

Vanguard® LifeStrategy® Conservative Growth Fund

As of December 31, 2009

Product Summary

- Balanced allocation: 25%–50% stocks, 30%–55% bonds, 20%–45% short-term reserves.
- Seeks current income and low-to-moderate capital appreciation.
- Highly diversified, fund of funds structure.
- 55% indexed; 45% actively managed.
- Simple to use and automatically rebalanced.

People and Process

Vanguard LifeStrategy Conservative Growth Fund is one of four Vanguard life-cycle funds that use target allocation as a simplified approach to meeting investors' different objectives and risk tolerances. Rooted in asset allocation theory, Vanguard LifeStrategy Conservative Growth Fund seeks income and low-to-moderate capital appreciation by investing in five other Vanguard funds: 30% Total Bond Market II Index Fund; 25% Asset Allocation Fund; 20% Total Stock Market Index Fund; 20% Short-Term Investment-Grade Fund; and 5% Total International Stock Index Fund. The fund's asset allocation shifts within the narrow ranges of 25%–50% stocks, 30%–55% bonds, and 20%–45% short-term reserves. Allocation changes are the result of the 25% investment in Vanguard Asset Allocation Fund, which employs tactical management. The combination of five Vanguard funds produces a portfolio that is highly diversified by asset class, management style, and holdings.

Vanguard LifeStrategy Funds were established and are monitored by the officers of Vanguard STAR® Fund under the direction of STAR Fund trustees. Vanguard Quantitative Equity Group, Vanguard Fixed Income Group, and Mellon Capital Management manage the underlying funds.

Quarterly Commentary

- Global equity markets advanced during the fourth quarter, finishing a strong year for equity investors worldwide. Despite elevated unemployment, U.S. stocks were no exception as investors continued to focus on positive news such as improving home prices and forecasts for positive GDP growth in 2010. The MSCI® All Country World Index, a broad measure of the global equity market, returned 4.72% for the fourth quarter. The MSCI US Broad Market Index, a barometer for domestic stocks, returned 5.86%, while the Barclays Capital U.S. Aggregate Bond Index, a broad measure of the investment-grade fixed income market, gained 0.20%.
 - The four LifeStrategy Funds posted gains for the quarter. The more aggressive funds, with greater equity exposure, fared best as stocks outperformed bonds during the period. Similarly, for the 12 months ended December 31, all four funds had positive returns with the more aggressive funds outperforming.
 - Vanguard Total Bond Market II Index Fund, a component of all four LifeStrategy Funds, returned 0.24% for the quarter. The Total Bond Market II Fund, which was launched in January, does not yet have a 12-month return; however, its predecessor in the LifeStrategy portfolios—Vanguard Total Bond Market Index Fund—returned 5.93% for the full-year period.
- Vanguard Short-Term Investment-Grade Fund, which serves as a component of the two more conservative LifeStrategy Funds, returned 1.28% for the quarter and 14.03% for the year.
- Each LifeStrategy Fund invests approximately 25% of its assets in Vanguard Asset Allocation Fund. The Asset Allocation Fund's advisor employs a quantitative model to evaluate the relative attractiveness of U.S. stocks versus U.S. bonds and cash. Despite shifting to a more conservative mix of 70% stocks and 30% bonds during the quarter, the advisor continued to maintain an overweight allocation to equities relative to the fund's "neutral" mix of 65% stocks and 35% bonds. At quarter end, the model's expected equity risk premium was 4.1%, still above the long-term average of approximately 3.7%. The fund returned 2.94% for the quarter and 17.92% for the 12-month period.
 - Vanguard Total Stock Market Index Fund, which is also a component of each LifeStrategy Fund, returned 5.85% for the quarter and 28.70% for the 12 months.
 - Vanguard Total International Stock Index Fund, a component of three of the LifeStrategy Funds, returned 3.17% for the quarter and 36.73% for the year.
- All returns are for Investor Shares.

Total Returns

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
LifeStrategy Conservative Growth Fund (9/30/1994)	2.44%	17.06%	17.06%	0.26%	3.10%	3.64%
Conservative Growth Composite Index	2.52	16.51	16.51	1.89	3.81	3.65

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: Conservative Growth Composite Index: Weighted 40% Lehman U.S. Aggregate Bond Index, 35% Dow Jones Wilshire 5000 Index, 20% Citigroup 3-Month Treasury Index, and 5% MSCI EAFE Index through August 31, 2003; 40% Lehman U.S. Aggregate Bond Index, 35% Dow Jones Wilshire 5000 Index, 20% Lehman 1-3 Year U.S. Credit Index, and 5% MSCI EAFE Index through April 22, 2005; and 40% Barclays Capital U.S. Aggregate Bond Index, 35% MSCI US Broad Market Index, 20% Barclays Capital U.S. 1-3 Year Credit Bond Index, and 5% MSCI EAFE Index thereafter. MSCI EAFE index returns are adjusted for withholding taxes applicable to Luxembourg holding companies.

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Quarterly Returns

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year-End		
					LifeStrategy Conservative Growth Fund	Conservative Growth Comp Index	Assets (Millions)
2009	-4.72%	9.44%	9.58%	2.44%	17.06%	16.51%	\$5,698
2008	-3.85	-1.39	-5.71	-9.98	-19.52	-14.86	4,806
2007	1.44	2.93	2.29	0.17	6.99	6.63	6,921
2006	2.45	-0.49	4.12	4.22	10.62	9.37	5,567
2005	-1.11	1.93	2.04	1.55	4.45	4.23	4,324
2004	2.48	-0.74	0.89	5.25	8.02	7.51	3,650
2003	-1.02	9.02	1.98	5.93	16.57	14.57	2,924
2002	0.43	-3.78	-6.74	5.02	-5.37	-4.10	2,193
2001	-3.87	3.43	-4.10	4.78	-0.08	-0.64	2,026
2000	3.17	-0.51	1.33	-0.86	3.12	1.11	1,897
1999	1.23	2.19	-1.47	5.83	7.86	9.90	1,748

Fund Facts

Fund Number	0724
Ticker	VSCGX
Newspaper Listing	LifeCon
CUSIP Number	921909305
Assets (millions)	\$5,698
Inception	9/30/1994
Expense Ratio	—
SEC 30-Day Yield	2.43%
Average Weighted Expense Ratio (as of 10/2008)	0.22%

Risk Statement

The fund's balanced allocation across stocks, bonds, and short-term reserves limits exposure to any particular asset class. Equity and bond holdings are primarily focused on tracking broad market indexes, resulting in a highly diversified portfolio. Vanguard Short-Term Investment-Grade Fund (20% of fund assets) is actively managed and subject to manager and income risk. The fund's 25% tactical allocation component, Vanguard Asset Allocation Fund, is subject to manager risk.

Fund Asset Allocation

	% of Total Net Assets
Stock	42.4%
Bond	37.5
Short-term reserves	20.1
Total	100.0%

Volatility Measures

	R-squared	Beta
Conservative Growth Composite Index	0.99	1.16
Dow Jones U.S. Total Stock Market Index	0.95	0.52

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

Allocation to Underlying Vanguard Funds

	% of Total Net Assets
Vanguard Total Bond Market II Index Fund Investor Shares	30.2%
Vanguard Asset Allocation Fund Investor Shares	24.9
Vanguard Short-Term Investment-Grade Fund Investor Shares	20.0
Vanguard Total Stock Market Index Fund Investor Shares	19.9
Vanguard Total International Stock Index Fund	5.0
Total	100.0%

Disclosures

Past performance—especially short-term past performance—cannot be used to predict future returns. Investment returns and principal value (with the exception of money market funds, which seek to maintain a stable \$1 per share net asset value) will fluctuate, so that 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 www.vanguard.com/performance.

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