

Fund Essentials™

international

investing



THE **Vanguard** GROUP

Vanguard® international stock funds

A world of opportunities



Prospects for a more unified European economy. The **growth of capitalism** in Eastern Europe. The stabilization of emerging-market economies in Asia, Europe, South America, and Africa. These promising developments offer U.S. investors a chance to participate in and profit from changes shaping the global economy.

As with investing in U.S.-based stocks, **international stock investing** requires you to have a long-term perspective. But unlike U.S. investing, it also requires you to assume additional risks.

This brochure helps you determine whether investing in **foreign stock markets** is right for you. It also points out the benefits of international investing, explains the risks, and shows how Vanguard can help you meet your goals.

Are international stock funds right for you?

Before you invest in international stock funds, first consider whether they are suitable for you. Ask yourself these three questions:

1. **Do you already have a balanced portfolio**—one that includes stocks, bonds, and money market holdings?*
2. **Can you tolerate the added risks**—such as currency and political risks—that are an inevitable part of international investing?
3. **Do you want the added diversification** brought by exposure to international markets and economies?

On the following pages, you'll find more information to help you answer these questions. After you've reviewed the brochure and decided that international funds have a place in your portfolio, the next step is to decide how much of your portfolio you want to invest in international funds. As a rule, most investors should limit their international stock holdings to no more than 10% to 20% of their overall stock holdings so that they get the benefits of additional portfolio diversification without adding undue risk.

Mutual fund industry data provided by Lipper Inc.

*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in such a fund.

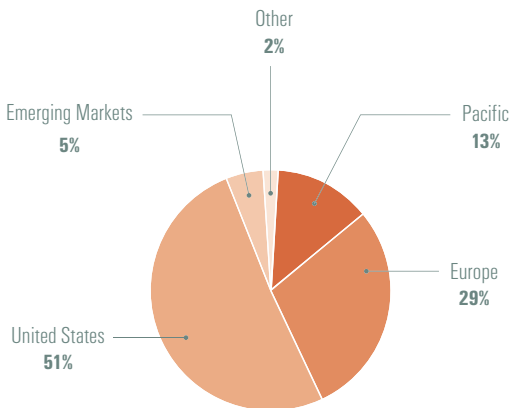
The benefits of investing outside the United States

Arguments for adding international funds to your investing program can be compelling. Investing outside the United States offers you the chance to participate in the markets of other countries and, possibly, to reduce the risks of a portfolio that invests only in U.S. securities.

Growth opportunities. The United States is the world's largest market, accounting for just over half of the total market value, or capitalization, of the world's stocks. For investors who invest only in domestic stocks, nearly half of the world's market value remains untapped. One of the best ways to gain exposure to the rest of the world's stock markets is to invest in international funds.

Relative values of global stock markets

As of June 30, 2001



Slightly less than half of the total value of the world's stock markets exists outside the United States.

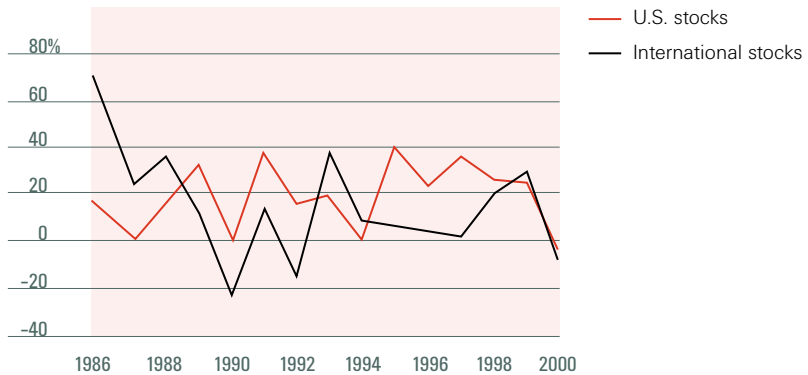
Source: Morgan Stanley Capital International.

What's more, leading companies in many major industries—such as automobile manufacturing, electronics, and communications—are based outside the United States and have achieved worldwide recognition.

Reduced volatility for your portfolio. The returns of foreign stocks can fluctuate significantly from year to year, and these returns can also differ significantly from those of U.S. stocks, as the chart below shows. Adding international stocks to a portfolio of U.S. stocks improves the portfolio's balance and lowers its overall long-term risk by dampening the ups and downs of the U.S. stocks.

U.S. stocks versus international stocks

Annual returns, 1986–2000 (%)



U.S. stocks are represented by the Wilshire 5000 Total Market Index and international stocks by the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index.

Of course, past performance cannot predict future returns. However, if your portfolio is already well diversified with domestic investments, you may find that international stocks can add a new dimension to your portfolio.

What are the risks?

International stocks involve more risks than domestic stocks. The following risks deserve your close attention.

Market risk. Past returns from international stocks have fluctuated more than those of U.S. stocks, though the difference becomes smaller over longer time periods. Nevertheless, while time dampens this difference in volatility, the bottom line is that international investments have the potential for significant short-term declines that could exceed the declines in U.S. stocks.

Currency risk. A weaker U.S. dollar increases the value of foreign assets owned by U.S. investors, which is good news. However, a stronger U.S. dollar diminishes the value of foreign assets owned by U.S. investors. While currency risk can be high in the short term, the impact may be reduced for longer holding periods, because changes in the relative value of the dollar tend to even out over time.

Political risk. Political events can pose a threat to the stability of returns from foreign markets, especially emerging markets. Changes in a nation's economic policy—such as taxes, currency controls, or restrictive trade practices—can also change the dynamics of the international marketplace.

Liquidity risk. It can be harder to buy or sell a security in some countries, depending on the volume of trading on an exchange. Thin trading volume may cause increased price volatility and hefty premiums for sought-after shares.

Why choose Vanguard for international stock funds?

Experienced management. The managers who oversee our actively managed international funds average 23 years of investment experience. They are skilled at choosing stocks that meet strict selection criteria and that complement their other holdings.

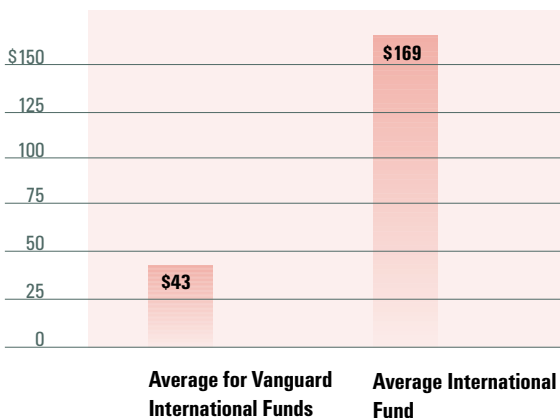
Leadership in indexing. Our leadership in index funds for individual investors extends beyond the realm of domestic stock and bond markets. We offer five international index funds that cover stock markets around the world. They offer all the benefits of indexing, including low costs and broad diversification.

Broad selection. Our international fund choices allow you to focus on a particular region or to invest in a fund that holds securities around the world. The choice is yours.

Low costs. Our fund operating expenses are among the lowest in the industry. When it comes to international funds—which typically have much higher costs than other types of funds—our expenses are far below those of our competitors, as shown below.

The Vanguard low-cost advantage

Amount deducted annually from a \$10,000 investment



As of December 31, 2000.

A closer look at our international funds

With so many choices of international funds, you can probably find a Vanguard fund to **meet your needs**. Each of the descriptions is followed by a chart of the top five holdings of the fund by country.*



*As of June 30, 2001.

Developed Markets Index Fund seeks to track the performance of the Morgan Stanley Capital International Europe Australasia Far East (MSCI EAFE) Index, which measures the performance of developed markets in Europe and the Pacific Rim. It invests in two Vanguard funds—European Stock Index Fund and Pacific Stock Index Fund—and holds stocks from 21 countries.

Country	Percentage
Japan	23%
United Kingdom	20
France	11
Germany	9
Switzerland	7

European Stock Index Fund seeks to track the performance of the MSCI Europe Index, which measures the performance of 16 developed European countries. These markets account for some 60% of the value of all non-U.S. stocks. The fund holds more than 500 stocks.

Country	Percentage
United Kingdom	30%
France	16
Germany	12
Switzerland	10
Netherlands	8

Emerging Markets Stock Index Fund seeks to track the returns of the Select Emerging Markets Free Index, which measures the performance of 13 less developed markets worldwide. To discourage short-term trading, which increases costs for shareholders, the fund assesses a 0.5% fee on both purchases and redemptions.

Country	Percentage
Mexico	21%
South Korea	20
South Africa	19
Brazil	16
Israel	8

Global Equity Fund seeks long-term capital growth by investing in stocks of all sizes in both U.S. and foreign markets. The fund's adviser invests in a broad mix of securities across industries in a number of developed and emerging markets.

Country	Percentage
United States	36%
Japan	12
United Kingdom	10
Canada	5
South Africa	4

International Growth Fund seeks long-term capital growth by investing in stocks believed by its adviser to exhibit above-average growth potential. The adviser selects stocks from among as many as 30 markets in Europe and the Pacific region.

Country	Percentage
United Kingdom	20%
Japan	19
France	18
Netherlands	11
Germany	4

International Value Fund seeks long-term capital growth by investing in stocks from developed and emerging markets that, the adviser feels, are undervalued but demonstrate solid growth potential.

Country	Percentage
United Kingdom	19%
Japan	13
France	13
Switzerland	11
Germany	8

Pacific Stock Index Fund seeks to track the performance of the MSCI Pacific Free Index and holds some 400 stocks. Because Japanese stocks make up most of the fund's target index, its performance is closely linked to economic and political conditions in that nation.

Country	Percentage
Japan	78%
Australia	11
Hong Kong	7
Singapore	3
New Zealand	1

Tax-Managed International Fund seeks a tax-efficient total return from long-term capital growth. It invests in the 16 European and 5 Pacific Rim countries included in the MSCI EAFE Index, and it is managed to minimize the impact of taxes on investors' returns. This fund assesses a 0.25% purchase fee to defray the cost of investing new cash flow. To discourage short-term trading, the fund assesses a 2% redemption fee on shares held less than one year and 1% on shares held one to five years.

Country	Percentage
Japan	24%
United Kingdom	22
France	11
Germany	9
Switzerland	7

Total International Stock Index Fund seeks to track the performance of nearly every foreign market worldwide. It invests in three Vanguard funds—European Stock Index, Pacific Stock Index, and Emerging Market Stock Index—and holds over 1,350 stocks from 34 countries.

Country	Percentage
Japan	21%
United Kingdom	18
France	10
Germany	8
Switzerland	6

Key fund facts

	Inception Date	Where Does the Fund Invest?	Fund Manager	Number of Holdings*	Fund Expense Ratio**	Comparative Fund Expense Ratio***
Developed Markets Index Fund	May 8, 2000	21 established European and Pacific markets	Vanguard Quantitative Equity Group	939	0.32% ^{††}	1.69%
Emerging Markets Stock Index Fund	May 4, 1994	13 less developed countries worldwide	Vanguard Quantitative Equity Group	426	0.59%	2.18%
European Stock Index Fund[†]	June 18, 1990	16 established European markets	Vanguard Quantitative Equity Group	540	0.29%	1.81%
Global Equity Fund	August 14, 1995	U.S., developed and emerging foreign markets	Marathon Asset Management	313	0.70%	1.76%
International Growth Fund[†]	September 30, 1981	Developed European and Pacific markets	Schroder Investment North America Inc.	128	0.53%	1.69%
International Value Fund	May 16, 1983	Developed and emerging foreign markets	Hansberger Global Investors, Inc.	76	0.53%	1.69%
Pacific Stock Index Fund[†]	June 18, 1990	5 Pacific Rim markets	Vanguard Quantitative Equity Group	399	0.38%	2.05%
Tax-Managed International Fund	August 17, 1999	15 European, 5 Pacific Rim markets	Vanguard Quantitative Equity Group	919	0.35%	1.69%
Total International Stock Index Fund	April 29, 1996	European, Pacific, and emerging markets	Vanguard Quantitative Equity Group	1,365	0.34% ^{††}	1.69%

*As of 6/30/2001.

**For the fund's latest fiscal year.

***As of 12/31/2000.

[†]Also offers Admiral™ Shares, a lower-cost share class that offers lower expenses. There is a \$250,000 minimum initial investment.

^{††}Average weighted expense ratio based on expenses incurred by the underlying funds.

Note: Minimum initial investment for most funds is \$3,000 (\$1,000 for IRAs and UGMA/UTMAs). The minimum for Tax-Managed International is \$10,000, and the fund is not suitable for IRAs. The Developed Markets, Emerging Markets, European, Pacific, and Total International Stock Index Funds each assess annual \$10 maintenance fees for accounts having balances of less than \$10,000. The fee, which is paid directly to the fund, more fairly allocates the cost of servicing these accounts.

Vanguard—a smart choice for international stock funds

Whatever type of international fund you're looking for, Vanguard has a fund to suit your goals. You can get more details about all of our funds by visiting our website, **Vanguard.com**, or by calling us at **1-800-642-8999**.

Open your account online today

Once you've selected the funds that best meet your needs, you can open your account online using secure e-signature technology. Visit our website at www.vanguard.com/?invest to get started.

Vanguard investments around the world



central/south
america

Argentina
Brazil
Mexico

middle
east

Israel
Turkey

asia

Australia
Hong Kong
Indonesia
Japan
South Korea
New Zealand
Philippines
Russia
Singapore
Taiwan
Thailand

africa

South Africa

europa

Austria
Belgium
Czech Republic
Denmark
Finland
France
Germany
Greece
Hungary
Italy
Netherlands
Norway
Poland
Spain
Sweden
Switzerland
United Kingdom



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Information**

1-800-642-8999

Vanguard funds are offered by prospectus only. Prospectuses contain more complete information on risks, advisory fees, distribution charges, and other expenses and should be read carefully before you invest or send money. Prospectuses can be obtained directly from The Vanguard Group.

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