

Vanguard® Total Bond Market Index Fund

Investor Shares



Who Should Invest

- Investors seeking a high level of income.
- Investors seeking a low-cost, broadly diversified, fixed income investment to balance the risks of a portfolio containing stocks.

Who Should Not Invest

- Investors unwilling to accept moderate fluctuations in share price.
- Investors seeking long-term growth of capital.

Assets: \$17,693,340,131

Expenses: 0.22%*

Ticker Symbol: VBMFX

Newspaper Listing: TotBd

Inception: December 11, 1986

Overall Risk Level:



Investment Objective

Vanguard Total Bond Market Index Fund seeks a high level of interest income.

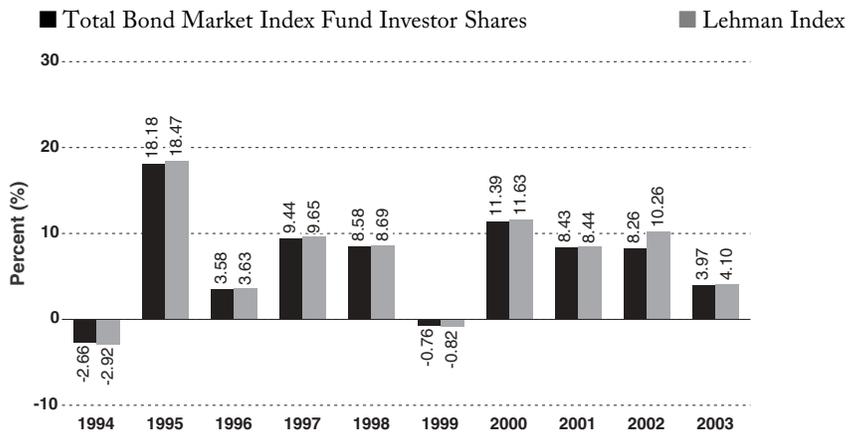
Investment Strategy

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities, with a total market value exceeding \$4 trillion. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

See reverse side for Fund Profile.

Performance

Annual Returns 1994–2003 — Total Bond Market Index Fund Investor Shares vs. Lehman Index**



Total Returns for Periods Ended June 30, 2004***

	Year to Date	1 Year	3 Years	5 Years	10 Years
Total Bond Market Index Fund Investor Shares	0.16%	0.23%	5.52%	6.51%	7.11%
Lehman Index	0.15%	0.32%	6.36%	6.95%	7.39%

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. For performance data current to the most recent month-end, which may be higher or lower than that cited, visit our website at www.vanguard.com.

*For most recent fiscal year.

**Lehman Aggregate Bond Index, an unmanaged measure of bond market performance.

***Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns.

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Fund Profile

As of June 30, 2004

Top Sector Holdings—Bonds

1. Government Mortgage-Backed	35.7%
2. Treasury/Agency	34.3
3. Industrial	11.8
4. Finance	8.0
5. Foreign	4.1
6. Other	2.7
7. Utilities	1.8
8. Asset-Backed	1.6

A Few Words About Risk

Bond funds rise and fall in value with changes in interest rates. When rates rise, the bonds held by the fund fall in value, and the fund's share price drops. The opposite is also true. When rates fall, the fund's share price increases. Long-term bond funds (those with average maturities of 10 years or more) are most sensitive to rate changes, while short-term bond funds (those with average maturities of 2 to 5 years) experience only modest price movements. Intermediate-term bond funds, such as the Total Bond Market Index Fund, fall somewhere in between. Bond fund investors should also consider credit risk, the possibility that a bond issuer may be unable

Overall Risk Level:



to make interest payments or to pay back the amount of the original investment on time—or at all. Bonds issued by the U.S. government and its agencies carry the highest level of credit protection.

One final risk to consider is inflation risk, the possibility that, over time, the returns on a bond fund investment will fail to keep up with the rising cost of living. For example, a 4% rate of inflation reduces a 6% return to a 2% real return.

Investment Terms

Bond: An investment in which you lend money to a company, a government, or a government agency. The bond issuer agrees to pay back the loan by a certain date and to pay interest during that period.

Expenses: The costs of running a fund, expressed as a percentage of the fund's assets. For example, a fund may have expenses that total 0.30% (less than half of 1%) of its assets.

Index Funds: Mutual funds that try to track as closely as possible the performance of a target index (e.g., a large group of U.S. stocks, foreign stocks, or bonds). Index funds may invest in all or a representative sample of the stocks included in the target index.

Interest: Payments made by a company, a government, or a government agency to investors who lend them money. For example, an investor buys a bond from a company, which agrees to pay back the loan by a certain date at a set rate.

Market Risk: The chance that the value of an investment will change because of rising (or falling) stock or bond prices.

Mutual Fund: An investment company that combines the money of thousands of people and invests it in a number of securities (stocks, bonds, short-term reserves) to achieve a specific objective over time.

Total Return: The change in the value of an investment, plus any income from interest or dividends. The standard measure of a mutual fund's performance.

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For more information about Vanguard funds, visit www.vanguard.com, or call 800-523-1188, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.