	–
<b>Total financial liabilities held at fair value through profit or loss</b>	–	–	–	–
<b>Comprising:</b>				
<b>Derivatives</b>				
Foreign currency forward contracts	–	–	–	–
Australian share price futures	–	–	–	–
International share price futures	–	–	–	–
Total derivatives	–	–	–	–
<b>Total financial liabilities held at fair value through profit or loss</b>	–	–	–	–

## 12. Derivative financial instruments

In the normal course of business the Funds enter into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Funds' portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of a Fund against a fluctuation in market values or to reduce volatility

- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Funds.

The Funds hold the following derivative instrument:

### Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are settled daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

Futures contracts entered into by the Funds typically mature within 3 months from the date of acquisition.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 12. Derivative financial instruments *(continued)*

Vanguard Australian Large Companies Index Fund						
	Contract/ Notional	2012		2011		
		Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities	
	\$	\$	\$	\$	\$	\$
<b>Buy</b>						
Australian fixed interest futures	-	-	-	-	-	-
International fixed interest futures	-	-	-	-	-	-
<b>Total buys</b>	-	-	-	-	-	-
<b>Sell</b>						
Australian fixed interest futures	-	-	-	-	-	-
International fixed interest futures	-	-	-	-	-	-
<b>Total sells</b>	-	-	-	-	-	-
	-	-	-	-	-	-

Vanguard Australian Small Companies Index Fund						
	Contract/ Notional	2012		2011		
		Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities	
	\$	\$	\$	\$	\$	\$
<b>Buy</b>						
Australian fixed interest futures	-	-	-	-	-	-
International fixed interest futures	-	-	-	-	-	-
<b>Total buys</b>	-	-	-	-	-	-
<b>Sell</b>						
Australian fixed interest futures	-	-	-	-	-	-
International fixed interest futures	-	-	-	-	-	-
<b>Total sells</b>	-	-	-	-	-	-
	-	-	-	-	-	-

## 13. Related parties

### Responsible Entity

The Responsible Entity of the Vanguard Wholesale Funds is Vanguard Investments Australia Ltd (ABN 72 072 881 086 AFSL 227263), which is a wholly owned subsidiary of The Vanguard Group, Inc. in the US.

### (a) Key management personnel

The Funds do not employ personnel in their own right. However the Funds are required to have an incorporated Responsible Entity to manage the activities of the Funds and this is considered the Key Management Personnel.

### (i) Directors

The directors of the Responsible Entity are key management personnel of that entity and their names are as follows:

J M Norris  
G W Reed  
J P Brennan  
K A Watt  
J M James

### (ii) Key management personnel compensation

The Responsible Entity is entitled to receive a management fee as detailed in Note 13(b) below. Payments made from the Funds to the Responsible Entity

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 13. Related parties *(continued)*

### (a) Key management personnel *(continued)*

#### (ii) Key management personnel compensation *(continued)*

do not include any amounts directly attributable to the compensation of the directors of the Responsible Entity.

No compensation is paid directly by the Funds to directors or to any of the key management personnel of the Responsible Entity.

#### (iii) Key management personnel loan disclosures

The Funds have not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

#### (iv) Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time Vanguard Investments Australia Ltd or its director related entities may invest in or withdraw from the Funds. These investments or withdrawals are on the same terms

and conditions as those entered into by other Funds' investors and are trivial and domestic in nature.

### (b) Responsible Entity's fees and other transactions

Under the Constitution of the Fund, the Responsible Entity is entitled to receive management fees up to 1.5% of the net asset value of the Fund. In addition, a withdrawal fee being the greater of 0.5% of the withdrawal value and \$50 could be introduced and charged where units in the Fund are withdrawn.

The above limits do not take into account Goods and Services Tax (GST).

In the current PDS for the Funds, the Responsible Entity has undertaken to limit the amount of its management fees and certain expense recoveries to a 'management cost' as specified below. The amounts shown take into account GST and any expected Input Tax Credits.

	Management costs	
	2012	2011
	% per annum	% per annum
Vanguard Australian Large Companies Index Fund	0.20	0.20
Vanguard Australian Small Companies Index Fund	0.30	0.30

The transactions during the period and amounts payable at period end between the Funds and the Responsible Entity were as follows:

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
Fees paid and payable for the period by the Fund to the Responsible Entity	13,925	997	18,839	1,496
Aggregate amounts payable to the Responsible Entity at the reporting date	1,173	804	1,452	1,206

### (c) Related party schemes' unitholdings

Vanguard Investments Australia Ltd did not hold any units in the Funds during the period.

### (d) Key management personnel unitholdings

The key management personnel of Vanguard Investments Australia Ltd (VIA) did not hold any units in the Funds during the period.

### (e) Related Party investments

The Funds had no investment in Vanguard Investments Australia Ltd during the period.

The Funds did not hold any investment in other Schemes managed by Vanguard Investments Australia Ltd during the period.

Other Schemes managed by Vanguard Investments Australia Ltd did not hold any units in the Funds during the period.

# Notes to the financial statements *(continued)*

For the period ended 30 June 2012

## 13. Related parties *(continued)*

### (f) Other transactions within the Funds

Apart from those details disclosed in this note, no key management personnel of the Responsible Entity has entered into a material contract with the Funds since

the end of the previous financial year and there were no material contracts involving directors' interest subsisting at year end.

## 14. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

### (a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Vanguard Australian Large Companies Index Fund		Vanguard Australian Small Companies Index Fund	
	2012	2011	2012	2011
	\$	\$	\$	\$
Profit/(loss) for the period	–	–	–	–
Increase/(decrease) in net assets attributable to unitholders	<b>(701,307)</b>	(20,793)	<b>(1,176,378)</b>	(174,889)
Distributions paid and payable	<b>281,827</b>	1,237	<b>222,292</b>	45,034
Proceeds from sale of financial instruments held and designated at fair value through profit or loss	<b>429,580</b>	19,749	<b>1,431,803</b>	403,532
Purchases of financial instruments held and designated at fair value through profit or loss	<b>(3,454,623)</b>	(5,014,529)	<b>(4,280,288)</b>	(5,407,442)
Net gains/(losses) on financial instruments held and designated at fair value through profit or loss	<b>755,895</b>	33,039	<b>1,176,820</b>	154,242
Net change in receivables and other assets	<b>(56,705)</b>	(14,043)	<b>(689)</b>	(24,077)
Net change in payables and other liabilities	<b>653</b>	804	<b>246</b>	1,206
Net cash inflow/(outflow) from operating activities	<b>(2,744,680)</b>	(4,994,536)	<b>(2,626,194)</b>	(5,002,394)

### (b) Non-cash financing activities

As described in Note 2(h), non-distributable income is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (i.e. taxable).

## 15. Segment information

The Funds are organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no segment reporting is provided in the Funds' financial statements.

### Geographical exposures

The Funds operate from Australia only (the geographical segment) and have no investment exposures in other countries.

## 16. Events occurring after the balance sheet date

There are no significant events that have occurred since balance date which would impact on the financial position of the Funds as disclosed in the balance sheet as at 30 June 2012 or on the results and cash flows of the Funds for the year ended on that date.

Investors should be aware that markets and currencies can be volatile, therefore affecting the returns of an investment portfolio. You can obtain up to date fund performance and unit price information by visiting the Vanguard website at [www.vanguard.com.au](http://www.vanguard.com.au).

## 17. Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2012 and 30 June 2011 for the Funds.

## Directors' Declaration

In the opinions of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 8 to 33 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of each Fund's financial position as at 30 June 2012 and of its performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



J M James  
*Managing Director*  
Melbourne  
31 August 2012



## **Independent auditor's report to the unitholders of the Vanguard Wholesale Index Funds (Domestic ETF):**

- Vanguard Australian Large Companies Index Fund
- Vanguard Australian Small Companies Index Fund

### ***Report on the financial report***

We have audited the accompanying financial report of Vanguard Wholesale Index Funds (Domestic ETF) (the Funds), which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Funds.

### ***Directors' responsibility for the financial report***

The directors of the Responsible Entity for the Funds are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Vanguard Wholesale Index Funds (Domestic ETF) is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Funds' financial position as at 30 June 2012 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the Funds' financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

### *Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report of the Funds for the year ended 30 June 2012 included on Vanguard Investments Australia Ltd (Vanguard Australia) web site. The Vanguard Australia directors are responsible for the integrity of the Vanguard Australia web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'JF Power'.

JF Power  
Partner

Melbourne  
31 August 2012

**Responsible Entity**

Vanguard Investments Australia Ltd

ABN 72 072 881 086

AFSL 227263

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Past performance is not an indication of future performance. In preparing this Annual Report, individual circumstances, for example tax implications, have not been taken into account and it may, therefore, not be applicable to an individual's situation. Before making an investment decision, you should consider your circumstances and whether the information contained in the Annual Report is applicable to your situation. This Annual Report was prepared in good faith and we accept no liability for any errors or omissions.

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