Vanguard® LifeStrategy® Conservative Growth Fund

As of December 31, 2010

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

- U.S. equity markets continued their climb during the fourth quarter as investor sentiment improved with news of continued strength in corporate profitability, signs of progress in parts of the economy, and additional government stimulus. For the quarter, the MSCI U.S. Broad Market Index, a barometer for domestic stocks, returned 11.70%, and the MSCI All Country World ex US Index, a broad measure of international equity markets, returned 7.20% for the quarter. The Barclays Capital U.S. Aggregate Bond Index, a broad measure of the investment-grade fixed income market, lost –1.30%.
- All four LifeStrategy Funds finished the quarter in positive territory. The more aggressive funds with larger equity exposure fared better than those with a greater percentage of assets in fixed income, as stocks outperformed bonds for the period. For the 12 months ended December 31, all four LifeStrategy Funds posted gains, with the more aggressive funds earning double-digit returns.
- Vanguard Total Bond Market II Index Fund, a component of all four LifeStrategy Funds, returned –1.32% for the quarter and 6.42% for the 12 months ended December 31. Vanguard Short-Term Investment-Grade Fund, a holding of the two more conservative LifeStrategy Funds, returned –0.08% for the quarter and 5.21% for the 12-month period.
- Each LifeStrategy Fund invests in Vanguard Total International Stock Index Fund, which returned 7.11% for the quarter and 11.12% for the year. International allocations to the LifeStrategy funds were increased to 30% of the total equity exposure, and for the first time in the fund's history, LifeStrategy Income Fund now has international equity exposure.
- Each LifeStrategy Fund invests approximately 20% of its assets in Vanguard Asset Allocation Fund. This fund's advisor employs a quantitative model to evaluate the relative attractiveness of U.S. stocks versus U.S. bonds and cash. During the quarter, the fund maintained an overweight position in equities relative to the benchmark's "neutral" mix, holding an allocation of 80% stocks and 20% bonds. At quarter-end, the model's expected equity risk premium was 4.4%. The fund returned 6.56% for the quarter and 15.50% for the 12-month period.
- Vanguard Total Stock Market Index Fund, another component of each LifeStrategy Fund, returned 11.66% for the quarter and 17.09% for the 12-month period.

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)	3.85%	11.14%	11.14%	1.54%	4.38%	4.42%
Conservative Growth Composite Index	3.83	10.34	10.34	3.06	5.00	4.56
Conservative Growth Fund Composite Average	4.56	10.44	10.44	1.84	3.84	3.58

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% Barclays Capital U.S. Aggregate Bond Index, 35% Dow Jones U.S. Total Stock Market Index, 20% Citigroup 3-Month Treasury Index, and 5% MSCI EAFE Index through August 31, 2003; 40% Barclays Capital U.S. Aggregate Bond Index, 35% Dow Jones U.S. Total Stock Market Index, 20% Barclays Capital 1–3 Year U.S. Credit Index, and 5% MSCI EAFE Index through April 22, 2005; 40% Barclays Capital U.S. Aggregate Bond Index through December 31, 2009, and Barclays Capital U.S. Aggregate Float Adjusted Index thereafter, 35% MSCI US Broad Market Index, 20% Barclays Capital U.S. 1–3 Year Credit Bond Index, and 5% MSCI EAFE Index through December 15, 2010; and 40% Barclays Capital U.S. Aggregate Float Adjusted Index, 28% MSCI US Broad Market Index, 20% Barclays Capital U.S. 1–3 Year Credit Bond Index, and 12% MSCI ACWI ex USA IMI Index thereafter.

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Quarterly Returns

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year-End LifeStrategy Conservative Growth Fund	Year-End Conservative Growth Composite Index	Assets (Millions)
2010	3.33%	-3.09%	6.87%	3.85%	11.14%	10.34%	$6,435
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	-0.65	2,026
2000	3.17	-0.51	1.33	-0.86	3.12	1.13	1,897

Fund Facts

Fund Number	0724
Ticker	VSCGX
Newspaper Listing	LifeCon
CUSIP Number	921909305
Assets (millions)	$6,435
Inception	9/30/1994
Expense Ratio	—
SEC 30-Day Yield	2.31%
Average Weighted Expense Ratio (as of 10/2009)	0.24%

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	43.8%
Bond	35.5
Short-term reserves	20.7
Total	**100.0%**

Volatility Measures

	R-squared	Beta
Conservative Growth Composite Index	0.99	1.13
Dow Jones U.S. Total Stock Market Index	0.94	0.49

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	31.2%
Vanguard Short-Term Investment-Grade Fund Investor Shares	21.0
Vanguard Asset Allocation Fund Investor Shares	20.1
Vanguard Total Stock Market Index Fund Investor Shares	15.4
Vanguard Total International Stock Index Fund	12.3
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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