

City of Los Angeles Deferred Compensation Plan

November 30, 2016

Agenda

- I. Vanguard overview
- II. Investment performance summary
- III. Equity indexing at Vanguard
- IV. Vanguard Institutional Index Fund
Institutional Plus Shares
- V. Vanguard Mid-Cap Index Fund
Institutional Plus Shares
- VI. Vanguard Small-Cap Index Fund
Institutional Plus Shares

Presented by:

Edward McGettigan, CIMA®
Relationship Executive
Institutional Investor Group

Walter Lenhard, CFA
Senior Investment Strategist
Equity Index Group

Vanguard overview

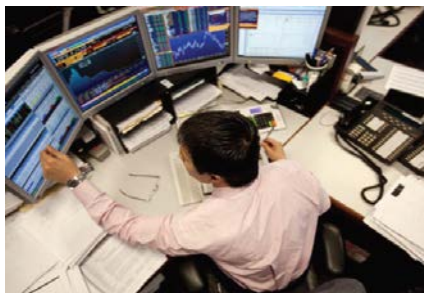
Vanguard overview: Client-owned* market leader

Vanguard profile



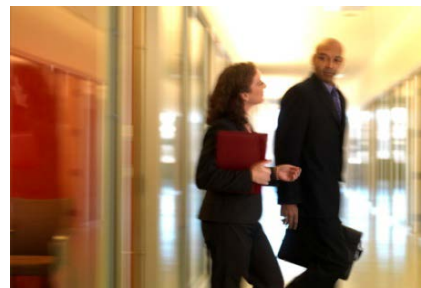
- No outside owners: Serving only our clients' interests provides a distinct client advantage*
- Investments' low costs often provide a distinct investor advantage
- 13305 crew based at headquarters in Pennsylvania, as well as in Arizona and North Carolina
- Growing international operations

Market leadership



- \$3.4 trillion in assets under management, 63% of which is institutional and intermediary assets
- \$1.4 trillion of that in retirement assets (\$957 billion in Institutional retirement plans, as well as plans through advisors and retail IRAs)**
- Broad lineup of 170 funds (with many ETF offerings) as well as commingled trusts

Retirement leader



- One of the first to offer plan design features such as autoescalation and online Roth in-plan conversions
- Comprehensive mobile app for participants and one of the first to offer app transactions
- Recognized for sponsor analytics: kasina website study 2014
- #1 on Google+, YouTube, Twitter, and Facebook†

Investment management



- 41 years of investment experience; roots extend back to the founding of Wellington™ Fund in 1929
- Unusual combination of in-house expertise and external managers
- Active equity: featuring leading institutional subadvisors
- Index equity: internal management provides state-of-the-art execution
- Fixed income: offering deep expertise and risk management

Data as of June 30, 2016.

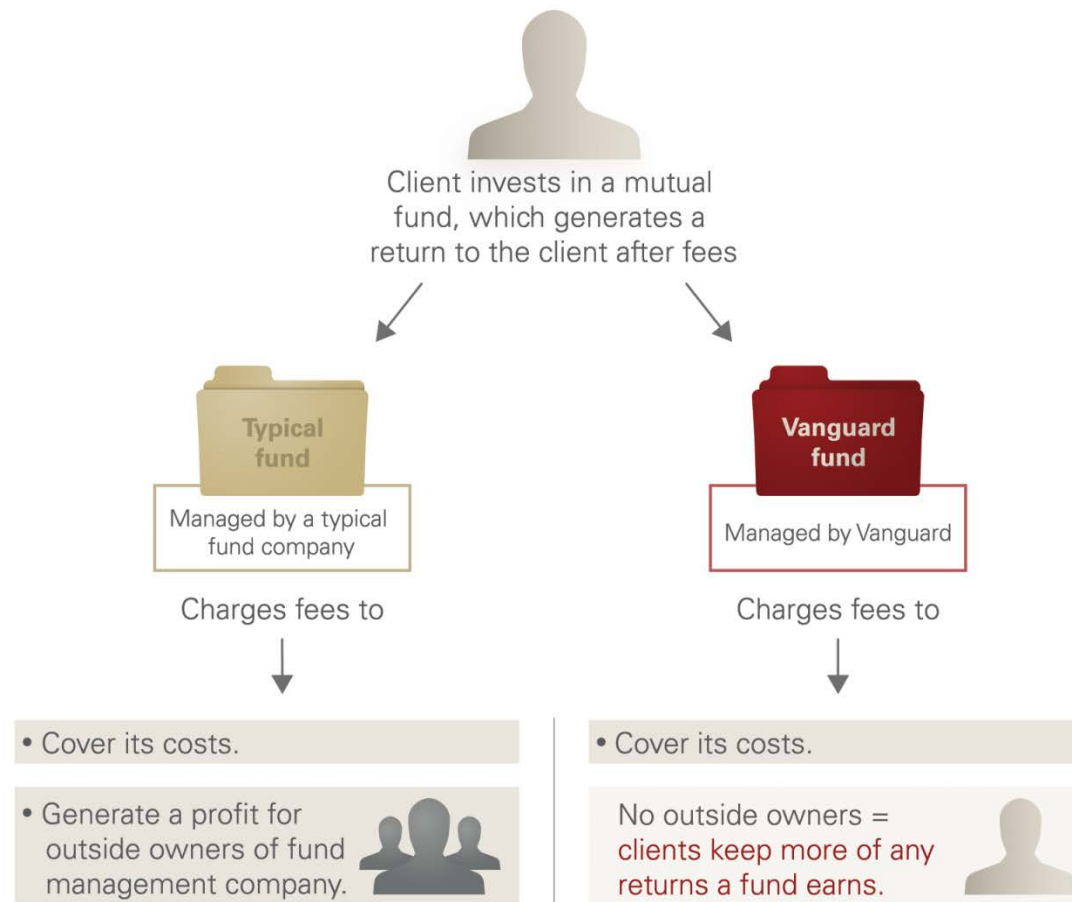
* Vanguard is client-owned. Client-owned means fund shareholders own the funds, which own Vanguard.

** Assets under administration.

† Sources: kasina and Corporate Insight.

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Vanguard is different from the rest—and here's how your participants benefit



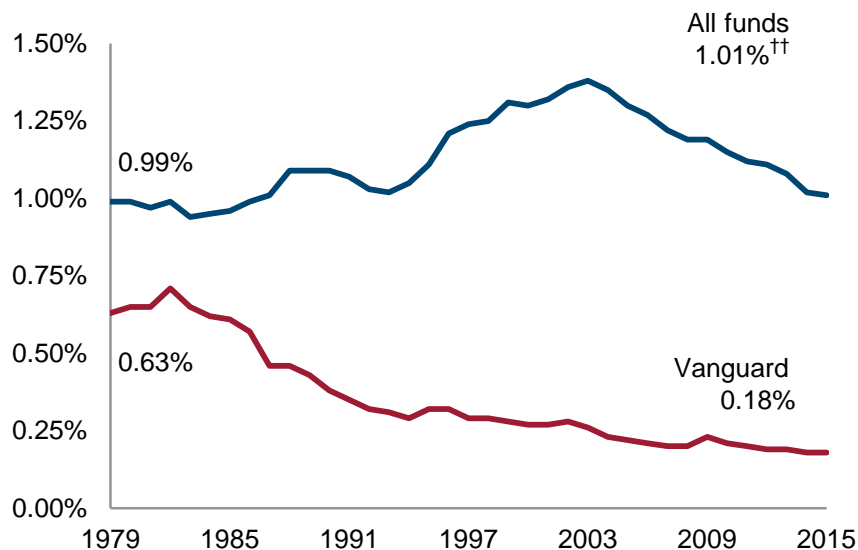
The typical fund management company is owned by third parties, either public or private stockholders, not by the funds it serves. The fund management companies have to charge fund investors fees that are high enough to generate profits of the companies' owners. In contrast, the Vanguard funds own the management company known as Vanguard—a unique arrangement that eliminates conflicting loyalties. Under its agreement with the funds, Vanguard must operate “at-cost”—it can charge the funds only enough to cover its cost of operations. No wonder Vanguard's average fund expense ratio in 2015 was 0.18%, less than one-fifth that of the 1.01% industry average*. That means Vanguard fund investors keep more of any return their funds earn.

* Sources: Vanguard and Lipper, a Thomson Reuters Company, as of December 31, 2015.

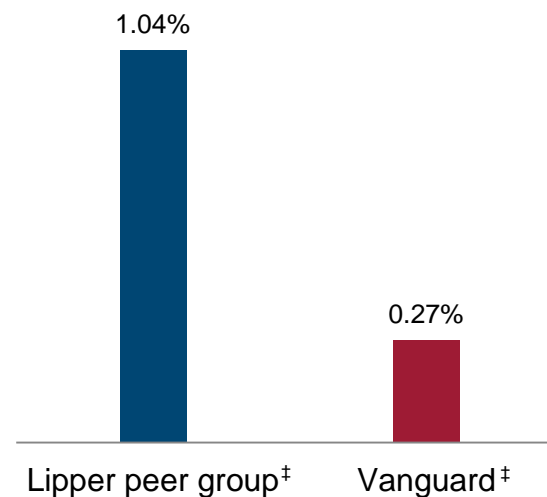
Investments can drive plan expenses, so low costs matter

83 basis points on \$3.4 trillion in mutual fund assets under management* could translate into approximately \$28.9 billion in savings**

Average expense ratios†



The active expense ratio advantage



Annual expense ratios as of December 31, 2015. Vanguard expense ratios range from 0.02% to 1.64%.

Note: There are significant differences between investments and expense ratio is only one of them.

* Assets under management are as of June 30, 2016.

** This hypothetical illustration does not represent any particular investment and only holds true if the returns are identical. There is no assurance that individual investors will experience similar savings. Calculation: 83 basis points comes from subtracting the Vanguard average expense ratio of 0.18% from the industry average expense ratio of 1.01%. This number is then multiplied by Vanguard's assets under management of \$3.4 trillion to get the result of \$28.9 billion in savings.

† Represented as a percentage of net assets.

†† Source: Lipper, a Thomson Reuters Company.

‡ Sources: Lipper, a Thomson Reuters Company and Vanguard. Data derived from the industry average expense ratio for all actively managed funds within the Lipper Peer Group and average expense ratio for all Vanguard actively managed funds.

“To take a stand for all investors,
treat them fairly, and give them the best chance
for investment success.”

Vanguard's core purpose



Investment performance summary

Investment performance returns

Annualized (as of 09/30/2016)

Fund/Index/Average	Expense ratio* (%)	Three months (%)	Year-to-date (%)	One year (%)	Three years (%)	Five years (%)	Ten years (%)	Since inception (%)
Vanguard Institutional Index Fund Institutional Plus Shares (07/07/1997)	0.02	3.85	7.83	15.43	11.16	16.37	7.26	6.63
<i>S&P 500 Index</i>		3.85	7.84	15.43	11.16	16.37	7.24	—
<i>Large-Cap Core Funds Average</i>		3.72	6.01	12.38	8.83	14.49	5.89	—
Vanguard Mid-Cap Index Fund Institutional Plus Shares (12/15/2010)	0.05	5.19	8.90	12.67	9.93	16.56	—	11.95
<i>Spliced Mid Cap Index ¹</i>		5.21	8.92	12.68	9.96	16.58	8.24	—
<i>Mid-Cap Core Funds Average</i>		4.78	8.61	11.26	6.96	14.47	7.03	—
Vanguard Small-Cap Index Fund Institutional Plus Shares (12/17/2010)	0.05	6.16	11.52	14.99	7.95	16.74	—	11.21
<i>Spliced Small Cap Index ²</i>		6.15	11.47	14.93	7.91	16.68	8.35	—
<i>Small-Cap Core Funds Average</i>		6.98	10.25	13.01	5.76	14.38	6.21	—

The performance data shown represent past performance. Past performance is no guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at vanguard.com/performance. Some funds assess purchase, redemption, and/or account maintenance fees. The performance data shown do not reflect deduction of these fees. If they did, performance would be lower. Details on these fees and adjusted performance figures can be found in the fund detail section.

Source: Data derived from Lipper, a Thomson Reuters Company.

For some funds, fees are levied on purchases or redemptions to offset the costs of buying and selling portfolio securities. For others, fees are assessed on redemptions made within certain time periods after a purchase to discourage short-term trading. All purchase or redemption fees are paid directly to the fund to compensate long-term shareholders for the costs of trading activity. *Note that one-year performance figures are not fee-adjusted for fees incurred on shares held less than one year.*

* Expense ratio data is as of the fund's most recent prospectus.

¹ S&P MidCap 400 Index through May 16, 2003; MSCI US Mid Cap 450 Index through January 30, 2013; CRSP US Mid Cap Index thereafter.

² Russell 2000 Index through May 16, 2003; MSCI US Small Cap 1750 Index through January 30, 2013; CRSP US Small Cap Index thereafter.

³ Barclays U.S. Aggregate Bond Index through December 31, 2009; Barclays U.S. Aggregate Float Adjusted Index thereafter.

⁴ Intermediate US Gov't Funds Average through December 31, 2001; Interm Inv-Grade Debt Funds Avg through August 31, 2013; Core Bond Funds Average thereafter.

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Equity indexing at Vanguard

Not all indexers are created equal

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Client-specific data is considered CONFIDENTIAL.



Vanguard

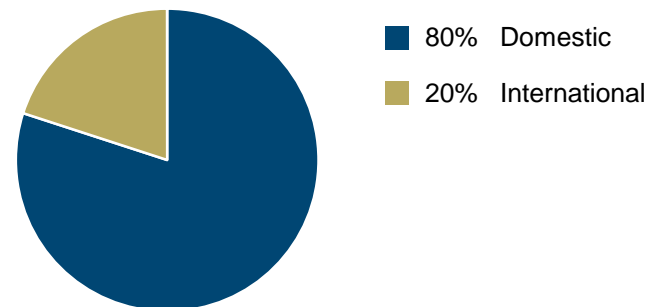
Who we are: Equity Investment Group

Vanguard Equity Investment Group (EIG) manages assets consistent with the highest fiduciary and professional standards of prudence and integrity. We will seek out investment opportunities to maximize the total returns of our funds subject to the specific fund's investment objective and rigorous risk control.

Key facts

- Assets under management: \$1.9 trillion
- 276 portfolios tracking more than 70 indexes*
- Benchmarks: Standard & Poor's, Russell, MSCI, FTSE, and CRSP
- Average portfolio manager tenure: 15 years*
- Average expense ratio: 0.10%**

Equity index asset distribution



Source: Vanguard, as of June 30, 2016.

Note: Detail may not sum to totals because of rounding.

* As of December 31, 2015

** Asset-weighted expense ratio for all Vanguard equity index funds.

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An experienced equity indexing team



Tim Buckley
Chief Investment Officer
20+ years at Vanguard



Joseph Brennan, CFA
Head of Equity Indexing
20+ years at Vanguard



Ryan Ludt
Index Equity
15+ years of investment experience
15+ years at Vanguard



Duane Kelly
Index Equity
20+ years of investment management experience
20+ years at Vanguard



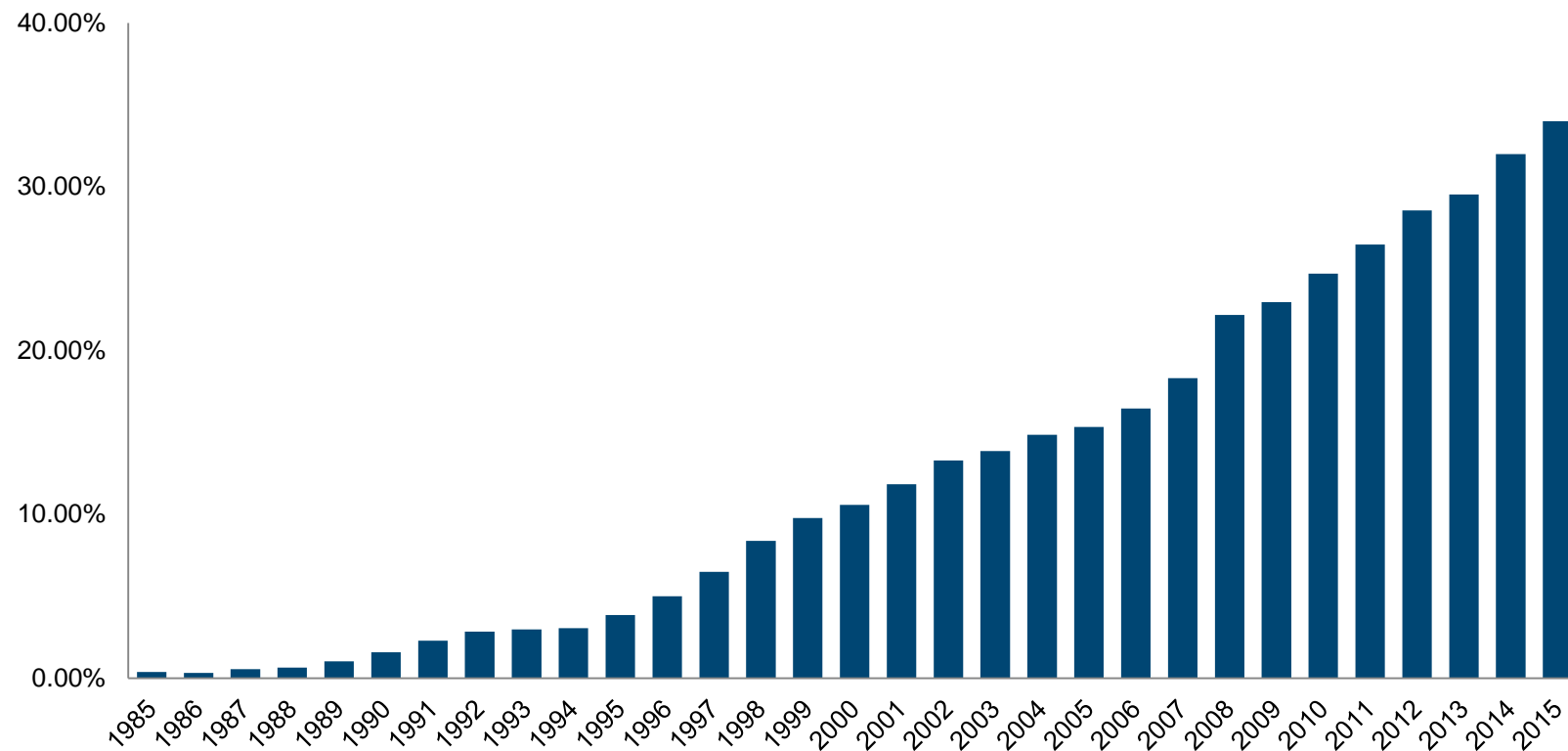
Mike Buek, CFA
Index Equity
20+ years of investment management experience
20+ years at Vanguard



Walter Lenhard, CFA
Senior Investment Strategist
20+ years of investment management experience
20+ years at Vanguard

Indexing has earned investors' trust

Indexing now accounts for 34% of equity fund assets (\$3.47 trillion)



Note: This includes ETF and mutual fund assets.

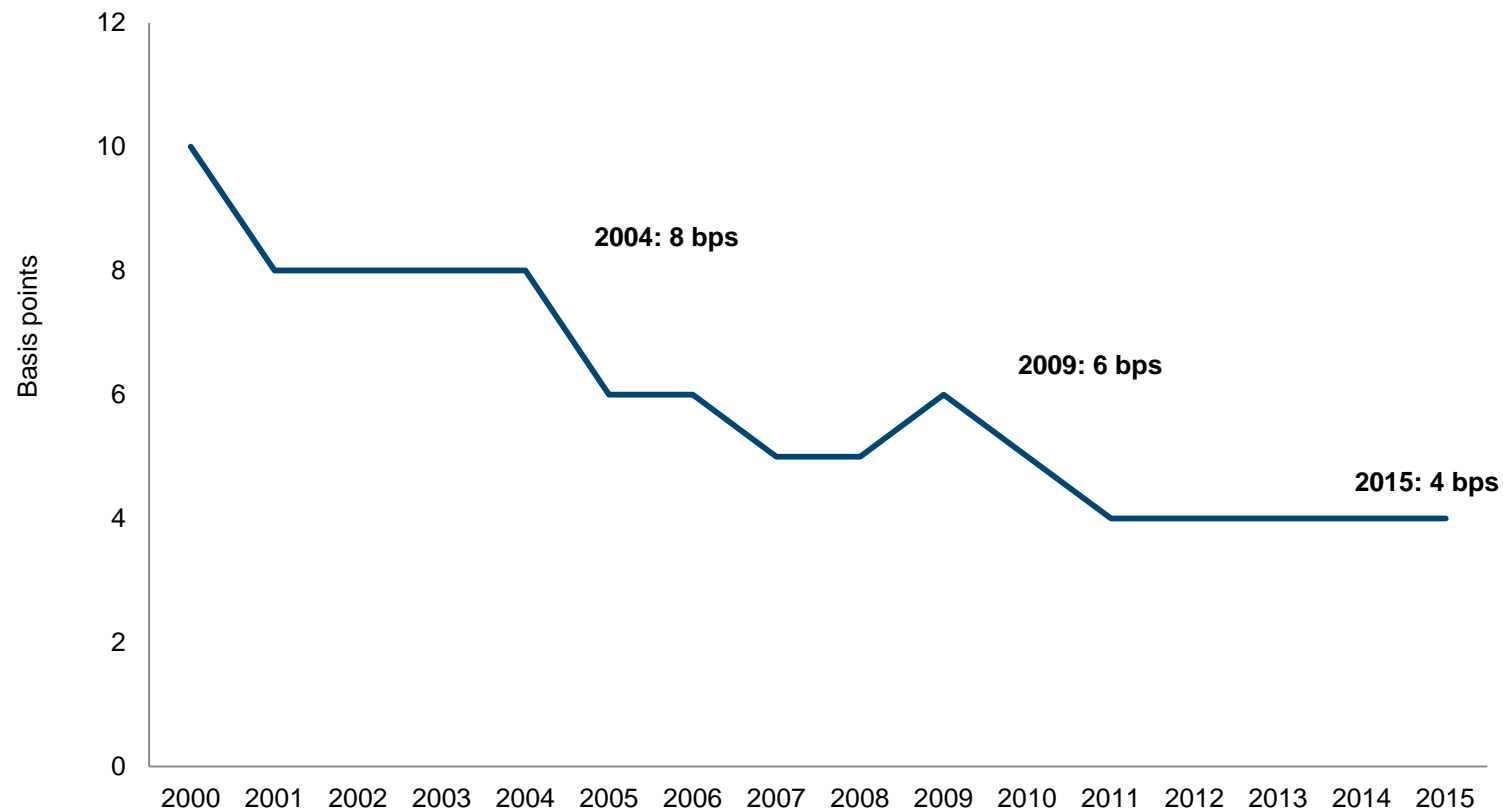
Source: *Strategic Insight*, as of December 31, 2015.

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Historical expense ratios

Vanguard has set the standard for low-cost investing

Total Stock Market Index Institutional Share Class



Source: Vanguard, as of December 31, 2015.

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Global Collaboration

Investment and IT teams collaborate with global stakeholders in their designated workflow



Portfolio
Management



Risk Management



Order Management



Data Management

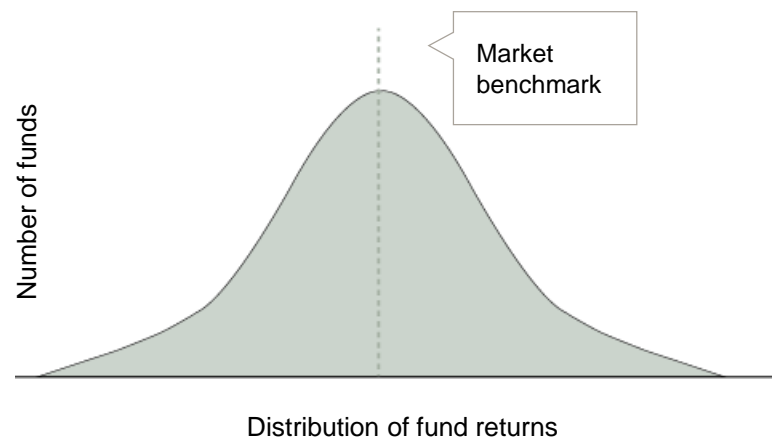


IBOR
Corporate Actions
Post Trade
Reconciliations



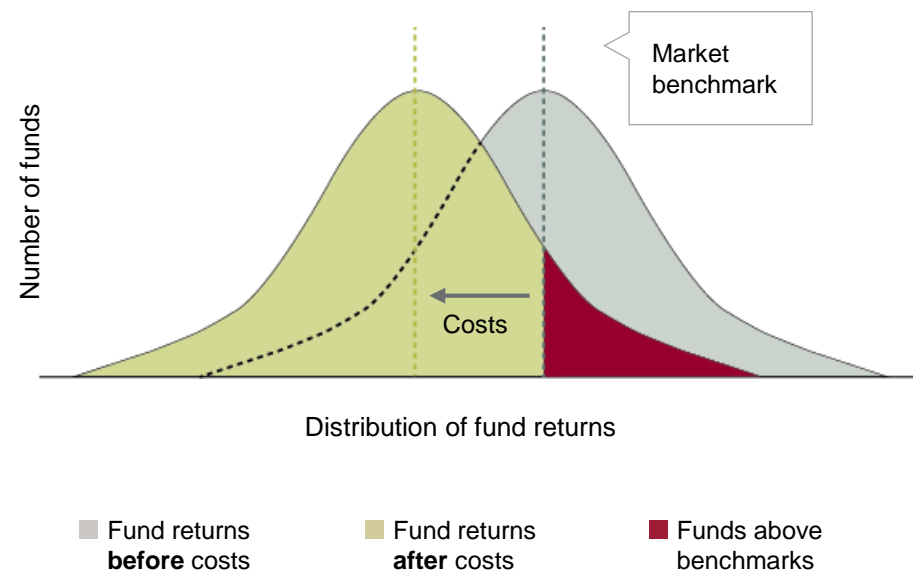
The key to indexing: Low costs

Investing is a zero-sum game before costs



The holdings of all investors aggregate to form a market. Outperformance by one investor necessarily means underperformance by another.

Investing is a negative-sum game after costs

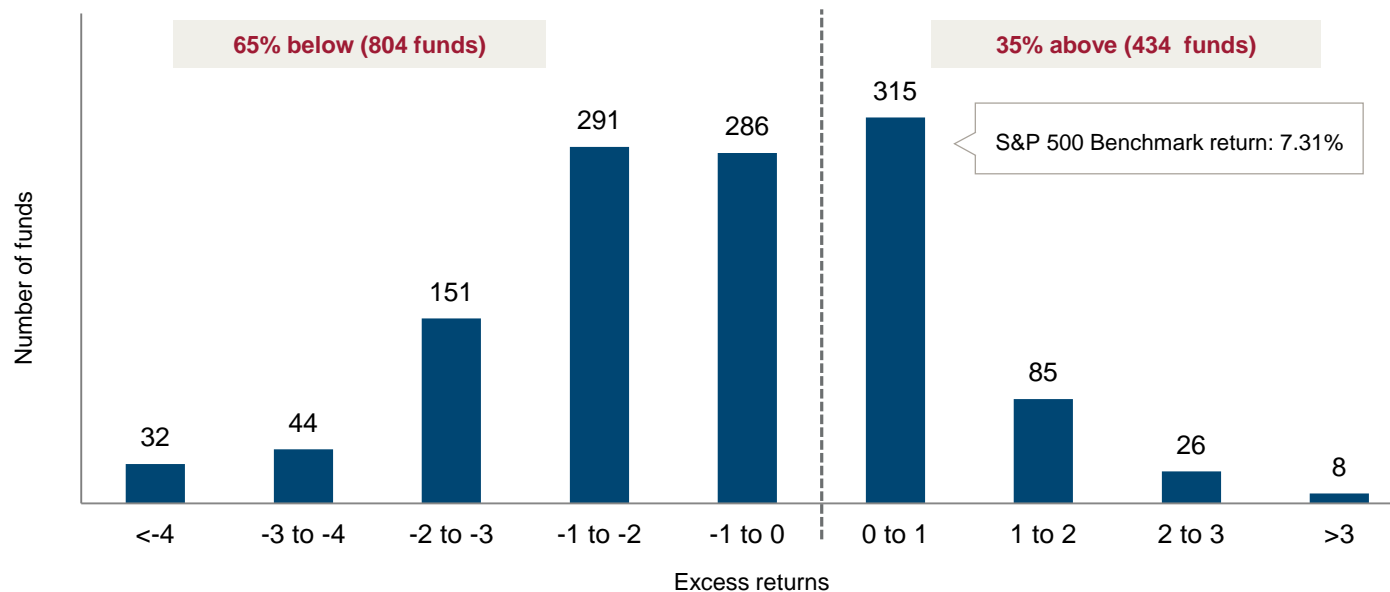


After costs, a majority of investors will underperform the market benchmark. The key to long-term, consistent success is low-cost investing.

Real-world results

65% of actively managed large-cap funds lagged the S&P 500 Index over ten years

Large-cap funds versus S&P 500



Sources: Vanguard calculations, using data from S&P, as of December 31, 2015.

Past performance is not a guarantee of future returns.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Note that most index funds underperform their benchmarks due to fees.

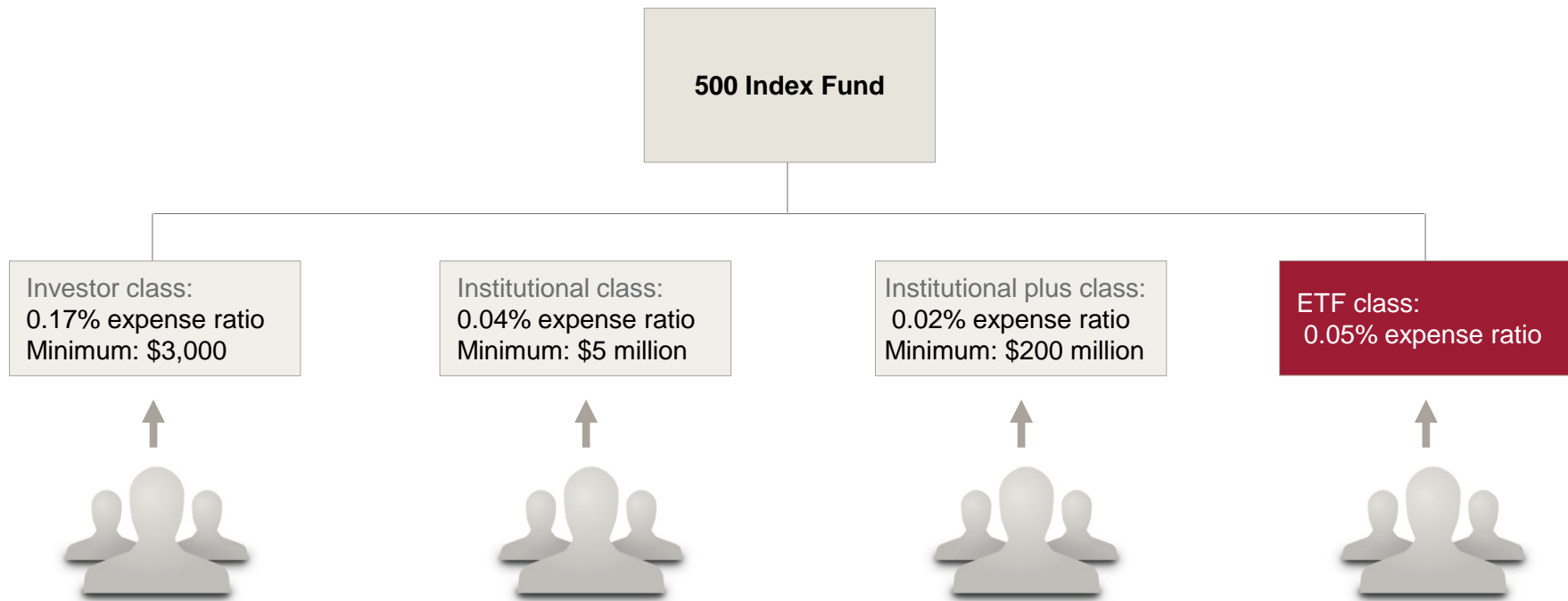
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Benchmark selection

Vanguard's rigorous benchmark selection process evaluates **turnover**, **market representation**, and **index construction** to determine which indexes can best serve our clients.

S&P	CRSP	Russell	FTSE	MSCI
500	Total Market	1000	All-World	IMI Consumer Discretionary 25/50
500 Growth	Mega-cap	1000 Growth	All-World ex US	IMI Consumer Staples 25/50
500 Value	Mega-cap Growth	1000 Value	Developed Asia Pacific	IMI Energy 25/50
Completion	Mega-cap Value	2000	Developed Europe	IMI Financials 25/50
Mid-cap 400	Large-cap	2000 Growth	Developed ex North America	IMI Health Care 25/50
Mid-cap 400 Growth	Large-cap Growth	2000 Value	Emerging	IMI Industrials 25/50
Mid-cap 400 Value	Large-cap Value	3000	Global All-Cap ex US	IMI Info Technology 25/50
Small-cap 600	Mid-cap	3000 Growth	Global Small-cap ex US	IMI Materials 25/50
Small-cap 600 Growth	Mid-cap Growth	3000 Value	High Dividend Yield	IMI Telecom Services 25/50
Small-cap 600 Value	Mid-cap Value		4Good US Select	IMI Utilities 25/50
	Small-cap			REIT
	Small-cap Growth			
	Small-cap Value			

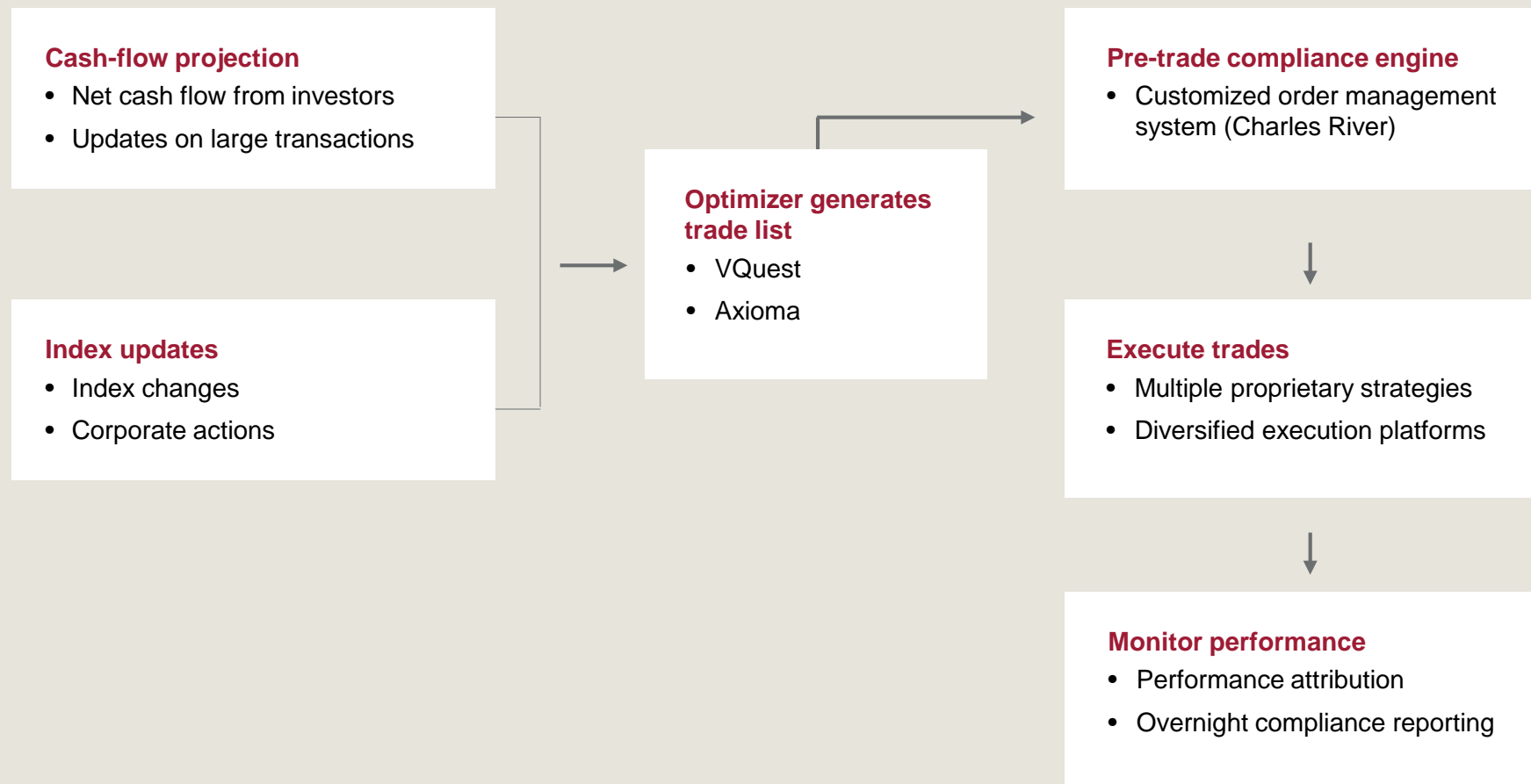
Vanguard share class structure



Share class benefits: Economies of scale | Low expense ratios | Patented ETF share class structure

Vanguard's equity indexing process

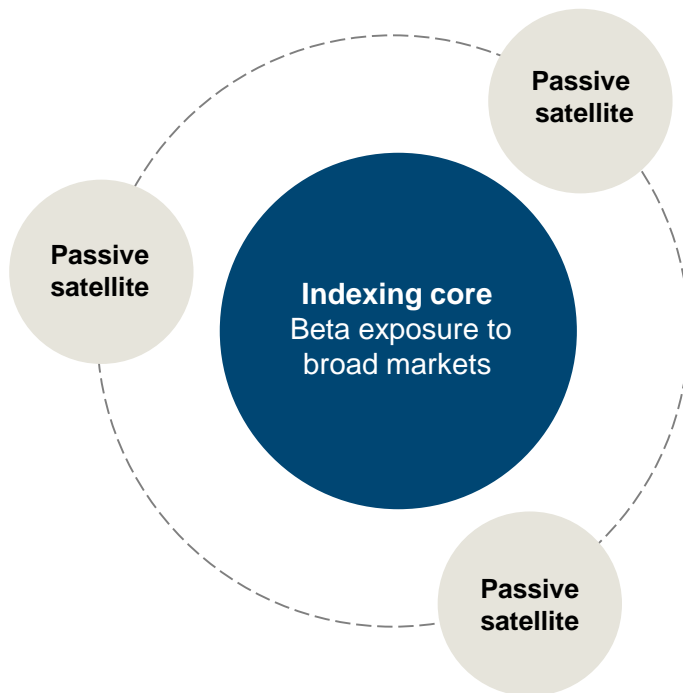
A day in the life of a Vanguard portfolio manager



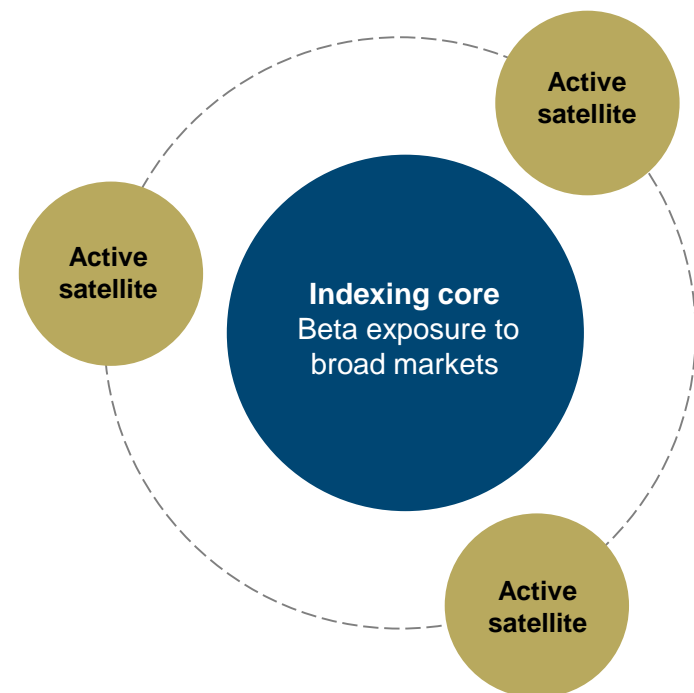
Implementing an indexing strategy

Two ways institutional investors use our funds

A passive-only approach

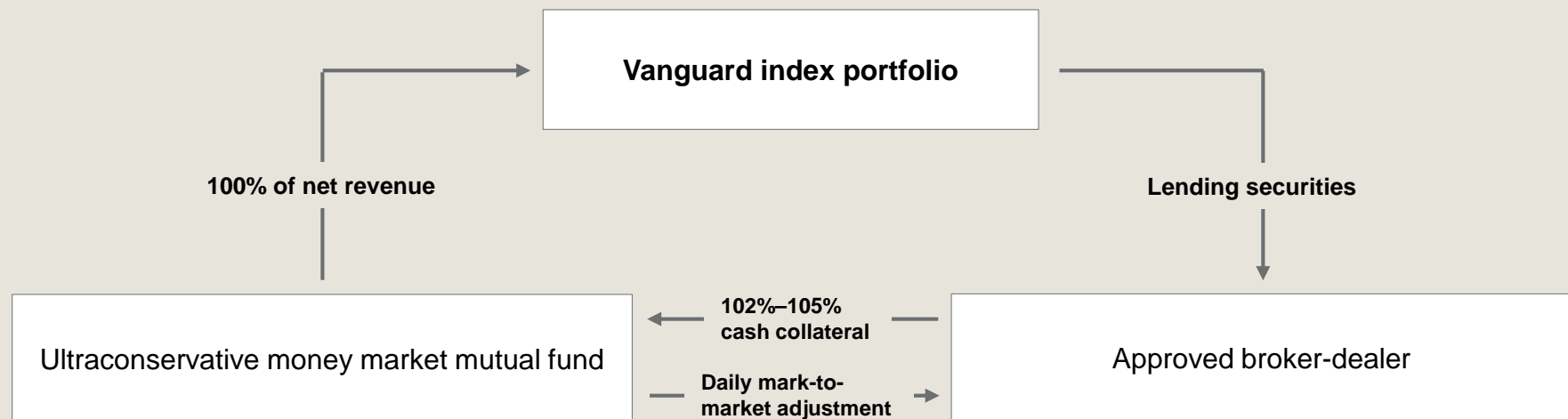


A combined active-passive approach



Securities lending

- Modest degree of securities lending (typically 0%–6% of fund's asset base)
- All net revenue returned to portfolios*
- Continuous credit analysis of borrowers



* Vanguard fund shareholders receive 100% of the revenue from securities lending after broker rebates, program costs, and agent fees.

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Fair-value pricing

Daily adjustment made to portfolio securities held by international index funds:

- Protects shareholders
- Ensures net asset value (NAV) reflects true value
- Discourages market-timing



This hypothetical example does not represent any particular investment.

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Why the world's leading institutions index with Vanguard

Performance

- History of tight tracking
- Consistency from disciplined process
- Comprehensive, independent risk management

Experience

- 30+ years managing index portfolios
- Low turnover in portfolio management
- Steady growth and economies of scale

Philosophy

- Client-owned* structure drives client-first business practices
- Time-tested commitment to low-cost investing
- Well-conceived core investment portfolios

* Vanguard is client-owned. As client owners, individual shareholders own the funds that own Vanguard.

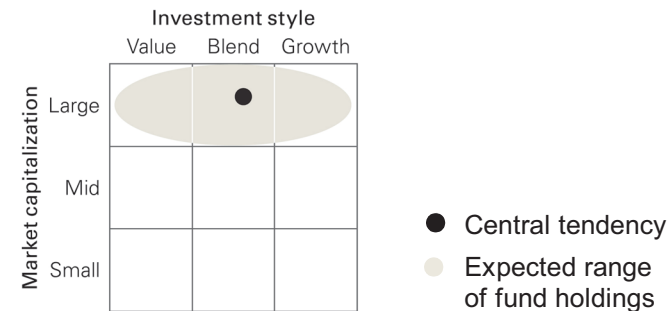
Vanguard Institutional Index Fund Institutional Plus Shares

Vanguard Institutional Index Fund (VIIIX)

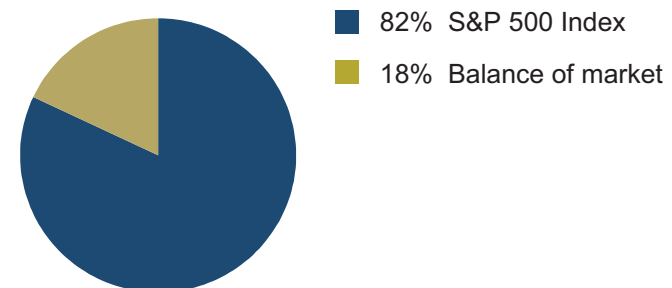
Product summary

- Seeks to track the performance of the Standard & Poor's 500 Index.
- U.S. large-cap equity diversified across growth and value styles.
- Passively managed, full-replication approach.
- Fund remains fully invested.
- Low expenses minimize net tracking error.
- Fund assets (in millions): \$208,758
 - Institutional Plus Shares assets: \$92,984
- Fund inception date: 07/31/1990
 - Institutional Plus Shares inception date: 07/07/1997
- Institutional Plus Shares expenses (in basis points): 2.0
Expense ratio as reported in the most recent prospectus.
- CUSIP: 922040209

Investment focus



Share of U.S. stock market* (%)



* As measured by the MSCI US Broad Market Index.
All data as of September 30, 2016, unless otherwise noted.

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Vanguard Equity Index Group—Firm Overview

Vanguard Equity Index Group (EIG) manages assets consistent with high fiduciary and professional standards.

Key Facts

- Assets under management: \$1.9 trillion
- 125 portfolios tracking more than 70 indexes
- Benchmarks: Standard & Poor's, Russell, MSCI, FTSE, and CRSP
- 40 investment professionals
- Average portfolio manager tenure: 16 years
- Average expense ratio: 0.10%*

Vanguard Institutional Index Fund

Portfolio Management

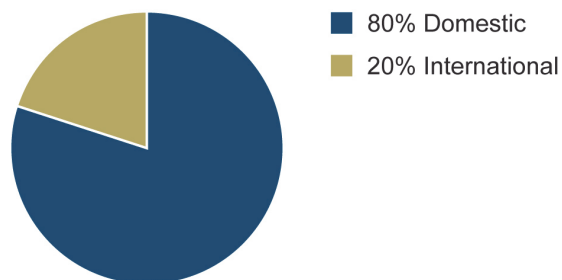
Donald M. Butler, CFA, Principal

- Portfolio manager.
- Advised the fund since 2000.
- Worked in investment management since 1997.
- B.S.B.A., Shippensburg University.

Scott E. Geiger, CFA

- Portfolio manager.
- Advised the fund since 2016.
- Worked in investment management since 2008.
- B.S., Millersville University.

Equity Index Asset Distribution



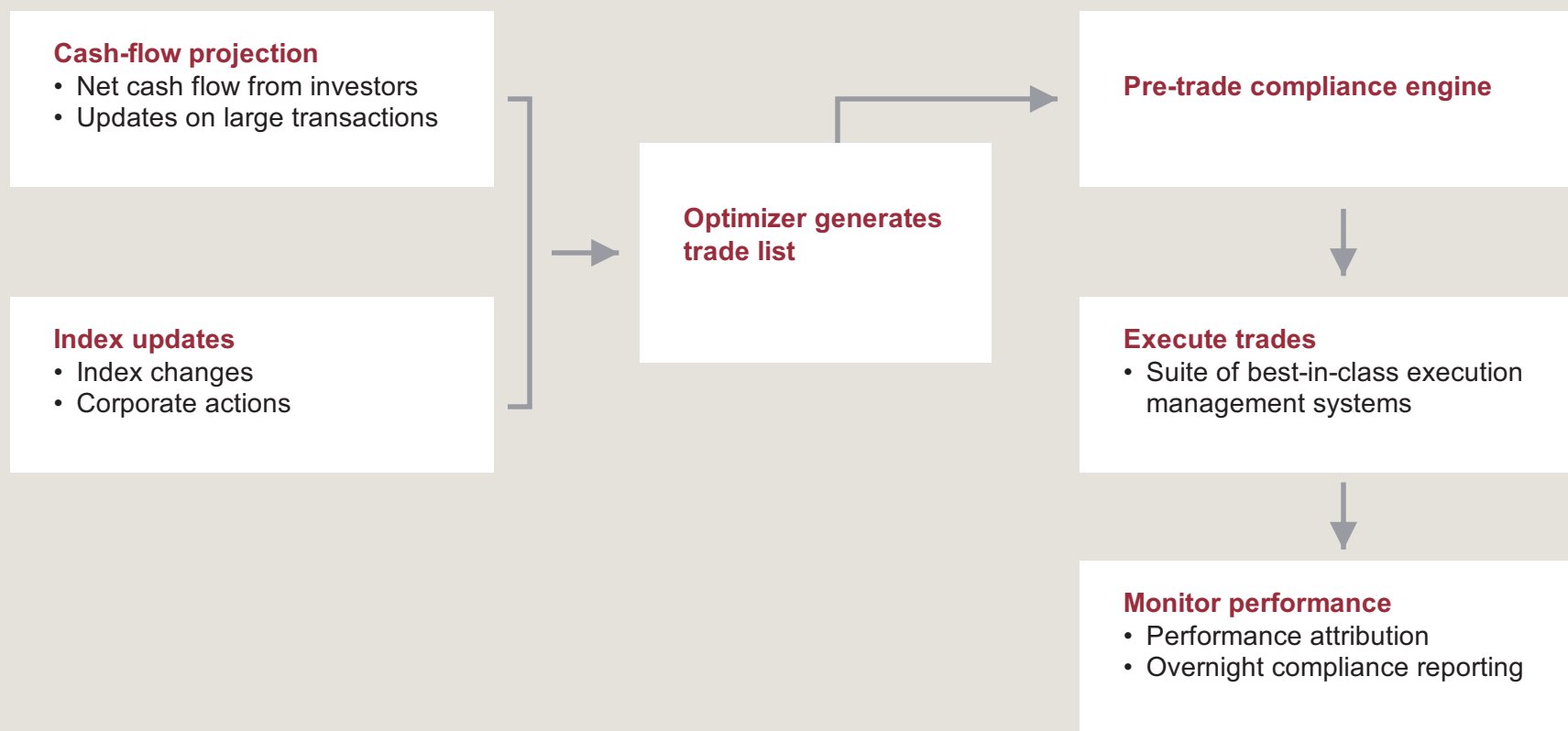
Source: Vanguard, as of September 30, 2016.

* Asset-weighted expense ratio for all Vanguard equity index funds.

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Vanguard's Equity Indexing Process

A day in the life of a Vanguard portfolio manager



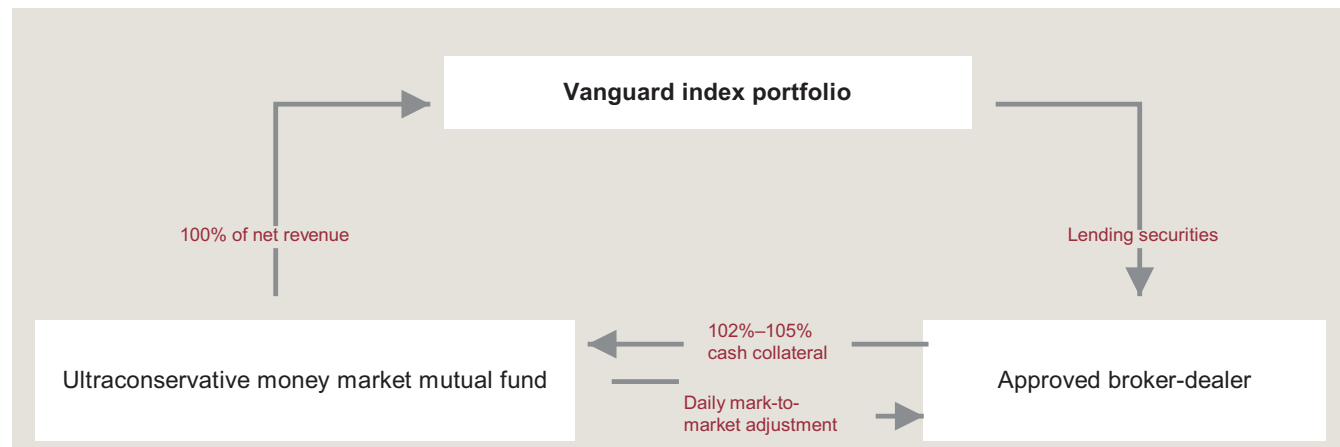
Tracking Differences

The fund seeks to track its benchmark, but tracking differences can occur.

The main sources of these differences are:

Securities lending

- Vanguard operates a very conservative securities lending program
- Funds selectively lend "specials," not general collateral
- All net revenue (net of broker rebates, direct operating expenses and agent fees) is returned to portfolios
- Program has rigorous risk controls



Index change management

- When index changes occur, Vanguard must make changes to the fund's holdings
- In order to minimize the market impact component of transaction costs, trading may take place at times other than the exact timing of the change

Use of futures

- Managers may invest in futures when the contract is trading at a discount to its theoretical fair value
- The funds maintain a full "cash" position equal to the notional amount of futures held in the portfolio at all times; no leverage is employed

Vanguard Institutional Index Fund Portfolio

Equity characteristics

	Instl Index Fund	S&P 500 Index
Number of stocks	505	505
Median market cap	\$81.0B	\$81.0B
P/E ratio (trailing earnings)	22.2x	22.2x
P/B ratio	2.9x	2.9x
Return on equity (5-year average)	17.8%	17.5%
Earnings growth rate (5-year)	7.3%	7.3%
Equity yield (dividend)	2.1%	2.1%
Foreign holdings	0.0%	0.0%
Turnover (fiscal year end)	5.1%	—




Ten largest holdings

	% of total net assets
Apple Inc.	3.2%
Alphabet Inc.	2.5
Microsoft Corp.	2.4
Exxon Mobil Corp.	1.9
Amazon.com Inc.	1.8
Johnson & Johnson	1.7
Facebook Inc.	1.6
Berkshire Hathaway Inc.	1.5
General Electric Co.	1.4
AT&T Inc.	1.3
Top ten as a % of total net assets	19.3%

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

Vanguard Institutional Index Fund Portfolio

Sector diversification as a % of common stock

	Sector	Instl Index Fund	S&P 500 Index
	Information Technology	21.2%	21.2%
	Health Care	14.7	14.7
	Financials	12.8	12.8
	Consumer Discretionary	12.5	12.5
	Consumer Staples	9.9	9.9
	Industrials	9.7	9.7
	Energy	7.3	7.3
	Utilities	3.3	3.3
	Real Estate	3.1	3.1
	Materials	2.9	2.9

Sector categories are based on the Global Industry Classification Standard system.

Vanguard Institutional Index Fund Performance

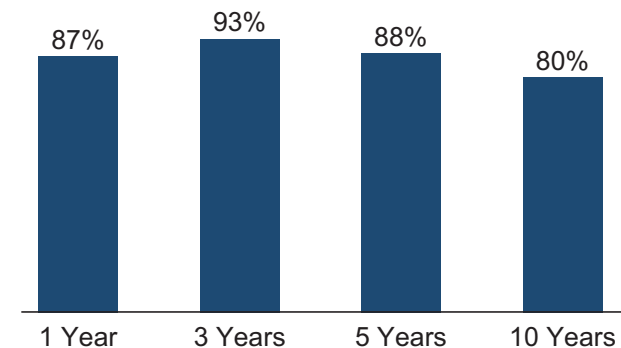
Total Returns and Tracking difference

			<u>Tracking difference</u>		
	Instl Index Fund	S&P 500 Index	Return difference	Expense ratio	Residual error
Periods ended September 30, 2016					
1 Year	15.43%	15.43%	0.00%	0.02%	0.02%
3 Years	11.16	11.16	0.00	0.02	0.02
5 Years	16.37	16.37	0.00	0.02	0.02
10 Years	7.26	7.24	0.02	0.02	0.05
Calendar year performance					
2006	15.81	15.79	0.02	0.03	0.05
2007	5.50	5.49	0.01	0.03	0.04
2008	-36.94	-37.00	0.06	0.03	0.09
2009	26.66	26.46	0.20	0.03	0.23
2010	15.07	15.06	0.01	0.03	0.04
2011	2.12	2.11	0.01	0.02	0.03
2012	16.00	16.00	0.00	0.02	0.02
2013	32.37	32.39	-0.02	0.02	0.00
2014	13.68	13.69	-0.01	0.02	0.01
2015	1.39	1.38	0.01	0.02	0.03
Year to Date	7.83	7.84	-0.01	0.02	0.01
3rd Quarter	3.85	3.85	0.00	0.01	0.00

Note: Except for the most recent quarter, the expense ratios presented are the funds' actual operating expenses and they exclude any acquired fees and expenses, which result from the funds' holdings in business development companies (BDCs). BDC expenses are not direct costs paid by fund shareholders and are not used to calculate the fund's net asset value.

Performance versus competitors

Percentage of Large-Cap Core Funds outperformed by Vanguard Institutional Index Fund Institutional Plus Shares



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2016. Number of funds in category: 1-year, 826; 3-year, 752; 5-year, 669; 10-year, 531. Results will vary for other time periods.

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

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. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Investment Commentary

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

The S&P 500 Index returned 3.85% for the quarter ended September 30.

Information technology (+12.9%), financials (+6.8%), and consumer discretionary (+3.1%) were the top contributors.

Consumer staples (–2.6%), utilities (–5.9%), and telecommunication services (–5.6%) were the biggest detractors.

For the 12 months ended September 30, the index returned 15.43%. Information technology (+22.8%), industrials (+19.2%), and consumer staples (+15.8%) added most to results. Real estate (+17.4%), financials (+5.9%), and utilities (+17.4%) contributed least.

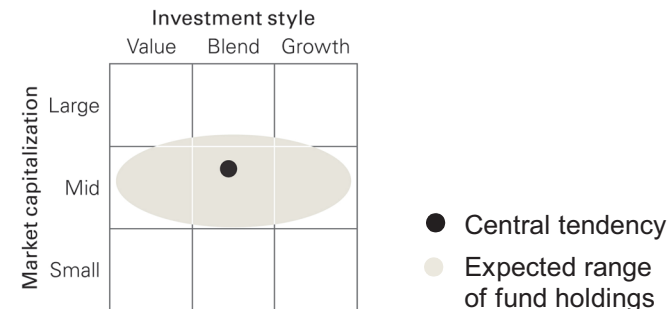
Vanguard Mid-Cap Index Fund Institutional Plus Shares

Vanguard Mid-Cap Index Fund (VMCPX)

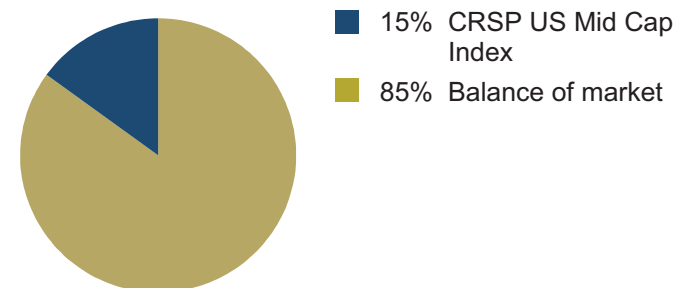
Product summary

- Seeks to track the performance of the CRSP US Mid Cap Index.
- Mid-cap equity.
- Passively managed, full-replication approach.
- Fund remains fully invested.
- Low expenses minimize net tracking error.
- Fund assets (in millions): \$73,643
 - Institutional Plus Shares assets: \$11,566
- Fund inception date: 05/21/1998
 - Institutional Plus Shares inception date: 12/15/2010
- Institutional Plus Shares expenses (in basis points): 5
Expense ratio as reported in the most recent prospectus.
- CUSIP: 922908389

Investment focus



Share of U.S. stock market* (%)



* As measured by the MSCI US Broad Market Index.
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- Benchmarks: Standard & Poor's, Russell, MSCI, FTSE, and CRSP
- 40 investment professionals
- Average portfolio manager tenure: 16 years
- Average expense ratio: 0.10%*

Vanguard Mid-Cap Index Fund

Portfolio Management

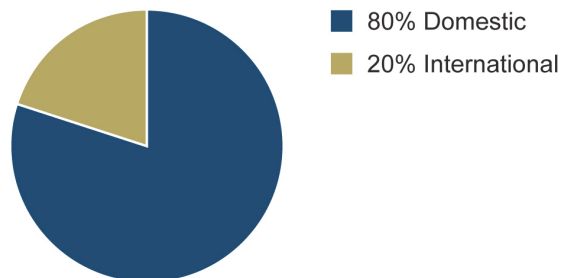
Donald M. Butler, CFA, Principal

- Portfolio manager.
- Advised the fund since 1998.
- Worked in investment management since 1997.
- B.S.B.A., Shippensburg University.

Michael A. Johnson

- Portfolio manager.
- Advised the fund since 2016.
- Worked in investment management since 2007.
- B.S., B.A., Shippensburg University.

Equity Index Asset Distribution



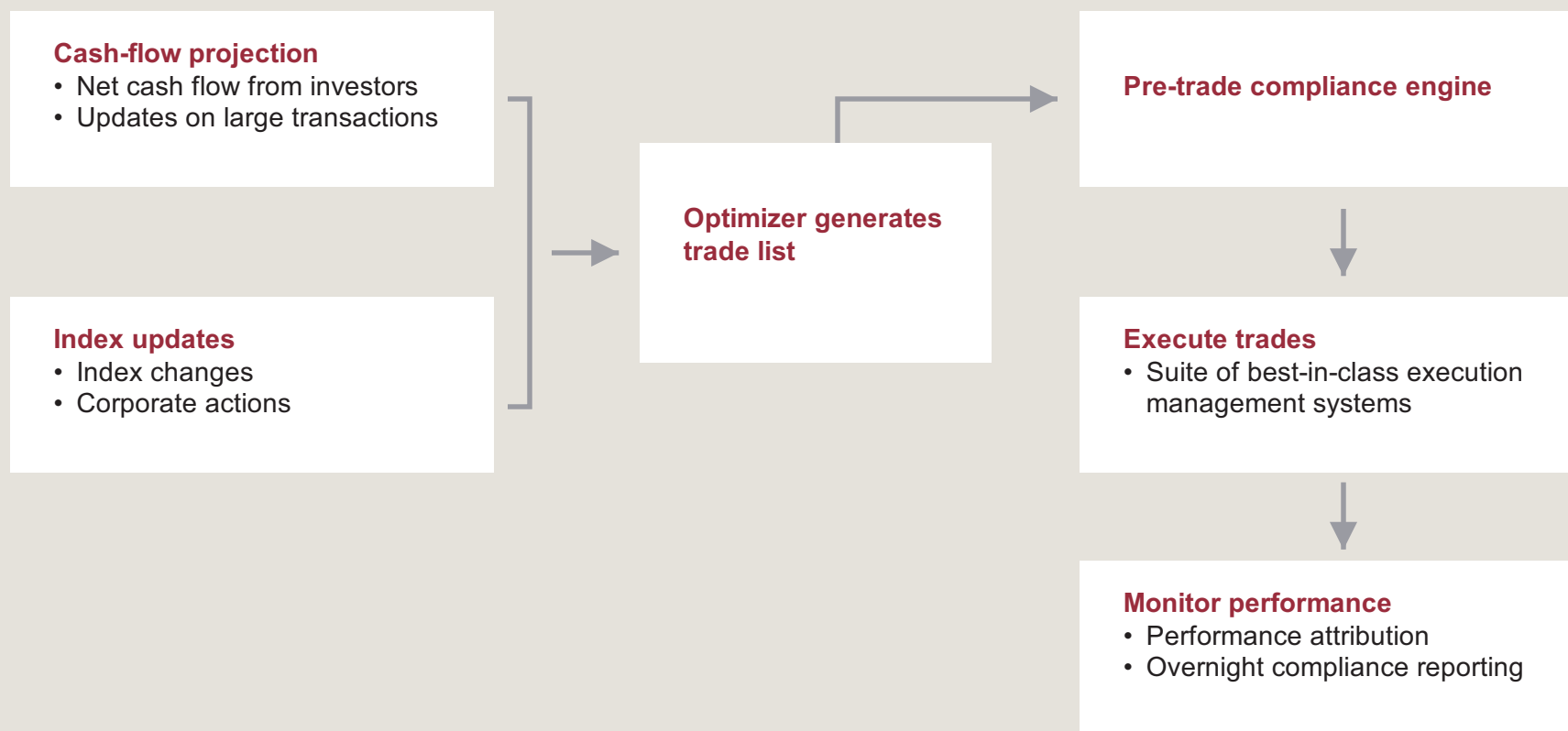
Source: Vanguard, as of September 30, 2016.

* Asset-weighted expense ratio for all Vanguard equity index funds.

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Vanguard's Equity Indexing Process

A day in the life of a Vanguard portfolio manager



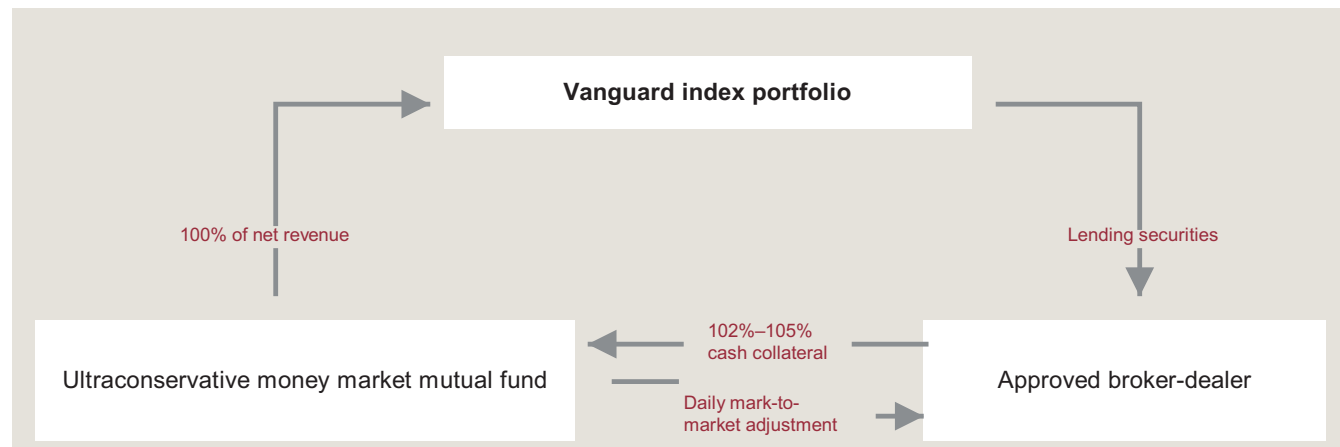
Tracking Differences

The fund seeks to track its benchmark, but tracking differences can occur.

The main sources of these differences are:

Securities lending

- Vanguard operates a very conservative securities lending program
- Funds selectively lend "specials," not general collateral
- All net revenue (net of broker rebates, direct operating expenses and agent fees) is returned to portfolios
- Program has rigorous risk controls



Index change management

- When index changes occur, Vanguard must make changes to the fund's holdings
- In order to minimize the market impact component of transaction costs, trading may take place at times other than the exact timing of the change

Use of futures

- Managers may invest in futures when the contract is trading at a discount to its theoretical fair value
- The funds maintain a full "cash" position equal to the notional amount of futures held in the portfolio at all times; no leverage is employed

Vanguard Mid-Cap Index Fund Portfolio

Equity characteristics

	Mid-Cap Index	CRSP US Mid Cap Index
Number of stocks	343	341
Median market cap	\$11.6B	\$11.6B
P/E ratio (trailing earnings)	27.4x	27.6x
P/B ratio	2.7x	2.7x
Return on equity (5-year average)	15.2%	14.9%
Earnings growth rate (5-year)	9.6%	9.6%
Equity yield (dividend)	1.5%	1.5%
Foreign holdings	0.3%	—
Turnover (fiscal year end)	14.8%	—









Ten largest holdings

	% of total net assets
Ross Stores Inc.	0.8%
Edwards Lifesciences Corp.	0.8
Equinix Inc.	0.8
Newell Brands Inc.	0.8
Electronic Arts Inc.	0.8
Fiserv Inc.	0.7
Newmont Mining Corp.	0.6
ConAgra Foods Inc.	0.6
Amphenol Corp.	0.6
Concho Resources Inc.	0.6
Top ten as a % of total net assets	7.1%

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

Vanguard Mid-Cap Index Fund Portfolio

Sector diversification as a % of common stock

	Sector	Mid-Cap Index	CRSP US Mid Cap Index
	Financials	20.4%	20.4%
	Industrials	16.7	16.8
	Consumer Goods	13.7	13.7
	Technology	13.0	12.9
	Consumer Services	12.1	12.1
	Health Care	8.3	8.3
	Oil & Gas	5.2	5.2
	Utilities	5.2	5.2
	Basic Materials	4.3	4.3
	Telecommunications	1.1	1.1

Sector categories are based on the Industry Classification Benchmark system.

Vanguard Mid-Cap Index Fund Performance

Total Returns and Tracking difference

	<u>Tracking difference</u>				
	Mid-Cap Index	Spliced Mid-Cap Index	Return difference	Expense ratio	Residual error
Periods ended September 30, 2016					
1 Year	12.67%	12.68%	-0.01%	0.05%	0.04%
3 Years	9.93	9.96	-0.03	0.06	0.03
5 Years	16.56	16.58	-0.02	0.06	0.04
Since Inception*	11.95	11.97	-0.02	0.05	0.03
Calendar year performance					
2011	-1.91	-1.91	0.00	0.06	0.06
2012	16.03	16.04	-0.01	0.06	0.05
2013	35.20	35.21	-0.01	0.06	0.05
2014	13.79	13.83	-0.04	0.06	0.02
2015	-1.30	-1.28	-0.02	0.05	0.03
Year to Date	8.90	8.92	-0.02	0.04	0.02
3rd Quarter	5.19	5.21	-0.02	0.01	-0.01

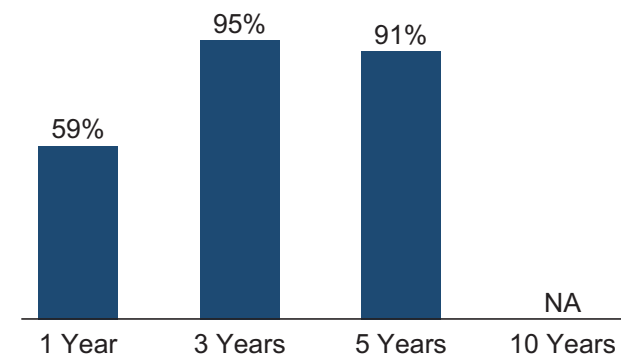
* Since fund's inception, December 15, 2010.

Spliced Mid-Cap Index: S&P MidCap 400 Index through May 16, 2003; MSCI US Mid Cap 450 Index through January 30, 2013; CRSP US Mid Cap Index thereafter.

Note: Except for the most recent quarter, the expense ratios presented are the funds' actual operating expenses and they exclude any acquired fees and expenses, which result from the funds' holdings in business development companies (BDCs). BDC expenses are not direct costs paid by fund shareholders and are not used to calculate the fund's net asset value.

Performance versus competitors

Percentage of Mid-Cap Core Funds outperformed by Vanguard Mid-Cap Index Fund Institutional Plus Shares



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2016. Number of funds in category: 1-year, 397; 3-year, 347; 5-year, 300. Results will vary for other time periods.

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

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.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Investment Commentary

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

The CRSP US Mid Cap Index returned 5.21%, outperforming its large-cap counterpart, the CRSP US Large Cap Index, which returned 4.04%.

Technology (+17.6%), financials (+4.5%), and industrials (+5.0%) were the top contributors.

The two biggest detractors were utilities (–5.5%) and telecommunications (–4.1%).

For the 12-month period ended September 30, the CRSP US Mid Cap Index returned 12.68%. The four sectors with the largest weights added to the index’s return, with technology (+24.9%), industrials (+15.1%), and consumer goods (+13.1%) adding the most. The only detractor was consumer services (–1.2%).

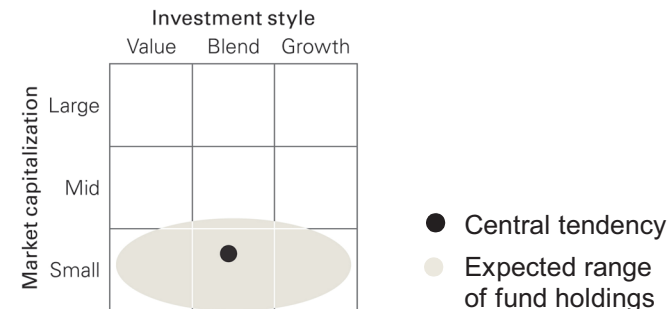
Vanguard Small-Cap Index Fund Institutional Plus Shares

Vanguard Small-Cap Index Fund (VSCPX)

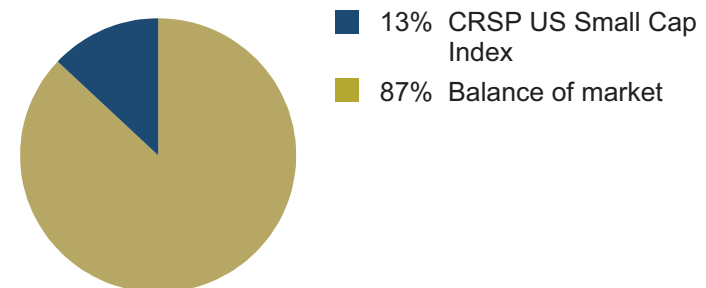
Product summary

- Seeks to track the performance of the CRSP US Small Cap Index.
- Small-cap equity diversified across growth and value styles.
- Passively managed, full-replication approach.
- Fund remains fully invested.
- Low expenses minimize net tracking error.
- Fund assets (in millions): \$63,345
 - Institutional Plus Shares assets: \$7,480
- Fund inception date: 10/03/1960
 - Institutional Plus Shares inception date: 12/17/2010
- Institutional Plus Shares expenses (in basis points): 5
Expense ratio as reported in the most recent prospectus.
- CUSIP: 922908397

Investment focus



Share of U.S. stock market* (%)



* As measured by the MSCI US Broad Market Index.
All data as of September 30, 2016, unless otherwise noted.

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Vanguard Equity Index Group—Firm Overview

Vanguard Equity Index Group (EIG) manages assets consistent with high fiduciary and professional standards.

Key Facts

- Assets under management: \$1.9 trillion
- 125 portfolios tracking more than 70 indexes
- Benchmarks: Standard & Poor's, Russell, MSCI, FTSE, and CRSP
- 40 investment professionals
- Average portfolio manager tenure: 16 years
- Average expense ratio: 0.10%*

Vanguard Small-Cap Index Fund

Portfolio Management

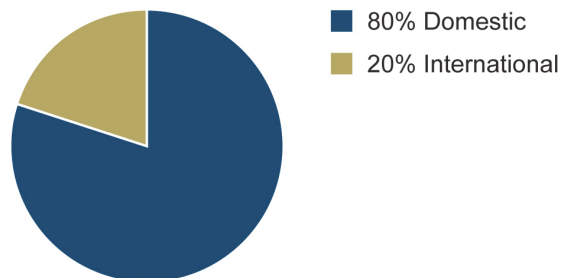
Gerard C. O'Reilly, Principal

- Portfolio manager.
- Advised the fund since 2016.
- Worked in investment management since 1992.
- B.S., Villanova University.

William Coleman, CFA

- Portfolio manager.
- Advised the fund since 2016.
- Worked in investment management since 2006.
- B.S., King's College.
- M.S., St. Joseph's University.

Equity Index Asset Distribution



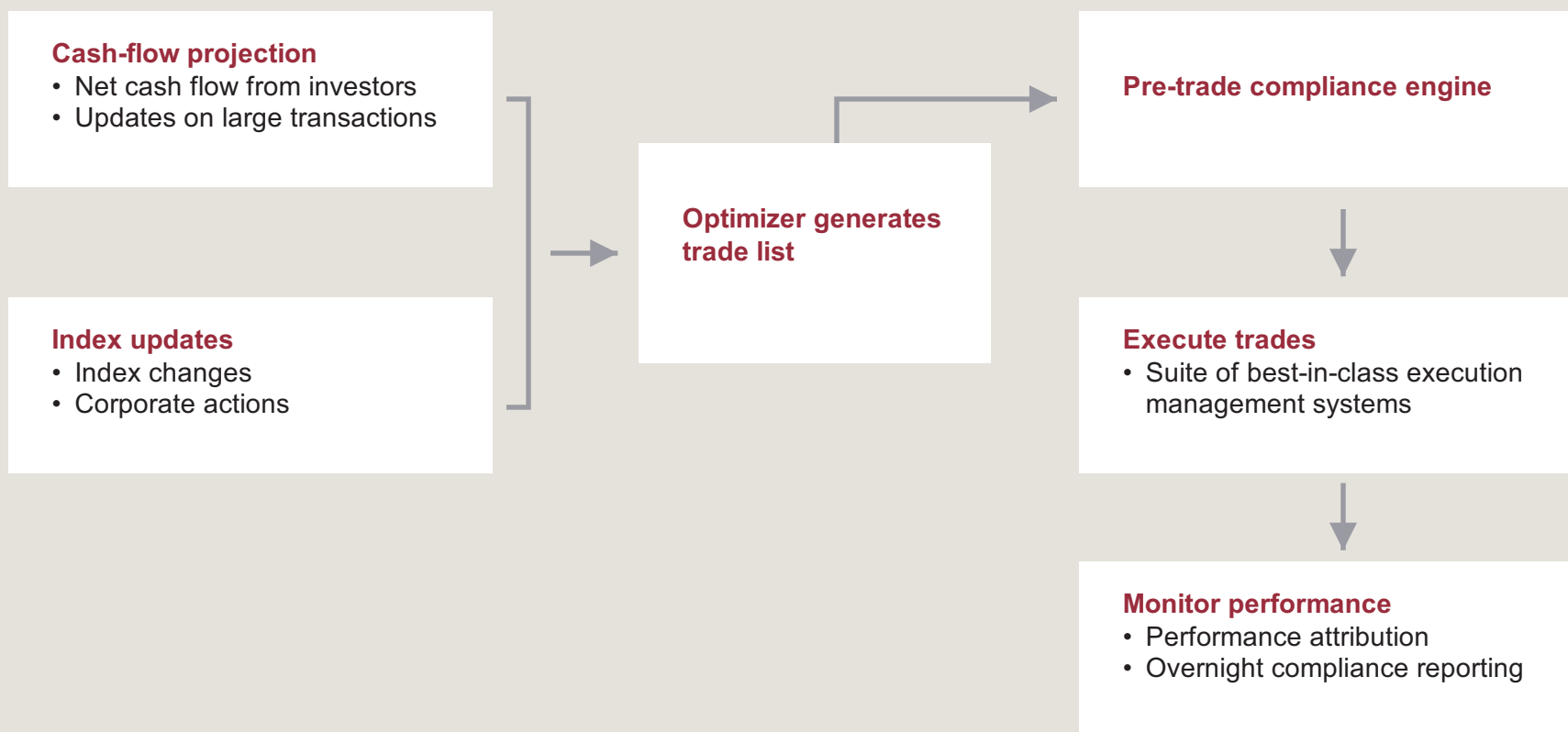
Source: Vanguard, as of September 30, 2016.

* Asset-weighted expense ratio for all Vanguard equity index funds.

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Vanguard's Equity Indexing Process

A day in the life of a Vanguard portfolio manager



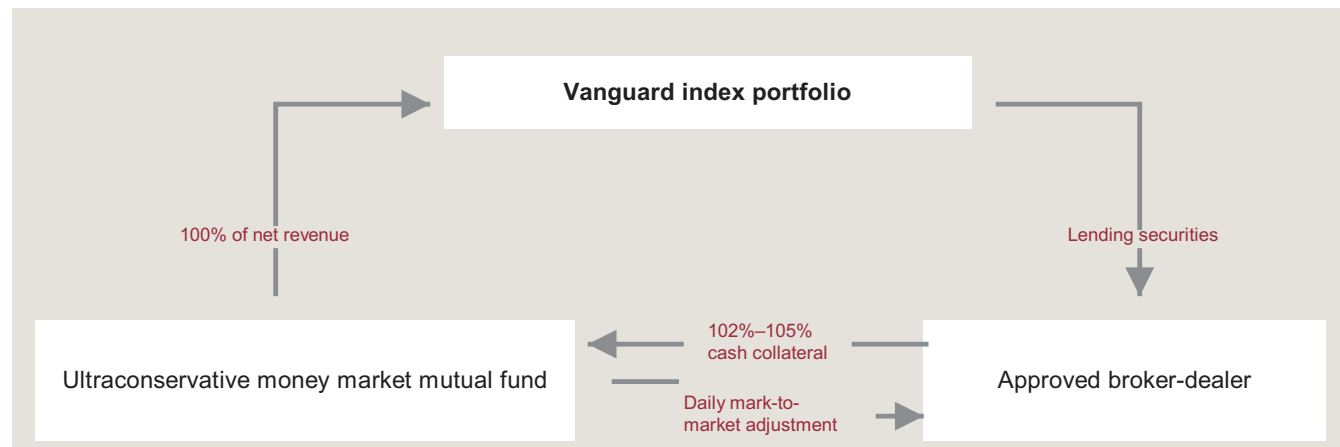
Tracking Differences

The fund seeks to track its benchmark, but tracking differences can occur.

The main sources of these differences are:

Securities lending

- Vanguard operates a very conservative securities lending program
- Funds selectively lend "specials," not general collateral
- All net revenue (net of broker rebates, direct operating expenses and agent fees) is returned to portfolios
- Program has rigorous risk controls



Index change management

- When index changes occur, Vanguard must make changes to the fund's holdings
- In order to minimize the market impact component of transaction costs, trading may take place at times other than the exact timing of the change

Use of futures

- Managers may invest in futures when the contract is trading at a discount to its theoretical fair value
- The funds maintain a full "cash" position equal to the notional amount of futures held in the portfolio at all times; no leverage is employed

Vanguard Small-Cap Index Fund Portfolio

Equity characteristics

	Small-Cap Index	CRSP US Small Cap Index
Number of stocks	1,437	1,427
Median market cap	\$3.3B	\$3.3B
P/E ratio (trailing earnings)	30.2x	30.3x
P/B ratio	2.4x	2.4x
Return on equity (5-year average)	10.9%	11.0%
Earnings growth rate (5-year)	9.3%	9.3%
Equity yield (dividend)	1.6%	1.6%
Foreign holdings	0.2%	—
Turnover (fiscal year end)	10.7%	—

Ten largest holdings

	% of total net assets
Arthur J Gallagher & Co.	0.3%
Newfield Exploration Co.	0.3
Regency Centers Corp.	0.3
Westar Energy Inc.	0.3
Broadridge Financial Solutions Inc.	0.3
UGI Corp.	0.3
Targa Resources Corp.	0.3
Atmos Energy Corp.	0.3
Packaging Corp. of America	0.3
Valspar Corp.	0.3
Top ten as a % of total net assets	3.0%

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

Vanguard Small-Cap Index Fund Portfolio

Sector diversification as a % of common stock

	Sector	Small-Cap Index	CRSP US Small Cap Index
	Financials	26.6%	26.7%
	Industrials	19.2	19.1
	Consumer Services	12.1	12.1
	Technology	12.1	12.1
	Health Care	9.9	9.9
	Consumer Goods	7.1	7.1
	Oil & Gas	4.8	4.8
	Utilities	4.0	4.0
	Basic Materials	3.8	3.8
	Telecommunications	0.4	0.4

Sector categories are based on the Industry Classification Benchmark system.

Vanguard Small-Cap Index Fund Performance

Total Returns and Tracking difference

<u>Tracking difference</u>					
	Small-Cap Index	Spliced Small-Cap Index	Return difference	Expense ratio	Residual error
Periods ended September 30, 2016					
1 Year	14.99%	14.93%	0.06%	0.05%	0.11%
3 Years	7.95	7.91	0.04	0.06	0.09
5 Years	16.74	16.68	0.06	0.06	0.12
Since Inception*	11.21	11.15	0.06	0.05	0.11
Calendar year performance					
2011	-2.65	-2.75	0.10	0.06	0.16
2012	18.29	18.20	0.09	0.06	0.15
2013	37.85	37.77	0.08	0.06	0.14
2014	7.55	7.54	0.01	0.06	0.07
2015	-3.62	-3.68	0.06	0.05	0.11
Year to Date	11.52	11.47	0.05	0.04	0.09
3rd Quarter	6.16	6.15	0.01	0.01	0.02

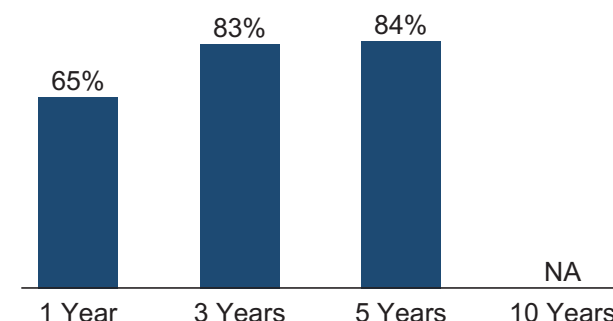
* Since fund's inception, December 17, 2010.

Spliced Small-Cap Index: Russell 2000 Index through May 16, 2003; MSCI US Small Cap 1750 Index through January 30, 2013; CRSP US Small Cap Index thereafter.

Note: Except for the most recent quarter, the expense ratios presented are the funds' actual operating expenses and they exclude any acquired fees and expenses, which result from the funds' holdings in business development companies (BDCs). BDC expenses are not direct costs paid by fund shareholders and are not used to calculate the fund's net asset value.

Performance versus competitors

Percentage of Small-Cap Core Funds outperformed by Vanguard Small-Cap Index Fund Institutional Plus Shares



Source: Lipper, a Thomson Reuters Company. Based on total returns as of September 30, 2016. Number of funds in category: 1-year, 824; 3-year, 688; 5-year, 602. Results will vary for other time periods.

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

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Investment Commentary

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

The CRSP US Small Cap Index returned 6.15% for the three-month period ended September 30. It surpassed its large-cap counterpart, the CRSP US Large Cap Index (4.04%).

The top contributors were technology (+13.9%), industrials (+7.3%), and financials (+4.6%).

Utilities (–5.5%) and telecommunications (–6.5%) detracted from performance.

For the 12-month period ended September 30, 2016, the CRSP US Small Cap Index returned 14.93%. All sectors added to results. The largest contributors were industrials (+22.3%), financials (+14.8%), and technology (+20.1%).

Important information

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Investments in bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings. Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax. Diversification does not ensure a profit or protect against a loss.

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in the Target Retirement Fund is not guaranteed at any time, including on or after the target date.

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