

SECURITIES AND EXCHANGE COMMISSION

FORM N-1A EL

Registration statements of open end management investment companies

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FILER

VANGUARD TAX MANAGED FUND INC

CIK: **923202** | State of Incorporation: **MD** | Fiscal Year End: **1231**
Type: **N-1A EL** | Act: **33** | File No.: **033-53683** | Film No.: **94529178**

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VALLEY FORGE PA 19482
610-669-6289*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form N-1A

REGISTRATION STATEMENT (NO. *) UNDER THE
SECURITIES ACT OF 1933
Pre-Effective Amendment No.
Post-Effective Amendment No. *

and

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940
Amendment No.

VANGUARD TAX-MANAGED FUND
(Exact Name of Registrant as Specified in Charter)

P.O. Box 2600, Valley Forge, PA 19482
(Address of Principal Executive Office)
Registrant's Telephone Number (610) 669-1000
Raymond J. Klapinsky, Esquire
P.O. Box 876
Valley Forge, PA 19482

It is proposed that this amendment become effective on *, 1994, pursuant
to paragraph (a) of Rule 485.

Approximate Date of Proposed Public Offering: As soon as practicable after
this Registration Statement becomes effective.

Registrant elects to register an indefinite number of shares pursuant to
Regulation 24f-2 under the Investment Company Act of 1940. Registrant filed
its Rule 24f-2 Notice for the year ended December 31, 1993 on February 23,
1994.

VANGUARD TAX-MANAGED FUND
CROSS REFERENCE SHEET

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Item 2.	Synopsis -- Highlights
Item 3.	Condensed Financial Information -- Financial Highlights
Item 4.	General Description of Registrant -- Investment Objectives; Investment Limitations; Investment Policies; General Information
Item 5.	Management of the Fund -- Trustees and Officers; Management of the Fund; The Vanguard Group
Item 6.	Capital Stock and Other Securities -- Opening an Account and Purchasing Shares; Selling Your Shares; The Share Price of Each Portfolio; Dividends, Capital Gains and Taxes; General Information
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Item 9.	Pending Legal Proceedings -- Not Applicable
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Item 23.	Financial Statements -- Financial Statements

THE VANGUARD GROUP
OF INVESTMENT
COMPANIES

Vanguard Financial Center
P.O. Box 2600
Valley Forge, PA 19482

INVESTOR INFORMATION
DEPARTMENT:
1-800-662-7447 (SHIP)

CLIENT SERVICES
DEPARTMENT:
1-800-662-2739 (CREW)

TELE-ACCOUNT
FOR 24-HOUR ACCESS:
1-800-662-6273 (ON BOARD)

TELECOMMUNICATION SERVICE
FOR THE HEARING-IMPAIRED:
1-800-662-2738

TRANSFER AGENT:
The Vanguard Group, Inc.
Vanguard Financial Center
Valley Forge, PA 19482

P R O S P E C T U S
* , 1994

A Member of The Vanguard Group

PROSPECTUS-- * , 1994

NEW ACCOUNT INFORMATION: INVESTOR INFORMATION DEPARTMENT--1-800-662-7447
(SHIP)

SHAREHOLDER ACCOUNT SERVICES: CLIENT SERVICES DEPARTMENT--1-800-662-2739
(CREW)

INVESTMENT
OBJECTIVE AND
POLICIES

Vanguard Tax-Managed Fund (the "Fund") is an open-end diversified investment company designed for long-term investors seeking to minimize the impact of taxes on their investment returns. The Fund uses an index-oriented approach to equity management. The Fund consists of three Portfolios: The GROWTH AND INCOME PORTFOLIO seeks to provide growth of capital and moderate current income from investments in equity securities. Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index") is the Portfolio's benchmark index.

The CAPITAL APPRECIATION PORTFOLIO seeks to provide growth of capital with nominal current income from investments in equity securities. The Russell 1000 Index is the Portfolio's benchmark index.

The BALANCED PORTFOLIO seeks to provide a balance between capital growth and income exempt from federal income taxes. The Portfolio invests 50-55% of its net assets in municipal securities and 45-50% of its net assets in common stocks. The Russell 1000 is the benchmark index for equity portion of the Portfolio. There is no assurance that the Fund will achieve its stated objective.

OPENING AN ACCOUNT

To open an account, please complete and return the Account Registration Form. If you need assistance in completing this Form, please call the Investor Information Department, 1-800-662-7447, Monday through Friday, from 8:00 a.m. to 9:00 p.m. (Eastern time) and Saturday, from 9:00 a.m. to 4:00 p.m. (Eastern time). This Fund is designed for taxable investors and is not appropriate for Individual Retirement Accounts (IRAs) and other tax-deferred retirement plans. The minimum initial investment is \$10,000. The Fund is offered on a no-load basis (i.e., there are no sales commissions or 12b-1 fees). However, the Fund incurs expenses for investment advisory, management, administrative, and distribution services. SHAREHOLDERS WILL BE CHARGED A 2% REDEMPTION FEE ON SHARES REDEEMED AFTER BEING HELD FOR LESS THAN ONE YEAR AND A 1% REDEMPTION FEE ON SHARES REDEEMED

AFTER BEING HELD AT LEAST ONE YEAR BUT LESS THAN FIVE YEARS.
THE REDEMPTION FEES ARE PAYABLE TO THE PORTFOLIO. SEE "FUND
EXPENSES."

ABOUT THIS PROSPECTUS

This Prospectus is designed to set forth concisely the information you should know about the Fund before you invest. It should be retained for future reference. A "Statement of Additional Information" containing additional information about the Fund has been filed with the Securities and Exchange Commission. This Statement is dated _____, 1994 and has been incorporated by reference into this Prospectus. It may be obtained, without charge, by writing to the Fund or by calling the Investor Information Department.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

AN INTRODUCTION TO VANGUARD TAX-MANAGED FUND

Vanguard Tax-Managed Fund consists of three Portfolios each of which seeks to achieve a stated investment objective while minimizing the impact of taxes on shareholders' returns. Today, dividends and short-term capital gains distributed by mutual funds are taxed at federal income tax rates as high as 39.6%. Mutual fund distributions of long-term capital gains are taxed at federal tax rates of up to 28%. State taxes on mutual fund distributions also reduce after-tax returns.

THE FUND IS DESIGNED FOR LONG-TERM INVESTORS
THE FUND SEEKS TO MINIMIZE THE IMPACT OF TAXES

Yet, most stock and balanced mutual funds are managed to maximize PRE-TAX total return, without regard to the tax consequences of portfolio activity that may result in taxable distributions. Vanguard Tax-Managed Fund has been designed for investors who seek to participate in broadly diversified funds for the long-term (five years or longer) and to minimize the impact of taxes on their return. The Fund offers three Portfolios: two equity Portfolios -- the Growth and Income Portfolio and the Capital Appreciation Portfolio -- and a Portfolio combining stocks and municipal bonds, the Balanced Portfolio. Each Portfolio has been designed to minimize the impact of taxes on investors' returns.

The Fund employs various techniques to minimize the impact of taxes:

- * First, each Portfolio employs an index-oriented approach to equity management designed to provide low portfolio turnover. By seeking to reduce turnover, the Portfolio endeavors to defer the realization of capital gains and minimize the distributions of capital gains.
- * Second, each Portfolio is designed ONLY for long-term investors who expect to own the Portfolio for five years or longer. A redemption fee of 2% of assets will be assessed on shares redeemed after being held for less than one year, and a redemption fee of 1% will be assessed on shares redeemed after being held for at least one year but less than five years. These fees are designed to discourage short-term trading activity. By being paid

directly to the Portfolios, the fees benefit long-term investors by helping to cover the costs of portfolio transactions and taxes on realized gains.

* Third, each Portfolio when making sales of securities will select the share of the security on which it has the highest cost basis in order to minimize capital gains distributions.

* Finally, the Capital Appreciation and the Balanced Portfolios seek to minimize taxable dividend income by emphasizing stocks with low dividend yields. The Balanced Portfolio also invests at least 50% of its assets in tax-exempt municipal bonds to provide tax-free income.

While the Fund seeks to minimize taxable distributions, the Portfolios may nevertheless realize taxable gains from time to time. Of course, shareholders may also be required to pay taxes on capital gains realized, if any, upon redemption of shares of the Fund.

FUND
EXPENSES

The following table illustrates ALL expenses and fees you would incur as a shareholder of the Growth and Income, Capital Appreciation, and Balanced Portfolios. The expenses and fees set forth below are estimates, since the Fund had not commenced operations as of the date of this Prospectus.

<TABLE>
<CAPTION>

SHAREHOLDER TRANSACTION EXPENSES	GROWTH AND INCOME PORTFOLIO	CAPITAL APPRECIATION PORTFOLIO	BALANCED PORTFOLIO
<S>	<C>	<C>	<C>
Sales Load Imposed on Purchases.....	None	None	None
Sales Load Imposed on Reinvested Dividends.....	None	None	None
Redemption Fees*:			
shares held less than 1 year.....	2%	2%	2%
shares held at least 1 but less than 5 years.....	1%	1%	1%
shares held 5 years or more.....	None	None	None
Exchange Fees.....	None	None	None

<FN>

*The fee withheld from redemption proceeds is paid to the Portfolio.

</TABLE>

<TABLE>
<CAPTION>

ANNUAL PORTFOLIO OPERATING EXPENSES	GROWTH AND INCOME PORTFOLIO		CAPITAL APPRECIATION PORTFOLIO		BALANCED PORTFOLIO	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Management & Administrative Expenses.....		*%		*%		*%
Investment Advisory Fees.....	None		None		None	
12b-1 Fees.....	None		None		None	
Other Expenses						
Distribution Costs.....	*%		*%		*%	
Miscellaneous Expenses.....	*		*		*	
Total Other Expenses.....		*		*		*
TOTAL OPERATING EXPENSES.....		0.25%		0.25%		0.25%

</TABLE>

The purpose of this table is to assist you in understanding the various costs and expenses that you would bear directly or indirectly as an investor in the Growth and Income, Capital Appreciation, and Balanced Portfolios.

REDEMPTION FEE

Each Portfolio of the Vanguard Tax-Managed Fund is intended for long-term investors who expect to own shares for at least five years. A redemption fee of 2% of assets will be assessed on shares redeemed after being held less than one year and a redemption fee of 1% of assets will be applied to shares redeemed after being held at least one but less than five

years. These fees are designed to discourage excessive short-term trading activity. By being paid directly to the Portfolios, the fees benefit long-term investors by helping to cover the costs of portfolio transactions and taxes on realized gains.

Only the "first-in, first-out" (FIFO) method will be used for the purpose of calculating the holding period of shares. Under this method, the date of a redemption or exchange will be compared to the earliest purchase date of shares in the account. If this holding period is less than one-year, a 2% fee will be assessed. If this holding period is at least one

year but less than five years, a 1% fee will be assessed. The fee will be prorated if the shares redeemed or exchanged have been held for time periods subject to differing fees. The fee will not apply to shares purchased through reinvestment of dividends or capital gains.

ILLUSTRATION OF EXPENSES

The following example illustrates the expenses that you would incur on a \$1,000 investment over various periods, assuming (1) a 5% annual rate of return and (2) redemption at the end of each period.

1 YEAR	3 YEARS
-----	-----
\$*	\$*

THIS EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR PERFORMANCE. ACTUAL EXPENSES MAY BE HIGHER OR LOWER THAN THOSE SHOWN.

YIELD AND
TOTAL RETURN

From time-to-time a Portfolio of the Fund may advertise its yield and total return. Both yield and total return figures are based on historical earnings and are not intended to indicate future performance. The "total return" of a Portfolio refers to the average annual compounded rates of return over one-, five- and ten-year periods or for the life of the Portfolio (as stated in the advertisement) that would equate an initial amount invested at the beginning of a stated period to the ending redeemable value of the investment, assuming the reinvestment of all dividend and capital gains distributions.

The "30-day yield" of a portfolio is calculated by dividing the net investment income per share earned during a 30-day period by the net asset value per share on the last day of the period. Net investment income includes interest and dividend income earned on a Portfolio's securities; it is net of all expenses and all recurring and nonrecurring charges that have been applied to all shareholder accounts. The yield calculation assumes that net investment income earned over 30 days is compounded monthly for six months and then annualized. Methods used to calculate advertised yields are standardized for all stock and bond mutual funds. However, these methods differ from the accounting methods used by a Portfolio to maintain its books and records, and so the advertised 30-day yield may not fully reflect the income paid to your own account or the yield reported in a Portfolio's reports to shareholders.

INVESTMENT
OBJECTIVES

The Fund is an open-end diversified investment company offering three Portfolios which seek to minimize the impact of taxes on investors' returns.

* The GROWTH AND INCOME PORTFOLIO seeks to minimize capital gains distributions while providing long-term capital growth and a moderate level of taxable current income. The Portfolio invests in common stocks using an index-oriented investment approach to minimize portfolio turnover and the realization of capital gains within the Portfolio. Its benchmark index is the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index") which emphasizes large capitalization companies. Large capitalization stocks, on average, have moderate dividend yields (the distribution yield of the S&P 500 Index was * on *).

* The CAPITAL APPRECIATION PORTFOLIO seeks to minimize capital gains and dividend distributions while providing long-term growth of capital. The Portfolio may be expected to provide a nominal level of taxable income. The Portfolio invests in common stocks using an index-oriented strategy in an effort to minimize portfolio turnover and the realization of capital gains within the Portfolio. The Portfolio's benchmark index is the Russell 1000 Index, an Index of large and medium capitalization stocks. The Portfolio emphasizes low yielding stocks; therefore, its return will vary from the return of the Russell 1000 Index.

* The BALANCED PORTFOLIO seeks to minimize capital gains and taxable dividend distributions while providing a combination of reasonable current income (nominal taxable income and moderate tax-exempt income) and long-term growth of capital. The Portfolio invests 50-55% of its assets in intermediate-term municipal securities which provide income that is exempt from federal income taxes. The dollar weighted average maturity of the municipal securities is targeted to be between 7 and 12 years. The Portfolio invests the remaining 45-50% of its assets in common stocks using an index-oriented strategy in an effort to minimize portfolio turnover and the realization of capital gains within the Portfolio. The benchmark index for the equity portion of the Portfolio is the Russell 1000 Index; however, the Portfolio emphasizes low yielding stocks, therefore, the return of the equity component will vary from the return of the Russell 1000 Index.

There is no assurance that the Portfolios will achieve their stated objectives.

These investment objectives are not fundamental and so may be changed by the Board of Directors without shareholder approval. However, shareholders would be notified prior to a material change in a Portfolio's objective.

INVESTMENT
POLICIES

The three Portfolios of the Fund are managed in order to minimize the impact of taxes on investor's returns. Each Portfolio employs an index-oriented approach to equity management by attempting to approximate the performance of a benchmark index.

The GROWTH AND INCOME PORTFOLIO invests in substantially all 500 stocks in the S&P 500 Index, an index which emphasizes large capitalization companies. Management techniques used to minimize the realization of capital gains might from time to time cause the proportion of the Portfolio's assets invested in each stock to differ from the proportion found in the S&P 500 Index. As a result, the Portfolio's return will vary more from the S&P 500 Index than the returns of a Portfolio that uses a pure index-management approach.

The CAPITAL APPRECIATION PORTFOLIO invests in a statistical sample of the stocks included in the Russell 1000 Index. Stocks are selected for inclusion in the Portfolio based on their contribution to the Portfolio's market capitalization, industry weightings and other fundamental characteristics such as price earnings ratios, dividend yields, price-to-book ratios and financial leverage. To minimize taxable dividend distributions, the Portfolio emphasizes stocks with low dividend yields. As a result of the low dividend emphasis and management techniques used to minimize capital gains, the returns of the Portfolio will deviate from the returns of the Russell 1000 Index.

The BALANCED PORTFOLIO invests 50-55% of its assets in intermediate-term municipal securities which provide interest income exempt from federal income taxes. The municipal securities will be of investment grade quality--i.e., those rated at least Baa by Moody's Investors Services, Inc. or BBB by Standard & Poor's Corporation. The securities will target a dollar weighted average maturity of 7-12 years. The municipal bond portion of the Balanced Portfolio is managed according to a traditional "active" management style which involves the buying and selling of securities based upon economic, financial and market analysis and investment judgment. In managing the municipal bond component of the Balanced Portfolio, portfolio turnover will be kept low in

order to minimize the realization of capital gains. The Portfolio invests the remaining 45-50% of its assets in a statistical sample of the stocks included in the Russell 1000 Index. The equity portion of the Portfolio will follow the same investment policies as the Capital Appreciation Portfolio. (See above).

The investment policies of the Fund are not fundamental and so may be changed by the Board of Directors without shareholder approval. However, shareholders would be notified prior to a material change.

 INVESTMENT
 RISKS

Like any investment program, the Fund entails certain risks. Because the Growth and Income and Capital Appreciation Portfolios both invest 100% of their assets in stocks and the Balanced Portfolio invests 45-50% of its assets in stocks, all three Portfolios are subject to stock market risk--i.e., the possibility that common stock prices will decline over short or even extended periods. The U.S. stock market tends to be cyclical, with periods when stock prices generally rise and periods when stock prices generally decline.

To illustrate the volatility of stock prices, the following table sets forth the extremes for stock market returns as well as the average return for the period from 1926 to 1993, as measured by the S&P 500 Composite Stock Price Index:

<TABLE>
 <CAPTION>

U.S. STOCK MARKET RETURNS (1926-1993) OVER VARIOUS TIME HORIZONS						
		1 YEAR	5 YEARS	10 YEARS	20 YEARS	
		-----	-----	-----	-----	
<S>	<C>		<C>	<C>	<C>	
Best		+53.9%	+23.9%	+20.1%	+16.9%	
Worst		-43.3	-12.5	- 0.9	+ 3.1	
Average		+12.3	+10.3	+10.6	+10.6	

</TABLE>

As shown, from 1926 to 1993, common stocks, as measured by the S&P 500 Index, have provided an annual total return (capital appreciation plus dividend income), on average, of +12.3%. While this average return can be used as a guide for setting reasonable expectations for future stock market returns, it may not be useful for forecasting future returns in any particular period, as stock returns are quite volatile from year-to-year.

Historically, medium capitalization stocks, such as *% of those found in the Russell 1000 Index on March 31, 1994, have been more volatile in price than the larger-capitalization stocks included in the S&P 500 Index. Besides exhibiting greater price volatility, the price of medium company stocks may, to a degree, fluctuate independently of larger company stocks. Medium company stocks constitute approximately *% of the investments of the Capital Appreciation Portfolio and approximately *% of the equity portion of the Balanced Portfolio.

Additionally, the Capital Appreciation Portfolio and the equity portion of the Balanced Portfolio emphasize low yielding stocks which may give these Portfolio's "growth" characteristics. Stocks that emphasize particular investment characteristics, such as "growth," may fluctuate divergently from the broad stock market as represented by a given market benchmark. Further, these stocks may also demonstrate greater volatility than the broad market index over short or extended periods of time.

The Balanced Portfolio invests a larger portion of its assets in intermediate-term municipal securities (50-55% of assets) than in stocks. Therefore, the Balanced Portfolio will be subject to interest rate risk--i.e., fluctuations in the market value of bonds due to changing interest rates. Bond prices are influenced primarily by changes in the level of interest rates. When interest rates rise, the prices of bonds generally fall; conversely, when interest rates fall, bond prices generally rise. While bonds normally fluctuate less in price than stocks, there have been extended periods of cyclical increases in interest rates that have caused

significant declines in bond prices. For example, bond prices fell 48% from December 1976 to September 1981. However, a decline in the market value of bonds may be offset in whole or in part by the high level of income that bonds provide.

The Balanced Portfolio is also subject to credit risk--i.e., the likelihood that a bond issuer will fail to make timely payments of interest and principal. Such credit risk is expected to be low, however, due to the credit quality and diversification of the Portfolio's bond investments.

From time to time, the stock and bond markets may fluctuate independently of one another. In other words, a decline in the stock market may in certain instances be offset by a rise in the bond market, or vice versa. As a result, the Balanced Portfolio, with its balance of common stock and bond investments, is expected to entail less investment risk (and a potentially lower return) than mutual funds investing exclusively in common stocks.

WHO SHOULD
INVEST

LONG-TERM TAXABLE INVESTORS SEEKING TO MINIMIZE TAXABLE DISTRIBUTIONS

The Fund is designed for long-term taxable investors who seek to minimize receipt of taxable distributions. The Fund is not suitable for Individual Retirement Accounts (IRAs) or other tax-deferred retirement plans such as Keoghs, 401-k, 403-b, or money purchase plans.

The three Portfolios of the Fund are designed for investors seeking low taxable distributions, low costs, and high relative predictability of return through an index-oriented management approach.

The GROWTH AND INCOME PORTFOLIO is designed for investors seeking long-term capital growth and moderate current income from a diversified portfolio of common stocks.

The CAPITAL APPRECIATION PORTFOLIO is designed for investors seeking long-term growth of capital with nominal current income from common stocks.

The BALANCED PORTFOLIO is designed for investors seeking a balance between long-term capital growth, moderate tax-exempt income from municipal bonds, and nominal taxable income from common stocks.

The share prices of the Growth and Income Portfolio and the Capital Appreciation Portfolio are expected to be volatile, and investors should be able to tolerate sudden, sometimes substantial fluctuations in the value of their investments. The Balanced Portfolio is expected to be less volatile than the Growth and Income Portfolio and the Capital Appreciation Portfolio. However, investors in the Balanced Portfolio should also be able to tolerate sudden fluctuations in the value of their investment. No assurance can be given that the Portfolios will achieve their stated objectives or that shareholders will be protected from the risks inherent in the markets in which they invest. Investors may wish to purchase shares on a regular, periodic basis (dollar-cost averaging) rather than investing in one lump sum in order to reduce the risk of investing at a particularly unfavorable time.

THE FUND IS DESIGNED ONLY FOR LONG-TERM INVESTORS WHO EXPECT TO OWN SHARES OF THE FUND FOR FIVE YEARS OR MORE. The Fund is not intended to provide investors with a means of speculating on short-term market movements. Investors who engage in excessive account activity generate additional costs and may cause a Portfolio to recognize capital gains which are borne by the Portfolio's remaining shareholders.

In order to discourage short-term trading activity the Fund has adopted the following policies: the Fund will charge a 2% redemption fee on redemptions of shares held less than one year and will charge a 1% redemption fee on redemptions of shares held at least one year but less than five years. The Fund reserves the right to reject any purchase request (including exchange purchases from other Vanguard funds) that is reasonably deemed to be disruptive to efficient portfolio management, either because of the timing of the investment or previous excessive trading by the investor. Additionally, the Fund has adopted exchange privilege limitations as

described in the section "Exchange Privilege Limitations." Finally, the Fund reserves the right to suspend the offering of its shares.

Investors should not consider the Fund a complete investment program, but should maintain holdings of securities with different risk characteristics--including common stocks, bonds and money market instruments. Investors may also wish to complement an investment in the Fund with other types of common stock investments.

IMPLEMENTATION
OF POLICIES

The GROWTH AND INCOME PORTFOLIO holds substantially all the stocks included in the S&P 500 Index in approximately the same proportions as they are represented in the Index.

The S&P 500 Index is composed of 500 common stocks, which are chosen by Standard & Poor's Corporation on a statistical basis to be included in the Index. The inclusion of a stock in the S&P 500 Index in no way implies that Standard & Poor's Corporation believes the stock to be an attractive investment. The 500 securities, most of which trade on the New York Stock Exchange, represented, as of March 31, 1994, approximately *% of the market value of all U.S. common stocks. Each stock in the S&P 500 Index is weighted by its market value.

Because of the market-value weighting, the 50 largest companies in the S&P 500 Index currently account for approximately 50% of the capitalization of the Index. Typically, companies included in the S&P 500 Index are the largest and most dominant firms in their respective industries. As of March 31, 1994, the five largest companies in the Index were: General Electric (2.7%), Exxon Corporation (2.5%), AT&T (2.2%), Wal-Mart Stores (1.9%) and Royal Dutch Petroleum (1.7%). The largest industry categories were international oil companies (*%), telephone companies (*%), electric power (*%), electrical equipment (*%) and diversified health care companies (*%).

The GROWTH AND INCOME PORTFOLIO is not sponsored, endorsed, sold or promoted by Standard & Poor's Corporation ("S&P"). S&P makes no representations or warranty, implied or expressed, to the purchasers of the Portfolio or any member of the public regarding the advisability of investing in index funds or the ability of the S&P 500, to track general stock market performance or to track the general performance of value and growth stocks. S&P does not guarantee the accuracy and/or the completeness of the S&P 500, or any data included herein.

S&P's only relationship to the Portfolio is the licensing of the S&P marks, and the S&P 500 Index which is determined, composed and calculated by S&P without regard to the Growth and Income Portfolio.

The CAPITAL APPRECIATION PORTFOLIO holds a statistical sample of the stocks included in the Russell 1000 Index. The sampling technique emphasizes stocks with low dividend yields. Because of this low dividend bias and management techniques used to minimize the realization of capital gains, returns from the Portfolio will differ from the Russell 1000 Index.

The Russell 1000 Index is composed of stocks from the largest 1000 U.S. companies. As of March 31, 1994, the largest company in the index had a market value of approximately \$67 billion; the smallest company's market capitalization was approximately \$250 million. The 1000 securities represented, as of March 31, 1994, approximately *% of the market value of all U.S. common stocks.

The BALANCED PORTFOLIO will invest 45-50% of its assets in a statistical sample of the 1000 stocks included in the Russell 1000 Index. This equity portion of the Balanced Portfolio will implement investment policies in the same manner as the Capital Appreciation Portfolio. (See above).

The CAPITAL APPRECIATION and the BALANCED PORTFOLIOS are neither sponsored by nor affiliated with the Frank Russell Company. Frank Russell's only relationship to the Portfolio's

is the licensing of the use of the Russell 1000 Index. Frank Russell Company is the owner of the trademarks and copyrights relating to the Russell Indexes.

The BALANCED PORTFOLIO invests the remaining 50-55% of its assets in intermediate-term tax-exempt municipal securities issued by state and local governments and regional government authorities. Municipal securities include both municipal bonds (those securities with maturities of five years or more) and municipal notes (those securities with maturities of less than five years).

Municipal bonds are issued for a wide variety of reasons: to construct public facilities, such as airports, highways, bridges, schools, hospitals, housing, mass transportation, streets, water and sewer works; to obtain funds for operating expenses; to refund outstanding municipal obligations; and to loan funds to various public institutions and facilities. Certain industrial development bonds are also considered municipal bonds if their interest is exempt from federal income tax. Industrial development bonds are issued on behalf of public authorities to obtain funds for various privately-operated manufacturing facilities, housing, sports arenas, convention centers, airports, mass transportation systems and water, gas or sewage works.

General obligation municipal bonds are secured by the issuer's pledge of full faith, credit and taxing power. Revenue or special tax bonds are payable from the revenues derived from a particular facility or, in some cases, from a special excise or other tax, but not from general tax revenue. Industrial development bonds are ordinarily dependent on the credit quality of a private user, not the public issuer.

Municipal notes are issued to meet the short-term funding requirements of local, regional and state governments. Municipal notes include tax anticipation notes, bond anticipation notes, revenue anticipation notes, tax and revenue anticipation notes, construction loan notes, short-term discount notes, tax-exempt commercial paper, demand notes, and similar instruments. Demand notes permit an investor (such as the Fund) to demand from the issuer payment of principal plus accrued interest upon a specified number of days' notice.

EACH PORTFOLIO MAY INVEST IN SHORT-TERM FIXED INCOME SECURITIES

The Growth and Income and Capital Appreciation Portfolios attempt to remain fully invested in common stocks. The Balanced Portfolio attempts to remain fully invested in common stocks and municipal securities. The three Portfolios of the Fund may invest temporarily in certain short-term fixed income securities. Such securities may be used to invest uncommitted cash balances or to maintain liquidity to meet shareholder redemptions. These securities include: obligations of the United States Government and its agencies or instrumentalities; commercial paper, bank certificates of deposit, and bankers' acceptances; and repurchase agreements collateralized by these securities.

EACH PORTFOLIO MAY USE FUTURES CONTRACTS, OPTIONS AND WARRANTS, CONVERTIBLE SECURITIES AND SWAP AGREEMENTS

Each Portfolio of the Fund may utilize stock futures contracts, options, warrants, convertible securities and swap agreements to a limited extent. Specifically, each Portfolio may enter into futures contracts and options provided that not more than 3% of its assets are required as a margin deposit for futures contracts or options and provided that not more than 5% of a Portfolio's assets are invested in futures and options at any time. Additionally, each Portfolio's investment in warrants will not exceed more than 5% of its assets (2% with respect to warrants not listed on the New York or American Stock Exchanges). Futures contracts, options, warrants, convertible securities and swap agreements may be used for several reasons: to simulate full investment in the benchmark index while retaining a cash balance for fund management purposes, to facilitate the Portfolio management process, or to reduce transaction costs. While each of these securities can be used as leveraged investments, the Portfolios may not use them to leverage its net assets. Since the Fund seeks to minimize taxable distributions, futures will only be incorporated into the Portfolio to a very limited extent.

FUTURES CONTRACTS, OPTIONS, WARRANTS, CONVERTIBLE SECURITIES AND SWAP AGREEMENTS POSE CERTAIN RISKS

The risk of loss associated with futures contracts in some strategies can be substantial due both to the low margin deposits required and the extremely high degree of leverage involved in futures pricing. As a result, a relatively small price movement in a futures contract may result in an immediate and substantial loss or gain. However, the Portfolios will not use futures contracts, options, warrants, convertible securities and swap agreements for speculative purposes or to leverage their net assets. Accordingly, the primary risks associated with the use of futures contracts, options, warrants, convertible securities and swap agreements by the Portfolios are: (i) imperfect correlation between the change in market value of the stocks held by a Portfolio and the prices of futures contracts, options, warrants, convertible securities and swap agreements; and (ii) possible lack of a liquid secondary market for a futures contract and the resulting inability to close a futures position prior to its maturity date. The risk of imperfect correlation will be minimized by investing only in those contracts whose behavior is expected to resemble that of a Portfolio's underlying securities. The risk that a Portfolio will be unable to close out a futures position will be minimized by entering into such transactions on an exchange with an active and liquid secondary market. However options, warrants, convertible securities and swap agreements purchased or sold over-the-counter may be less liquid than exchange traded securities. Illiquid securities, in general, may not represent more than 15% of the net assets of a Portfolio of the Fund.

Swap agreements are contracts between parties in which one party agrees to make payments to the other party based on the change in market value of a specified index or asset. In return, the other party agrees to make payments to the first party based on the return of a different specified index or asset. Although swap agreements entail the risk that a party will default on its payment obligations thereunder, the Portfolios will minimize this risk by entering into agreements that mark to market no less frequently than quarterly. Swap agreements also bear the risk that the Portfolios will not be able to meet their obligations to the counterparty. This risk will be mitigated by having the Portfolios invest in the specific asset for which they are obligated to pay a return.

EACH PORTFOLIO MAY LEND ITS SECURITIES

Each Portfolio of the Fund may lend its investment securities to qualified institutional investors for either short-term or long-term purposes of realizing additional income. Loans of securities by a Portfolio will be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities, and such loans may not exceed 33 1/3% of the value of the Portfolio's net assets.

PORTFOLIO TURNOVER IS EXPECTED TO BE LOW

Although each Portfolio generally seeks to invest for the long term, the three Portfolios of the Fund retain the right to sell securities irrespective of how long they have been held. However, because of the index-oriented investment management approach of the Fund and because of the management techniques employed to reduce the realization of capital gains, the manager initiated portfolio turnover rate for each Portfolio is expected to be less than 10% annually.

INVESTMENT
LIMITATIONS
THE FUND HAS ADOPTED
CERTAIN FUNDAMENTAL
LIMITATIONS

The Fund has adopted certain limitations on its investment practices. Specifically, each Portfolio of the Fund will not:

- (a) with respect to 75% of its assets, purchase securities of any issuer (except obligations of the U.S. Government and its instrumentalities) if, as a result, more than 5% of the value of the Portfolio's assets would be invested in the securities of such issuer;
- (b) with respect to 75% of its assets, purchase more than 10% of the voting securities of any issuer;

- (c) invest more than 25% of its assets in any one industry; and
- (d) borrow money, except that a Portfolio may borrow from banks (or through reverse repurchase agreements), for temporary or emergency (not leveraging) purposes, including the meeting of redemption requests which might otherwise require the untimely disposition of securities, in an amount not exceeding 15% of the value of the Portfolio's net assets (including the amount borrowed and the value of any outstanding reverse repurchase agreements) at the time the borrowing is made. Whenever borrowings exceed 5% of the value of a Portfolio's net assets, the Portfolio will not make any additional investments.

These investment limitations are considered at the time investment securities are purchased. The limitations described here and in the Statement of Additional Information may be changed only with the approval of a majority of a Portfolio's shareholders.

MANAGEMENT
OF THE FUND

VANGUARD ADMINISTERS AND DISTRIBUTES THE FUND

The Fund is a member of The Vanguard Group of Investment Companies, a family of ** investment companies with ** distinct portfolios and total assets in excess of \$*** billion. Through their jointly owned subsidiary, The Vanguard Group, Inc. ("Vanguard"), the Fund and the other funds in the Group obtain at cost virtually all of their corporate management, administrative and distribution services. Vanguard also provides investment advisory services on an at-cost basis to certain Vanguard funds. As a result of Vanguard's unique corporate structure, the Vanguard funds have costs substantially lower than those of most competing mutual funds. In 1993, the average expense ratio (annual costs including advisory fees divided by total net assets) for the Vanguard funds amounted to approximately .30% compared to an average of 1.02% for the mutual fund industry (data provided by Lipper Analytical Services).

The Officers of the Fund manage its day-to-day operations and are responsible to the Fund's Board of Directors. The Directors set broad policies for the Fund and choose its Officers. A list of the Directors and Officers of the Fund and a statement of their present positions and principal occupations during the past five years can be found in the Statement of Additional Information.

Vanguard employs a supporting staff of management and administrative personnel needed to provide the requisite services to the funds and also furnishes the funds with necessary office space, furnishings and equipment. Each fund pays its share of Vanguard's total expenses, which are allocated among the funds under methods approved by the Board of Directors of each fund. In addition, each fund bears its own direct expenses, such as legal, auditing and custodian fees.

Vanguard provides distribution and marketing services to the funds. The funds are available on a no-load basis (i.e., there are no sales commissions or 12b-1 fees). However, each fund bears its share of the Group's distribution costs.

INVESTMENT
ADVISER
VANGUARD MANAGES
THE FUND ON AN
AT-COST BASIS

The Growth and Income and Capital Appreciation Portfolios and the equity portion of the Balanced Portfolio receive all investment advisory services on an at-cost basis from VANGUARD'S CORE MANAGEMENT GROUP. The Core Management Group also provides investment advisory services to several other Vanguard Funds, including Vanguard Index Trust, Vanguard International Equity Index Fund, Vanguard Institutional Index Fund, Vanguard Balanced Index Fund, Vanguard Variable Insurance Fund--Equity Index Portfolio, and a portion of Vanguard/Windsor II, as well as to several indexed separate accounts. Total assets under management by the Core Management Group were \$ * billion as of March 31, 1994. The Core Management Group is supervised by the Officers of the Fund.

In placing portfolio transactions, the Core Management Group uses its best judgment to choose the broker most capable of providing the brokerage services necessary to obtain the best available price and most favorable execution at the lowest commission rate. The full range and quality of brokerage services available are considered in making these

determinations. In those instances where it is reasonably determined that more than one broker can offer the services needed to obtain the best available price and most favorable execution, consideration may be given to those brokers which supply statistical information and provide other services in addition to execution services to the Fund.

The municipal securities portion of the Balanced Portfolio receives all investment advisory services on an at-cost basis from VANGUARD'S FIXED INCOME GROUP. The Group also provides investment advisory services to * other Vanguard money market and bond portfolios, both taxable and tax-exempt. Total assets under management by Vanguard's Fixed Income Group were \$* billion as of March 31, 1994. The Fixed Income Group is supervised by the Officers of the Fund.

Ian A. MacKinnon, Senior Vice President of Vanguard, has been in charge of the Group since its inception in 1981. Mr MacKinnon is responsible for setting the broad investment strategies employed by the Fund, and for overseeing the Portfolio managers who implement those strategies on a day-to-day basis.

Jerome J. Jacobs, Vice President, serves as portfolio manager of the municipal securities portion of the Balanced Portfolio. Associated with the Fixed Income Group since 1984, Mr. Jacobs currently manages the Long-Term and High-Yield Portfolios of Vanguard Municipal Bond Fund. Previously he managed the Short-Term, Limited-Term and Intermediate-Term Portfolios of Vanguard Municipal Bond Fund.

The Fixed Income Group manages the investment and reinvestment of its portion of the assets of the Balanced Portfolio and continuously reviews, supervises and administers its investment program, subject to the maturity and quality standards specified in this Prospectus and supplemental guidelines approved by the Fund's Board of Directors. The Fixed Income Group's selection of investments for the Portfolio is based on: (a) continuing credit analysis of those instruments held in the Portfolio and those being considered for inclusion therein; (b) possible disparities in yield relationships between different fixed income securities; and (c) actual or anticipated movements in the general level of interest rates.

Vanguard's investment management staff places all orders for purchases and sales of portfolio securities. Purchase of portfolio securities are made either directly from the issuer or from municipal securities dealers. The investment management staff may sell portfolio securities prior to their maturity if circumstances and considerations warrant and if it believes such dispositions advisable. The staff seeks to obtain the best available net price and most favorable execution for the portfolio transactions. The full range and quality of brokerage services are considered in making these determinations.

DIVIDENDS,
CAPITAL GAINS
AND TAXES

While the Fund seeks to minimize taxable distributions, each Portfolio of the Fund will inevitably earn taxable income and realize capital gains. The Fund distributes substantially all of its net investment income in the form of dividends. The three Portfolios expect to pay dividends quarterly from ordinary income and distribute net capital gains, if any, annually.

A Portfolio's dividend and capital gains distributions may be reinvested in additional shares or received in cash. See "Choosing a Distribution Option" for a description of these distribution methods.

In order to satisfy certain distribution requirements of the

Tax Reform Act of 1986, the Portfolio may declare special year-end dividend and capital gains distributions during December. Such distributions, if received by shareholders by January 31, are deemed to have been paid by the Portfolio and received by shareholders on December 31 of the prior year.

Each Portfolio of the Fund intends to continue to qualify for taxation as a "regulated investment company" under the Internal Revenue Code so that each Portfolio will not be subject to federal income tax to the extent its income is distributed to shareholders. Dividends paid by the Growth and Income and the Capital Appreciation Portfolios from net investment income, whether received in cash or reinvested in additional shares, will be taxable to shareholders as ordinary income. For corporate investors, dividends from net investment income will generally qualify in part for the intercorporate dividends-received deduction. However, the portion of the dividends so qualified depends on the aggregate taxable qualifying dividend income received by a Portfolio from domestic (U.S.) sources.

In addition, the Balanced Portfolio intends to invest a sufficient portion of its assets in municipal bonds and notes so that it will qualify to pay "exempt-interest dividends" to shareholders. Such exempt-interest dividends distributed to shareholders are excluded from a shareholder's gross income for federal tax purposes. The Revenue Reconciliation Act enacted during 1993 provides that market discount on tax-exempt bonds, purchased after April 30, 1993 must be taxed as ordinary income. Accordingly, to the extent that the Fund purchases such discounted securities taxable income may result. Taxable income will also result from the Portfolio's equity investments.

In addition, any capital loss realized from municipal securities held for six months or less is disallowed to the extent of tax-exempt dividend income received. In other words, if you held shares in a Portfolio for six months or less, and sold those shares (or a portion of those shares) at a loss, the capital loss you report is reduced by the tax-exempt dividends paid by these shares.

Tax-exempt dividends from a Portfolio, capital gains distributions from a Portfolio, and any capital gains or losses realized from the sale or exchange of shares may be subject to state and local taxes. However, some states allow shareholders to exclude from state income tax that portion of a Portfolio's tax-exempt income that is attributable to municipal securities issued within the shareholder's own state. To assist shareholders of these states, the Fund will provide a breakdown of each Portfolio's tax-exempt interest income on a state-by-state basis at year-end.

Up to 50% of an individual's Social Security benefits may be subject to federal income tax. Along with other factors, total tax-exempt income, including any tax-exempt dividend income from the Balanced Portfolio, is used to calculate the portion of Social Security benefits that is taxed.

Distributions paid by a Portfolio from long-term capital gains, whether received in cash or reinvested in additional shares, are taxable as long-term capital gains, regardless of the length of time you have owned shares in the Portfolio. Capital gains distributions are made when a Portfolio realizes net capital gains on sales of portfolio securities during the year. Each Portfolio is managed in order to minimize the amount of capital gains realized during a particular year. However, the realization of capital gains is not entirely within the Fund's control and is dependent on shareholder purchase and redemption activity. Capital gains distributions may vary considerably from year-to-year; there will be no capital gains distributions in years when a Portfolio realizes net capital losses.

Note that if you elect to receive capital gains distributions in cash, instead of reinvesting them in additional shares, you are in effect reducing the capital at work for you in a Portfolio. Also, keep in mind that if you purchase shares in a Portfolio shortly before the record date for a dividend or capital gains distribution, a portion of your investment will be returned to you as a taxable distribution, regardless of whether you are reinvesting your distributions or receiving them in cash.

The Fund will notify you annually as to the tax status of dividend and capital gains distributions paid by each Portfolio.

A CAPITAL GAIN
OR LOSS MAY BE

REALIZED UPON EXCHANGE OR REDEMPTION

A sale of shares of a Portfolio is a taxable event, and may result in a capital gain or loss. A capital gain or loss may be realized from an ordinary redemption of shares or an exchange of shares between two mutual funds (or two portfolios of the same fund).

Dividend distributions, capital gain distributions, and capital gains or losses from redemptions and exchanges may be subject to state and local taxes.

Each Portfolio of the Fund is required to withhold 31% of taxable dividends, capital gains distributions, and redemptions paid to shareholders who have not complied with IRS taxpayer identification regulations. You may avoid this withholding requirement by certifying on your Account Registration Form your proper Social Security or Taxpayer Identification Number and by certifying that you are not subject to backup withholding.

The Fund has obtained a Certificate of Authority to do business as a foreign corporation in Pennsylvania and does business and maintains an office in that state. In the opinion of counsel, the shares of the Portfolios are exempt from Pennsylvania personal property taxes.

The tax discussion set forth above is included for general information only. Prospective investors should consult their own tax advisers concerning the tax consequences of an investment in the Fund.

THE SHARE
PRICE OF
EACH PORTFOLIO

The share price or "net asset value" per share of each Portfolio is determined by dividing the total market value of the Portfolio's investments and other assets, less any liabilities, by the number of outstanding shares of the Portfolio. Net asset value per share is determined once daily at the close of regular trading on the New York Stock Exchange (generally 4:00 p.m. Eastern time).

Portfolio securities that are listed on a securities exchange are valued at the last quoted sales price on the day the valuation is made. Price information on listed securities is taken from the exchange where the security is primarily traded by the Portfolio. Securities which are listed on an exchange and which are not traded on the valuation date are valued at the mean of the bid and ask prices. For the Growth and Income Portfolio, unlisted securities for which market quotations are not readily available are valued at the latest quoted bid price. For the Capital Appreciation Portfolio and the equity portion of the Balanced Portfolio, unlisted securities for which market quotations are not readily available are valued at the mean of the bid and ask prices. Temporary cash investments are valued at amortized cost which approximates market value. Equity securities for which no current quotations are readily available are valued at fair market value as determined in good faith by the Board of Directors. Equity securities may be valued on the basis of prices provided by a pricing service when such prices are believed to reflect the fair market value of such securities.

When approved by the Board of Directors, bonds and other fixed income securities of the Balanced Portfolio may be valued on the basis of prices provided by a pricing service when such prices are believed to reflect the fair market value of such securities. (Since the majority of municipal bond issues do not trade each day, current prices are generally not available for many securities. In estimating a security's price, a pricing service takes into account institutional-size trading in similar groups of securities and any developments related to specific securities.) The methods used by the pricing service and the valuations so established are reviewed by the officers of the Fund under policies determined by the Directors. There are a number of

pricing services available and the Directors, as part of an on-going evaluation of these services, may authorize the use of other pricing services or discontinue the use of any service in whole or in part.

Securities not priced in this manner are priced at the most recent quoted bid price provided by investment dealers. Short-term instruments maturing within 60 days of the valuation date may be valued at cost, plus or minus any amortized discount or premium. Other assets and securities for which no quotations are readily available will be valued in good faith at their fair value using methods determined by the Directors.

Each Portfolio's share price can be found daily in the mutual fund listings of most major newspapers under the heading of The Vanguard Group.

GENERAL
INFORMATION

The Fund is organized as a Maryland corporation. The Articles of Incorporation permit the Directors to issue 750,000,000 shares of common stock with a \$.001 par value. The Board of Directors has the power to designate one or more classes ("series") of shares of common stock and to classify or reclassify any unissued shares with respect to such series. Currently the Fund is offering shares of three series.

The shares of each series are fully paid and non-assessable; have no preference as to conversion, exchange, dividends, retirement or other features; and have no pre-emptive rights. Such shares have non-cumulative voting rights, meaning that the holders of more than 50% of the shares voting for the election of Directors can elect 100% of the Directors if they so choose. Annual meetings of shareholders will not be held except as required by the Investment Company Act of 1940 and other applicable law. An annual meeting will be held to vote on the removal of a Director or Directors of the Fund if requested in writing by the holders of not less than 10% of the outstanding shares of the Fund.

All securities and cash are held by * . The Vanguard Group, Inc., Valley Forge, PA, serves as the Fund's Transfer and Dividend Disbursing Agent. Price Waterhouse serves as independent accountant for the Fund and will audit its financial statements annually. The Fund is not involved in any litigation.

SHAREHOLDER GUIDE

OPENING AN ACCOUNT AND PURCHASING SHARES

You may open an account, either by mail or wire. Simply complete and return an Account Registration Form and any required legal documentation, indicating the amount you wish to invest. Your purchase must be equal to or greater than the \$10,000 minimum initial investment requirement for each Portfolio. If you need assistance with the forms or have any questions about the Fund, please call our Investor Information Department (1-800-662-7447). NOTE: For other types of account registrations (e.g., corporations, associations, other organizations, trusts or powers of attorney), please call us to determine which additional forms you may need. The Fund is not appropriate for Individual Retirement Accounts (IRAs) and other types of tax-deferred retirement plans.

Because of the risks associated with common stock investments, the Fund is intended to be a long-term investment vehicle and is not designed to provide investors with a means of speculating on short-term market movements. Consequently, the Fund reserves the right to reject any specific purchase (and exchange purchase) request. The Fund also reserves the right to suspend the offering of shares for a period of time.

IMPORTANT NOTE ON EXPENSES

Shares of each Portfolio are purchased at the next-determined net asset value per share after your investment has been received. Potential investors should note that a 2% fee is charged on redemptions and exchanges out of all Portfolios of shares held for less than one year and a 1% fee is charged on redemptions and exchanges of shares held at least one but

less than five years. Please see "Fund Expenses" for more information. The Fund is offered on a no-load basis (i.e., there are no sales commissions or 12b-1 fees).

ADDITIONAL
INVESTMENTS

Subsequent investments to regular accounts may be made by mail (\$100 minimum), wire (\$1,000 minimum), written exchange from another Vanguard Fund account (\$100 minimum), or Vanguard Fund Express. However, the Fund reserves the right to reject any specific purchase request, whether it be made by check, wire, exchange from another Vanguard Fund account, or Vanguard Fund Express.

NEW ACCOUNT

PURCHASING BY MAIL Please include the amount Complete and sign of your initial the enclosed investment and indicate Account the Portfolio(s) you have Registration Form selected on the registration form, make your check payable to The Vanguard Group --(Portfolio Number), see below for the appropriate portfolio number, and mail to:
VANGUARD FINANCIAL CENTER
P.O. BOX 2600
VALLEY FORGE, PA 19482

For express or VANGUARD FINANCIAL CENTER registered mail, 455 DEVON PARK DRIVE send to: WAYNE, PA 19087

ADDITIONAL INVESTMENTS
TO EXISTING ACCOUNTS

Additional investments should include the Invest-by-Mail remittance form attached to your Fund confirmation statements. Please make your check payable to The Vanguard Group--(Portfolio Number), see below for the appropriate portfolio number, write your account number on your check and, using the return envelope provided, mail to the address indicated on the Invest-by-Mail Form.

All requests should be mailed to one of the addresses indicated for new accounts. Do not send registered or express mail to the post office box address.

VANGUARD TAX-MANAGED FUND:
Growth and Income Portfolio--*
Capital Appreciation Portfolio--*
Balanced Portfolio--*

PURCHASING BY WIRE
Money should be
wired to:

*
*
*
ATTN VANGUARD

BEFORE WIRING
Please contact our
Client Services Department
(1-800-662-2739)

VANGUARD TAX-MANAGED FUND
NAME OF PORTFOLIO
ACCOUNT NUMBER
ACCOUNT REGISTRATION

You should notify our Client Services Department of your intended wire purchase, including the federal wire number to be used, by 12:00 noon (Eastern time). To assure proper receipt, please be sure your bank includes the Portfolio name, the account number Vanguard has assigned to you and the eight digit CoreStates number. If you are opening a new account, please complete the Account Registration Form and mail it to the "New Account" address after completing your wire arrangement. NOTE: Federal Funds wire purchase orders will be accepted only when the Fund and Custodian Banks are open for business.

PURCHASING BY EXCHANGE (from a Vanguard account)

Telephone exchanges are not accepted for Vanguard Tax-Managed Fund. You may, however, open an account by exchange by providing the appropriate information on the Account Registration Form. The new account will have the same registration as the existing account. However, the Fund

reserves the right to refuse any exchange purchase request.

PURCHASING BY
FUND EXPRESS
Automatic Investment

The Fund Express Automatic Investment option lets you move money from your bank account to your Vanguard account on the schedule (monthly, bimonthly (every other month), quarterly or yearly) you select. To establish this Fund Express option, please provide the appropriate information on the Account Registration Form. We will send you a confirmation of your Fund Express enrollment; please wait three weeks before using the service.

CHOOSING A DISTRIBUTION OPTION

You must select one of three distribution options:

1. AUTOMATIC REINVESTMENT OPTION--Both dividends and capital gains distributions will be reinvested in additional shares. This option will be selected for you automatically unless you specify one of the other options.
2. CASH DIVIDEND OPTION--Your dividends will be paid in cash and your capital gains will be reinvested in additional shares.
3. ALL CASH OPTION--Both dividend and capital gains distributions will be paid in cash.

You may change your option by calling our Client Services Department (1-800-662-2739).

In addition, an option to invest your cash dividends and/or capital gains distributions in another Vanguard Fund account is available. Please call our Client Services Department (1-800-662-2739) for information. You may also elect Vanguard Dividend Express which allows you to transfer your cash dividends and/or capital gains distributions automatically to your bank account. Please see "Other Vanguard Services" for more information.

TAX CAUTION

INVESTORS SHOULD ASK ABOUT THE TIMING OF CAPITAL GAINS AND DIVIDEND DISTRIBUTIONS BEFORE INVESTING

Under Federal tax laws, the Fund is required to distribute net capital gains and dividend income to Fund shareholders. These distributions are made to all shareholders who own Fund shares as of the distribution's record date, regardless of how long the shares have been owned. Purchasing shares just prior to the record date could have a significant impact on your tax liability for the year. For example, if you purchase shares immediately prior to the record date of a sizable capital gain or income dividend distribution, you will be assessed taxes on the amount of the capital gain and/or dividend distribution later paid even though you owned the Fund shares for just a short period of time. (Taxes are due on the distributions even if the dividend or gain is reinvested in additional Fund shares.) While the total value of your investment will be the same after the distribution--the amount of the distribution will offset the drop in the net asset value of the shares--you should be aware of the tax implications the timing of your purchase may have.

Prospective investors should, therefore, inquire about potential distributions before investing. The Growth and Income, Capital Appreciation, and Balanced Portfolios' annual capital gains are normally distributed in December. Each

Portfolio's income dividends are generally paid quarterly in March, June, September and December. For additional information on distributions and taxes, see the section titled "Dividends, Capital Gains and Taxes."

IMPORTANT INFORMATION

ESTABLISHING OPTIONAL SERVICES

The easiest way to establish optional Vanguard services on your account is to select the options you desire when you complete your Account Registration Form. IF YOU WISH TO ADD OPTIONS LATER, YOU MAY NEED TO PROVIDE VANGUARD WITH ADDITIONAL INFORMATION AND A SIGNATURE GUARANTEE. PLEASE CALL

SIGNATURE GUARANTEES

For our mutual protection, we may require a signature guarantee on certain written transaction requests. A signature guarantee verifies the authenticity of your signature and may be obtained from banks, brokers and any other guarantor that Vanguard deems acceptable. A SIGNATURE GUARANTEE CANNOT BE PROVIDED BY A NOTARY PUBLIC.

CERTIFICATES

Share certificates will be issued upon request. If a certificate is lost, you may incur an expense to replace it.

BROKER-DEALER PURCHASES

If you purchase shares in Vanguard Funds through a registered broker-dealer or investment adviser, the broker-dealer or adviser may charge a service fee.

CANCELLING TRADES

The Fund will not cancel any trade (e.g., purchase, exchange or redemption) believed to be authentic, received in writing or by telephone, once the trade has been received.

WHEN YOUR ACCOUNT WILL BE CREDITED

Your trade date is the date on which your account is credited. If your purchase is made by check, Federal Funds wire or exchange, and is received by the close of regular trading the New York Stock Exchange (generally 4:00 p.m. Eastern time), your trade date is the day of receipt. If your purchase is received after the close of the Exchange, your trade date is the next business day. Shares of the Growth and Income, Capital Appreciation, and Balanced Portfolios are purchased at the net asset value determined on your trade date.

In order to prevent lengthy processing delays caused by the clearing of foreign checks, Vanguard will only accept a foreign check which has been drawn in U.S. dollars and has been issued by a foreign bank with a U.S. correspondent bank.

SELLING YOUR SHARES

You may withdraw any portion of the funds in your account by redeeming shares at any time. You may initiate a request by writing or by telephoning. Your redemption proceeds are normally mailed within two business days after the receipt of the request in Good Order.

IMPORTANT NOTE

A redemption fee of 2% of the value of shares redeemed will be deducted from the redemption proceeds if shares held for less than one year are redeemed. A redemption fee of 1% of the value of shares redeemed will be deducted from the redemption proceeds if shares held for at least one year but less than five years are redeemed. These fees are paid directly to the Portfolio. Please see "Fund Expenses" for more information.

SELLING BY MAIL

Requests should be mailed to VANGUARD FINANCIAL CENTER, VANGUARD TAX-MANAGED FUND, P.O. BOX 1120, VALLEY FORGE, PA 19482. (For express or registered mail, send your request to Vanguard Financial Center, Vanguard Tax-Managed Fund, 455 Devon Park Drive, Wayne, PA 19087.)

The redemption price of shares will be the Portfolio's net asset value next determined after Vanguard has received all required documents in Good Order.

DEFINITION OF GOOD ORDER

GOOD ORDER means that the request includes the following:

1. The account number and Portfolio name.
2. The amount of the transaction (specified in dollars or shares).
3. Signatures of all owners EXACTLY as they are registered on the account.
4. Any required signature guarantees.
5. Other supporting legal documentation that might be required, in the case of estates, corporations, trusts and certain other accounts.

6. Any certificates that you hold for the account.

IF YOU HAVE QUESTIONS ABOUT THIS DEFINITION AS IT PERTAINS TO YOUR REQUEST, PLEASE CALL OUR CLIENT SERVICES DEPARTMENT (1-800-662-2739).

SELLING BY
TELEPHONE

To sell shares by telephone, you or your pre-authorized representative may call our Client Services Department at 1-800-662-2739. The proceeds will be sent to you by mail. Please see "Important Information About Telephone Transactions."

SELLING BY FUND EXPRESS

Automatic Withdrawal

With the Fund Express Automatic Withdrawal option, money will be automatically moved from your Vanguard Fund account to your bank account according to the schedule you have selected. You may elect Fund Express on the Account Registration Form or call our Investor Information Department (1-800-662-7447) for a Fund Express application.

SELLING BY EXCHANGE

You may sell shares by making an exchange to another Vanguard Fund account. Exchanges to or from Vanguard Tax-Managed Fund may be made only by mail. Send your exchange request to VANGUARD FINANCIAL CENTER, VANGUARD TAX-MANAGED FUND, P.O. BOX 1120, VALLEY FORGE, PA 19482.

IMPORTANT REDEMPTION INFORMATION

Shares purchased by check or Fund Express may not be redeemed until payment for the purchase is collected, which may take up to ten calendar days. Your money is invested during the holding period.

DELIVERY OF REDEMPTION
PROCEEDS

Redemption requests received by telephone prior to the close of the New York Stock Exchange (generally 4:00 p.m. Eastern time) are processed on the day of receipt and the redemption proceeds are normally sent on the following business day.

Redemption requests received by telephone after the close of the Exchange are processed on the business day following receipt and the proceeds are normally sent on the second business day following receipt.

Redemption proceeds must be sent to you within seven days of receipt of your request in Good Order.

If you experience difficulty in making a telephone redemption during periods of drastic economic or market changes, your redemption request may be made by regular or express mail. It will be implemented at the net asset value next determined after your request has been received by Vanguard in Good Order. The Fund reserves the right to revise or terminate the telephone redemption privilege at any time.

The Fund may suspend the redemption right or postpone payment at times when the New York Stock Exchange is closed or under any emergency circumstances as determined by the United States Securities and Exchange Commission.

If the Board of Directors determines that it would be detrimental to the best interests of the Fund's remaining shareholders to make payment in cash, the Fund may pay redemption proceeds in whole or in part by a distribution in kind of readily marketable securities.

VANGUARD'S AVERAGE COST STATEMENT

If you make a redemption from a qualifying account, Vanguard will send you an Average Cost Statement which provides you with the tax basis of the shares you redeemed. Please see "Other Vanguard Services" for additional information.

MINIMUM ACCOUNT BALANCE
REQUIREMENT

Due to the relatively high cost of maintaining smaller accounts, the Fund reserves the right to redeem shares in any account that is below \$10,000. It is the Fund's current policy that, at any time your total investment in the Growth and

Income, Capital Appreciation, or Balanced Portfolios falls below \$10,000 you may be notified that the value of your account is below the Portfolio's minimum account balance requirement. You would then be allowed 60 days to make an additional investment before the account is liquidated. Proceeds would be promptly paid to the shareholder.

EXCHANGING YOUR SHARES

Should your investment goals change, you may exchange your shares of Vanguard Tax-Managed Fund for those of other available Vanguard Funds. Exchanges to or from Vanguard Tax-Managed Fund may be made only by mail. TELEPHONE EXCHANGES ARE NOT ACCEPTED FOR THE FUND.

IMPORTANT NOTE

A redemption fee of 2% of the value of shares exchanged out will be deducted from the exchange proceeds if shares held for less than one year are exchanged. A redemption fee of 1% of the value of shares exchanged out will be deducted from exchange proceeds if shares held at least one year but less than five years are exchanged. These fees are paid directly to the Portfolio.

EXCHANGING BY MAIL

Please be sure to include on your exchange request the name and account number of your current Portfolio, the name of the Fund you wish to exchange into, the amount you wish to exchange, and the signatures of all registered account holders. Send your request to VANGUARD FINANCIAL CENTER, VANGUARD TAX-MANAGED FUND, P.O. BOX 1120, VALLEY FORGE, PA 19482. (For express or registered mail, send your request to Vanguard Financial Center, Vanguard Tax-Managed Fund, 455 Devon Park Drive, Wayne, PA 19087.)

IMPORTANT EXCHANGE INFORMATION

Before you make an exchange, you should consider the following:

- * Please read the Fund's prospectus before making an exchange. For a copy and for answers to any questions you may have, call our Investor Information Department (1-800-662-7447).
- * An exchange is treated as a redemption and a purchase. Therefore, you could realize a taxable gain or loss on the transaction.
- * Exchanges are accepted only if the registrations and the Taxpayer Identification numbers of the two accounts are identical.
- * The shares to be exchanged must be on deposit and not held in certificate form.
- * New accounts are not currently accepted in the Vanguard/Windsor Fund.
- * The redemption price of shares redeemed by exchange is the net asset value next determined after Vanguard has received all required documentation in Good Order.
- * When opening a new account by exchange, you must meet the minimum investment requirement of the new Fund.

Every effort will be made to maintain the exchange privilege. However, the Fund reserves the right to revise or terminate its provisions, limit the amount of or reject any exchange, as deemed necessary, at any time.

EXCHANGE PRIVILEGE LIMITATIONS

The Fund's exchange privilege is not intended to afford shareholders a way to speculate on short-term movements in the market. Accordingly, in order to prevent excessive use of the exchange privilege that may potentially disrupt the management of the Fund and increase transaction costs, the Fund has established a policy of limiting excessive exchange activity.

Exchange activity generally will not be deemed excessive if limited to TWO SUBSTANTIVE EXCHANGE REDEMPTIONS (AT LEAST 30 DAYS APART) from a Portfolio of the Fund during any twelve month period. Notwithstanding these limitations, the Fund reserves the right to reject any purchase request (including

exchange purchases from other Vanguard portfolios) that is reasonably deemed to be disruptive to efficient portfolio management.

IMPORTANT INFORMATION ABOUT TELEPHONE TRANSACTIONS

The ability to initiate redemptions (except wire redemptions) and exchanges by telephone is automatically established on your account unless you request in writing that telephone transactions on your account not be permitted.

To protect your account from losses resulting from unauthorized or fraudulent telephone instructions, Vanguard adheres to the following security procedures:

1. SECURITY CHECK. To request a transaction by telephone, the caller must know (i) the name of the Portfolio; (ii) the 10-digit account number; (iii) the exact name in which the account is registered; and (iv) the Social Security or Taxpayer Identification number listed on the account.
2. PAYMENT POLICY. The proceeds of any telephone redemption by mail will be made payable to the registered shareowner and mailed to the address of record, only.

Neither the Fund nor Vanguard will be responsible for the authenticity of transaction instructions received by telephone, provided that reasonable security procedures have been followed. Vanguard believes that the security procedures described above are reasonable and that if such procedures are followed, you will bear the risk of any losses resulting from unauthorized or fraudulent telephone transactions on your account. If Vanguard fails to follow reasonable security procedures, it may be liable for any losses resulting from unauthorized or fraudulent telephone transactions on your account.

TRANSFERRING REGISTRATION

You may transfer the registration of any of your Fund shares to another person by completing a transfer form and sending it to: VANGUARD FINANCIAL CENTER, P.O. BOX 1110, VALLEY FORGE, PA 19482 ATTENTION: TRANSFER DEPARTMENT. The request must be in Good Order. To obtain a transfer form and full instructions, please call our Client Services Department (1-800-662-2739).

OTHER VANGUARD SERVICES

For more information about any of these services, please call our Investor Information Department at 1-800-662-7447.

STATEMENTS AND REPORTS

Vanguard will send you a confirmation statement each time you initiate a transaction in your account except for checkwriting redemptions from Vanguard money market accounts. You will also receive a comprehensive account statement at the end of each calendar quarter. The fourth-quarter statement will be a year-end statement, listing all transaction activity for the entire calendar year.

Financial reports on the Fund will be mailed to you semi-annually, according to the Fund's fiscal year-end.

Vanguard's Average Cost Statement provides you with the average cost of shares redeemed from your account, using the average cost single category method. This service is available for most taxable accounts opened since January 1, 1986. In general, investors who redeemed shares from a qualifying Vanguard account may expect to receive their Average Cost Statement in February of the following year. Please call our Client Services Department (1-800-662-2739) for information.

VANGUARD DIRECT DEPOSIT SERVICE

With Vanguard's Direct Deposit Service, most U.S. Government checks (including Social Security and military pension checks) and private payroll checks may be automatically deposited into your Vanguard Fund account. Separate brochures and forms are available for direct deposit of U.S. Government and private payroll checks.

VANGUARD AUTOMATIC EXCHANGE SERVICE

Vanguard's Automatic Exchange Service allows you to move money automatically among your Vanguard Fund accounts. For

instance, the service can be used to "dollar cost average" from a money market portfolio into a stock or bond fund.

VANGUARD FUND EXPRESS

Vanguard's Fund Express allows you to transfer money between your Fund account and your account at a bank, savings and loan association, or a credit union that is a member of the Automated Clearing House (ACH) system. You may elect this service on the Account Registration Form or call our Investor Information Department (1-800-662-7447) for a Fund Express application.

The minimum amount that can be transferred by telephone is \$100. However, if you have established one of the automatic options, the minimum amount is \$50. The maximum amount that can be transferred using any of the options is \$100,000.

Special rules govern how your Fund Express purchases or redemptions are credited to your account. In addition, some services of Fund Express cannot be used with specific Vanguard Funds. For more information, please refer to the Vanguard Fund Express brochure.

VANGUARD DIVIDEND EXPRESS

Vanguard's Dividend Express allows you to transfer your dividends and/or capital gains distributions automatically from your Fund account, one business day after the Fund's payable date, to your account at a bank, savings and loan association, or a credit union that is a member of the Automated Clearing House (ACH) network. You may elect this service on the Account Registration Form or call the Investor Information Department (1-800-662-7447) for a Vanguard Dividend Express application.

VANGUARD TELE-ACCOUNT

Vanguard's Tele-Account is a convenient, automated service that provides share price, price change and yield quotations on Vanguard Funds through any TouchTone(TM) telephone. This free service also lets you obtain information about your account balance, your last transaction, and your most recent dividend or capital gains payment. To contact Vanguard's Tele-Account service, dial 1-800-ON-BOARD (1-800-662-6273). A free brochure offering detailed operating instructions is available from our Investor Information Department (1-800-662-7447).

PART B
VANGUARD TAX-MANAGED FUND, INC.
STATEMENT OF ADDITIONAL INFORMATION
JULY , 1994

This Statement is not a prospectus but should be read in conjunction with the Fund's current Prospectus (dated July , 1994). To obtain this Prospectus, please call the Investor Information Department:

1-800-662-7447

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INVESTMENT OBJECTIVE AND POLICIES

The following policies supplement the investment objective and policies set forth in the Fund's Prospectus:

REPURCHASE AGREEMENTS

Each Portfolio of the Fund may invest in repurchase agreements with commercial banks, brokers or dealers either for defensive purposes due to market conditions or to generate income from its excess cash balances. A repurchase agreement is an agreement under which the Portfolio acquires a money market instrument (generally a security issued by the U.S. Government or an agency thereof, a banker's acceptance or a certificate of deposit) from a

commercial bank, broker or dealer, subject to resale to the seller at an agreed upon price and date (normally, the next business day). A repurchase agreement may be considered a loan collateralized by securities. The resale price reflects an agreed upon interest rate effective for the period the instrument is held by the Portfolio and is unrelated to the interest rate on the underlying instrument. In these transactions, the securities acquired by the Portfolio (including accrued interest earned thereon) must have a total value in excess of the value of the repurchase agreement and are held by the Fund's custodian bank(s) until repurchased. In addition, the Fund's Board of Directors will monitor a Portfolio's repurchase agreement transactions generally and will establish guidelines and standards for review by the investment adviser of the creditworthiness of any bank, broker or dealer party to a repurchase agreement with the Portfolio. No more than an aggregate of 15% of a Portfolios' net assets, at the time of investment, will be invested in repurchase agreements having maturities longer than seven days and securities subject to legal or contractual restrictions on resale, or for which there are no readily available market quotations.

The use of repurchase agreements involves certain risks. For example, if the other party to the agreement defaults on its obligation to repurchase the underlying security at a time when the value of the security has declined, the Portfolio may incur a loss upon disposition of the security. If the other party to the agreement becomes insolvent and subject to liquidation or reorganization under the Bankruptcy Code or other laws, a court may determine that the underlying security is collateral for a loan by the Portfolio not within the control of the Portfolio and therefore the realization by the Portfolio on such collateral may be automatically stayed. Finally, it is possible that the Portfolio may not be able to substantiate its interest in the underlying security and may be deemed an unsecured creditor of the other party to the agreement. While each Portfolio's management acknowledges these risks, it is expected that they can be controlled through careful monitoring procedures.

LENDING OF SECURITIES

Each Portfolio of the Fund may lend its investment securities to qualified brokers, dealers, banks or other financial institutions, so long as the terms and the structure of such loans are not inconsistent with the Investment Company Act of 1940, as amended, or the Rules and Regulations or interpretations of the Securities and Exchange Commission thereunder, which currently require that (a) the borrower pledge and maintain with the Portfolio collateral consisting of cash, and irrevocable letter of credit or securities issued or guaranteed by the United States Government having a value at all times not less than 100 percent of the value of the securities loaned, (b) the borrower add to such collateral whenever the price of the securities loaned rises (i.e., the borrower "marks to the market" on a daily basis), (c) the loan be made subject to termination by the Portfolio at any time and (d) the Portfolio receive reasonable interest on the loan (which may include the Portfolio's investing any cash collateral in interest bearing short-term investments), and distributions on the loaned securities and any increase in their market value. Each Portfolio of the Fund will not lend securities if, as a result, the aggregate of such loans exceeds 33 1/3% of the value of the Portfolio's total assets. Loan arrangements made by the Fund will comply with all other applicable regulatory requirements, including the rules of the New York Stock Exchange, which rules presently require the borrower, after notice, to redeliver the securities within the normal settlement time of five business days.

RESTRICTED SECURITIES

Each Portfolio of the Fund may invest in restricted securities (privately placed debt securities) and other securities which are not readily marketable, but will not acquire such securities if as a result they, together with the aggregate of other securities for which no quotations are readily available, would comprise more than 15% of the value of the Portfolio's net assets.

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act of 1933. Where registration is required, a Portfolio may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Portfolio may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Portfolio might obtain a less favorable price than prevailed when it decided to sell. Restricted securities will be priced at fair value as determined in good faith by the Board of Directors. If through the appreciation of restricted securities or the depreciation of unrestricted securities, a Portfolio should be in a position where more than 10% of the value of its net assets are invested in illiquid assets, including restricted securities, the Portfolio will take appropriate steps to protect liquidity.

Restricted securities are securities which are not freely marketable or which are subject to restrictions upon sale under the Securities Act of 1933. The Portfolios may invest up to 15% of their assets in restricted securities. (Included within this limit are restricted securities and other securities for which price quotations are not readily available). Pursuant to Rule 144A under the Securities Act of 1933, as amended, if a substantial market among

qualified institutional buyers develops for such securities held by any of these three Portfolios, the Fund intends to treat such securities as liquid securities, in accordance with procedures approved by the Fund's Board of Directors.

FUTURES CONTRACTS, OPTIONS ON FUTURES CONTRACTS, WARRANTS, CONVERTIBLE SECURITIES AND SWAP AGREEMENTS

Each Portfolio of the Fund may enter into futures contracts, options, and options on futures contracts, warrants, convertible securities and swap agreements for several reasons: to simulate full investment in the benchmark securities while retaining a cash balance for Fund management purposes, to facilitate the portfolio management process or to reduce transaction costs. Futures contracts provide for the future sale by one party and purchase by another party of a specified amount of a specific security at a specified future time and at a specified price. Futures contracts which are standardized as to maturity date and underlying financial instrument or index are traded on national futures exchanges. Futures exchanges and trading are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission ("CFTC"), a U.S. Government Agency.

Bond futures contracts by their terms call for actual delivery or acceptance of the underlying securities, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. Equity futures contracts settle in cash and do not call for actual delivery or acceptance of the underlying securities. Closing out an open futures position is done by taking an opposite position ("buying" a contract

which has previously been "sold," or "selling" a contract previously purchased) in an identical contract to terminate the position. Brokerage commissions are incurred when a futures contract is bought or sold.

Futures traders are required to make a good faith margin deposit in cash or government securities with a broker or custodian to initiate and maintain open positions in futures contracts. A margin deposit is intended to assure completion of the contract (delivery or acceptance of the underlying security) if it is not terminated prior to the specified delivery date. Minimal initial margin requirements are established by the futures exchange and may be changed. Brokers may establish deposit requirements which are higher than the exchange minimums. Futures contracts are customarily purchased and sold on margin deposits which may range upward from less than 5% of the value of the contract being traded.

After a futures contract position is opened, the value of the contract is marked to market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional "variation" margin will be required. Conversely, change in the contract value may reduce the required margin, resulting in a repayment of excess margin to the contract holder. Variation margin payments are made to and from the futures broker for as long as the contract remains open. The Portfolios expect to earn interest income on its margin deposits.

Traders in futures contracts may be broadly classified as either "hedgers" or "speculators." Hedgers use the futures markets primarily to offset unfavorable changes in the value of securities otherwise held for investment purposes or expected to be acquired by them. Speculators are less inclined to own the securities underlying the futures contracts which they trade, and use futures contracts with the expectation of realizing profits from fluctuations in the prices of underlying securities. The Portfolios intend to use futures contracts only for bonafide hedging purposes.

Regulations of the CFTC applicable to the Fund require that all of its futures transactions constitute bonafide hedging transactions. A Portfolio will only sell futures contracts to protect securities or other futures contracts it owns against price declines or purchase contracts to protect against an increase in the price of securities or other futures contracts it intends to purchase. As evidence of this hedging interest, the Portfolios expect that approximately 75% of its futures contract purchases will be "completed," that is, equivalent amounts of related securities will have been purchased or are being purchased by a Portfolio upon sale of open futures contracts.

Although techniques other than the sale and purchase of futures contracts could be used to control the Portfolio's exposure to market fluctuations, the use of futures contracts may be a more effective means of hedging this exposure. While a Portfolio will incur commission expenses in both opening and closing out futures positions, these costs are lower than transaction costs incurred in the purchase and sale of the underlying securities.

RESTRICTIONS ON THE USE OF FUTURES CONTRACTS

Each Portfolio of the Fund will not enter into futures contract transactions to the extent that, immediately thereafter, the sum of its initial margin deposits on open contracts exceeds 3% of the market value of each Portfolio's total assets. In addition the Portfolios will not enter into futures contracts to the extent that its outstanding obligations to purchase securities under these contracts would exceed 5% of the Portfolio's total assets. The Fund will maintain 100% of the amount of any obligations under any futures transactions in cash or cash equivalent in a segregated account at its custodian bank.

RISK FACTORS IN FUTURES TRANSACTIONS

Positions in futures contracts may be closed out only on an Exchange which

provides a secondary market for such futures. However, there can be no assurance that a liquid secondary market will exist for any particular futures contract at any specific time. Thus, it may not be possible to close a futures position. In the event of adverse price movements, a Portfolio would continue to be required to make daily cash payments to maintain its required margin. In such situations, if the Portfolio has insufficient cash, it may have to sell portfolio securities to meet daily margin requirements at a time when it may be disadvantageous to do so. In addition, the Portfolio may be required to make delivery of the instruments underlying futures contracts it holds. The inability to close options and futures positions also could have an adverse impact on the ability to effectively hedge it.

A Portfolio will minimize the risk that it will be unable to close out a futures contract by only entering into futures which are traded on national futures exchanges and for which there appears to be a liquid secondary market.

The risk of loss in trading futures contracts in some strategies can be substantial, due both to the low margin deposits required, and the extremely high degree of leverage involved in futures pricing. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss (as well as gain) to the investor. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a subsequent 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out. A 15% decrease would result in a loss equal to 150% of the original margin deposit if the contract were closed out. Thus, a purchase or sale of a futures contract may result in losses in excess of the amount invested in the contract. However, because the futures strategies of the Portfolio are engaged in only for hedging purposes, the Adviser does not believe that the Portfolio is subject to the risks of loss frequently associated with futures transactions. The portfolio will maintain a cash pool equivalent to the value of the futures contract, so the futures will not be leveraged. The Portfolio would presumably have sustained comparable losses if, instead of the futures contract, it had invested in the underlying financial instrument and sold it after the decline.

Utilization of futures transactions by the Portfolio does involve the risk of imperfect or no correlation where the securities underlying futures contracts have different maturities than the portfolio securities being hedged. It is also possible that the Portfolio could both lose money on futures contracts and also experience a decline in value of its portfolio securities. There is also the risk of loss by the Portfolio of margin deposits in the event of bankruptcy of a broker with whom the Portfolio has an open position in a futures contract or related option. Additionally, investments in futures and options involve the risk that the investment adviser will incorrectly predict stock market and interest rate trends.

Most futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of future positions and subjecting some futures traders to substantial losses.

FEDERAL TAX TREATMENT OF FUTURES CONTRACTS

Except for transactions a Portfolio has identified as hedging transactions, the Portfolio is required for Federal income tax purposes to recognize as income for each taxable year its net unrealized gains and losses on certain futures contracts held as of the end of the year as well as those actually realized during the year. In most cases, any gain or loss recognized with respect to a futures contract is considered to be 60% long-term capital gain or loss and 40% short-term capital gain or loss, without regard to the holding period of the contract. Furthermore, sales of futures contracts which are intended to hedge against a change in the value of securities held by the Portfolio may affect the holding period of such securities and, consequently, the nature of the gain or loss on such securities upon disposition.

In order for the Portfolio to continue to qualify for Federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income; i.e., dividends, interest, income derived from loans of securities, gains from the sale of securities or of foreign currencies or other income derived with respect to the Portfolio's business of investing in securities or currencies. In addition, gains realized on the sale or other disposition of securities held for less than three months must be limited to less than 30% of the Portfolio's annual gross income. It is anticipated that any net gain realized from the closing out of futures contracts will be considered gain from the sale of securities and therefore be qualifying income for purposes of the 90% requirement. In order to avoid realizing excessive gains on securities held less than three months, the Portfolio may be required to defer the closing out of futures contracts beyond the time when it would otherwise be advantageous

to do so. It is anticipated that unrealized gains on futures contracts, which have been open for less than three months as of the end of the Portfolio's fiscal year and which are recognized for tax purposes, will not be considered gains on sales of securities held less than three months for the purpose of the 30% test.

A Portfolio will distribute to shareholders annually any net capital gains which have been recognized for Federal income tax purposes (including unrealized gains at the end of the Portfolio's fiscal year) on futures

transactions. Such distributions will be combined with distributions of capital gains realized on the Portfolio's other investments and shareholders will be advised on the nature of the transactions.

PURCHASE OF SHARES

Each Portfolio reserves the right in its sole discretion (i) to suspend the offering of its shares, (ii) to reject purchase orders when in the judgment of management such rejection is in the best interest of the Fund, and (iii) to reduce or waive the minimum for initial and subsequent investments for certain fiduciary accounts such as employee benefit plans or under circumstances where certain economies can be achieved in sales of the Portfolio's shares.

REDEMPTION OF SHARES

Each Portfolio may suspend redemption privileges or postpone the date of payment (i) during any period that the New York Stock Exchange is closed, or trading on the Exchange is restricted as determined by the Securities and Exchange Commission (the "Commission"), (ii) during any period when an emergency exists as defined by the rules of the Commission as a result of which it is not reasonably practicable for a Portfolio to dispose of securities owned by it, or fairly to determine the value of its assets, and (iii) for such other periods as the Commission may permit.

The Fund has made an election with the Commission to pay in cash all redemptions requested by any shareholder of record limited in amount during any 90-day period to the lesser of \$250,000 or 1% of the net assets of the Fund at the beginning of such period. Such commitment is irrevocable without the prior approval of the Commission. Redemptions in excess of the above limits may be paid in whole or in part, in readily marketable investment securities or in cash, as the Directors may deem advisable; however, payment will be made wholly in cash unless the Directors believe that economic or market conditions exist which would make such a practice detrimental to the best interests of the Fund. If redemptions are paid in investment securities, such securities will be valued as set forth in the Prospectus under "The Share Price of Each Portfolio" and a redeeming shareholder would normally incur brokerage expenses if he converted these securities to cash.

A redemption fee of 2% of the value of a portfolio shares redeemed will be deducted from the redemption proceeds if shares held for less than one year are redeemed. A redemption fee of 1% of the value of shares redeemed will be deducted from the redemption proceeds if shares held for at least one year but less than five years are redeemed. These fees are paid directly to the Fund. Any redemption may be more or less than the shareholder's cost depending on the market value of the securities held by the Portfolio.

To protect your account, the Fund and Vanguard from fraud, signature guarantees are required for certain redemptions. Signature guarantees enable the Fund to verify the identity of the person who has authorized a redemption from your account. SIGNATURE GUARANTEES ARE REQUIRED IN CONNECTION WITH: (1) REDEMPTIONS INVOLVING MORE THAN \$25,000 ON THE DATE OF RECEIPT BY VANGUARD OF ALL NECESSARY DOCUMENTS; (2) ALL REDEMPTIONS, REGARDLESS OF THE AMOUNT INVOLVED, WHEN THE PROCEEDS ARE TO BE PAID TO SOMEONE OTHER THAN THE REGISTERED OWNER(S), AND/OR TO AN ADDRESS OTHER THAN THE ADDRESS OF RECORD; AND (3) SHARE TRANSFER REQUESTS. These requirements are not applicable to redemptions in Vanguard's prototype retirement plans, except in connection with: (1) distributions made when the proceeds are to be paid to someone other than the plan participant; (2) certain authorizations to effect exchanges by telephone; and (3) when proceeds are to be wired. These requirements may be waived by the Fund in certain instances.

A guarantor must be a bank, broker, or any other guarantor that Vanguard deems acceptable. NOTARIES PUBLIC ARE NOT ACCEPTABLE GUARANTORS.

The signature guarantees must appear either: (1) on the written request for redemption; (2) on a separate instrument for assignment ("stock power") which should specify the total number of shares to be redeemed; or (3) on all stock certificates tendered for redemption and, if shares held by the Fund are also being redeemed, on the letter or stock power.

INVESTMENT LIMITATIONS

The Fund is subject to the following limitations which may not be changed with respect to a particular Portfolio without the approval of at least a majority of the outstanding voting securities (as defined in the Investment Company Act of 1940) of that Portfolio. A Portfolio will not:

- (1) Invest in commodities or commodity contracts or purchase or sell real

- estate, although it may purchase and sell marketable securities of companies which deal in real estate or interests therein; except that it may invest in stock and bond futures contracts, options and options on futures contracts to the extent that not more than 3% of its assets are required as deposit margin for futures contracts and not more than 5% of its assets are invested in such instruments at any time;
- (2) Lend money to any person except (i) by purchasing bonds, debentures or similar obligations (including repurchase agreements) which are either publicly distributed or customarily purchased by institutional investors, and (ii) by lending its portfolio securities as provided under "Lending of Securities";
 - (3) Purchase securities on margin or sell securities short, except as specified above in (1);
 - (4) With respect to 75% of the value of its total assets, purchase the securities of any issuer (except obligations of the United States government and its instrumentalities) if as a result the Portfolio would hold more than 10% of the outstanding voting securities of the issuer, or more than 5% of the value of the Portfolio's total assets would be invested in the securities of such issuer;
 - (5) Borrow money, except from banks (or through reverse repurchase agreements), for temporary or emergency (not leveraging) purposes, and then in an amount not exceeding 15% of the value of the Portfolio's net assets (including the amount borrowed and the value of any outstanding reverse repurchase agreements) at the time the borrowing is made. Whenever borrowings exceed 5% of the value of the Portfolio's net assets, the Portfolio will not make any additional investments;
 - (6) Pledge, mortgage or hypothecate the Portfolio's assets to an extent greater than 15% of the value of its total assets;
 - (7) Engage in the business of underwriting securities issued by other persons, except to the extent that the Fund may technically be deemed to be an underwriter under the Securities Act of 1933, as amended, in disposing of Portfolio securities;
 - (8) Purchase or otherwise acquire any security if, as a result, more than 15% of its net assets would be invested in securities that are illiquid (including the Fund's investment in The Vanguard Group, Inc., as described in the section entitled "Management of the Fund";
 - (9) Invest for the purpose of controlling management of any company;
 - (10) Invest in securities of other investment companies, except as may be acquired as a part of a merger, consolidation or acquisition of assets approved by the Fund's shareholders or otherwise to the extent permitted by Section 12 of the Investment Company Act of 1940. The Fund will invest only in investment companies which have investment objectives and investment policies consistent with those of the Fund; and
 - (11) Concentrate its investments in a particular industry, although it may invest up to 25% of the Portfolio's total assets (taken at value) in the securities of issuers, all of which conduct their principal business activities in the same industry, provided that (i) this limitation does not apply to obligations issued or guaranteed by the U.S. Government, or its agencies or instrumentalities, and (ii) utility companies will be divided according to their services; for example, gas, gas transmission, electric and gas, electric, and telephone will each be considered a separate industry.

Although not fundamental policies subject to shareholder vote, as long as the Fund's shares are registered for sale in certain states, it will not invest in interests in oil, gas or other mineral exploration or development programs.

The above-referenced investment limitations are considered at the time that portfolio securities are purchased. Notwithstanding these limitations, the Fund may own all or any portion of the securities of, or make loans to, or contribute to the costs or other financial requirements of any company which will be wholly-owned by the Fund and one or more other investment companies and is primarily engaged in the business of providing, at cost, management, administrative or related services to the Fund and other investment companies. See "MANAGEMENT OF THE FUND."

As an operational policy of the Fund, the Fund will, not in the aggregate, enter into repurchase agreements maturing in more than seven days, purchase restricted securities or invest in any other illiquid securities if, as a result thereof, more than 15% of the net assets of the Fund would be invested in such assets.

Each Portfolio may not purchase or retain securities of an issuer if an officer or director of such issuer is an officer or Director of the Fund or its investment adviser and one or more of such officers or Directors of the Fund or its investment adviser owns beneficially more than 1/2% of the shares or securities of such issuer and all such directors and officers owning more than 1/2% of such shares or securities together own more than 5% of such shares or securities. Each Portfolio of the Fund may not invest more than 5% of its total assets in securities of companies which have (with predecessors) a record of less than three years of continuous operation.

MANAGEMENT OF THE FUND

DIRECTORS AND OFFICERS

The Officers of the Fund manage its day to day operations and are responsible to the Fund's Board of Directors. The Directors set broad policies for each Fund and choose its Officers. The following is a list of the Directors and Officers of the Funds and a statement of their present positions and principal occupations during the past five years. The mailing address of the Directors and Officers of the Fund is Post Office Box 876, Valley Forge, PA 19482.

<TABLE>

<C>

JOHN C. BOGLE, Chairman, Chief Executive Officer and Director*

Chairman, Chief Executive Officer, and Director of The Vanguard Group, Inc., and each of the investment companies in The Vanguard Group; Director of the Mead Corporation and General Accident Insurance.

JOHN J. BRENNAN, President & Director*

President of the Fund, The Vanguard Group, Inc. and each of the other investment companies in The Vanguard Group.

ROBERT E. CAWTHORN, Director

Chairman and Chief Executive Officer, Rhone-Poulenc Rorer, Inc.; Director of Immune Response Corp. and Sun Company, Inc.; Trustee, Universal Health Realty Income Trust.

BARBARA BARNES HAUPTFUHRER, Director

Director of The Great Atlantic and Pacific Tea Company, Raytheon Company, Knight-Ridder, Inc., Massachusetts Mutual Life Insurance Co., and ALCO Standard, Corp.

BRUCE K. MACLAURY, Director

President, The Brookings Institution; Director of Dayton Hudson Corporation, American Express Bank, Ltd. and The St. Paul Companies, Inc.

BURTON G. MALKIEL, Director

Chemical Bank Chairmen's Professor of Economics, Princeton University; Director of Prudential Insurance Co. of America, Amdahl Corporation, Baker Fentress & Co., Jeffrey Co., and The Southern New England Telephone Company; Governor, American Stock Exchange, Inc.

<C>

ALFRED M. RANKIN, JR., Director

President, Chief Executive Officer and Director of NACCO Industries; Director of The BFGoodrich Company, The Standard Products Company and The Reliance Electric Company.

JOHN C. SAWHILL, Director

President and Chief Executive Officer, The Nature Conservancy; formerly, Director and Senior Partner, McKinsey & Co.; Director of Pacific Gas and Electric Company and NACCO Industries.

JAMES O. WELCH, JR., Director

Retired Chairman of Nabisco Brands, Inc. and retired Vice Chairman and Director of RJR Nabisco; Director of TECO Energy, Inc.

J. LAWRENCE WILSON, Director

Chairman and Director of Rohm & Haas Company, Director of Cummins Engine Company, Vanderbilt University and Trustee of the Culver Educational Foundation.

RAYMOND J. KLAPINSKY, Secretary*

Senior Vice President and Secretary of The Vanguard Group, Inc.; Secretary of each of the investment companies in The Vanguard Group.

RICHARD F. HYLAND, Treasurer*

Treasurer of The Vanguard Group, Inc. and of each of the investment companies in The Vanguard Group.

KAREN E. WEST, Controller*

Vice President of The Vanguard Group, Inc.; Controller of each of the Investment companies in The Vanguard Group.

<FN>

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*Officers of the Fund are "interested persons" as defined in the Investment Company Act of 1940.

</TABLE>

THE VANGUARD GROUP

Vanguard Tax-Managed Fund is a member of The Vanguard Group of Investment Companies. Through their jointly owned subsidiary, The Vanguard Group, Inc. ("Vanguard"), the Fund and the other Funds in the group obtain at cost virtually all of their corporate management, administrative and distribution services. Vanguard also provides investment advisory services on an at-cost basis to certain of the Vanguard Funds including Vanguard Tax-Managed Fund.

Vanguard employs a supporting staff of management and administrative personnel needed to provide the requisite services to the Funds and also furnishes the Funds with necessary office space, furnishings and equipment. Each Fund pays its share of Vanguard's net expenses which are allocated among the Funds under methods approved by the Board of Directors (Trustees) of each Fund. In addition, each Fund bears its own direct expenses, such as legal, auditing and custodian fees.

The Vanguard Group was established and operates under a Funds' Service Agreement which was approved by the shareholders of each of the Funds. The amounts which each of the Funds have invested are adjusted from time to time in order to maintain the proportionate relationship between each Fund's relative net assets and its contribution to Vanguard's capital. The Funds' Service Agreement provides for the following arrangement: (1) each Vanguard Fund may invest a maximum of 0.40% of its assets in Vanguard and (2) there is no restriction on the maximum cash investment that the Vanguard Funds may make in Vanguard.

MANAGEMENT. Corporate management and administrative services include: (1) executive staff; (2) accounting and financial; (3) legal and regulatory; (4) shareholder account maintenance; (5) monitoring and control of custodian relationships; (6) shareholder reporting; and (7) review and evaluation of advisory and other services provided to the Funds by third parties.

DISTRIBUTION. Vanguard provides all distribution and marketing activities for the Funds in the Group. Vanguard Marketing Corporation, a wholly-owned subsidiary of The Vanguard Group, Inc., acts as Sales Agent for shares of the Funds, in connection with any sales made directly to investors in the states of Florida, Missouri, New York, Ohio, Texas and such other states as it may be required.

The principal distribution expenses are for advertising, promotional materials and marketing personnel. Distribution services may also include organizing and offering to the public, from time to time, one or more new investment companies which will become members of the Group. The Directors and Officers of Vanguard determine the amount to be spent annually on distribution activities, the manner and amount to be spent on each Fund, and whether to organize new investment companies.

One half of the distribution expenses of a marketing and promotional nature is allocated among the Funds based upon their relative net assets. The remaining one half of these expenses is allocated among the Funds based upon each Fund's sales for the preceding 24 months relative to the total sales of the Funds as a Group, provided, however, that no Fund's aggregate quarterly rate of contribution for distribution expenses of a marketing and promotional nature shall exceed 125% of the average distribution expense rate for the Group, and that no Fund shall incur annual distribution expenses in excess of 20/100 of 1% of its average month-end net assets.

INVESTMENT ADVISORY SERVICES. Vanguard's Core Management Group provides investment advisory services to the Fund and also to the following Funds: Vanguard Index Trust, Vanguard Balanced Index Fund, Vanguard Institutional Index Fund, Vanguard International Equity Index Fund, a portion of the assets of Vanguard/Windsor II, and several indexed separate accounts.

Vanguard's Fixed Income Group provides investment advisory services to Balanced Portfolio of the Fund and also provides investment advisory services to the following Funds: Vanguard Municipal Bond Fund; Vanguard Money Market Reserves; several Portfolios of Vanguard Fixed Income Securities Fund; Vanguard California Tax-Free Fund; Vanguard Ohio Tax-Free Fund; Vanguard New York Insured Tax-Free Fund; Vanguard New Jersey Tax-Free Fund; Vanguard Pennsylvania Tax-Free Fund; Vanguard Florida Insured Tax-Free Fund; Vanguard Balanced Index Fund; Vanguard Bond Index Fund; Vanguard Admiral Funds; and Vanguard Institutional Money Market Portfolio. These services are provided on an at-cost basis by Vanguard's Core Management Group and Vanguard's Fixed Income Group. The compensation and other expenses of this staff are paid by the Funds utilizing these services.

REMUNERATION OF DIRECTORS AND OFFICERS. The Fund pays each Director, who is not also an officer, an annual fee plus travel and other expenses incurred in attending Board meetings. The Fund's officers and employees are paid by Vanguard which, in turn, is reimbursed by the Fund, and each other Fund in the Group, for its proportionate share of officers' and employees' salaries and retirement benefits.

Under its retirement plan, Vanguard contributes annually an amount equal to 10% of each officer's annual compensation plus 5.7% of that part of the officer's compensation during the year that exceeds the Social Security Taxable Wage Base then in effect. Under the Thrift Plan, all officers are permitted to make pre-tax basic contributions in a maximum amount equal to 4% of total compensation. Vanguard matches the basic contributions on a 100% basis. Directors who are not Officers are paid an annual fee based on the number of years of service on the Board, up to fifteen years of service, upon retirement. The fee is equal to \$1,000 for each year of service and each investment company member of The Vanguard Group contributes a proportionate amount to this fee based on its relative net assets. This fee is paid, subsequent to a Director's retirement, for a period of ten years or until the death of a retired Director.

PORTFOLIO TRANSACTIONS

In placing portfolio transactions, Vanguard uses its best judgment to choose the broker most capable of providing the brokerage services necessary to obtain best available price and most favorable execution. The full range and quality of brokerage services available are considered in making these determinations. In those instances where it is reasonably determined that more than one broker can offer the brokerage services needed to obtain the best available price and most favorable execution, consideration will be given to those brokers which supply statistical information and provide other services in addition to execution services to the Fund.

Since the Fund does not market its shares through intermediary brokers or dealers, it is not the Fund's practice to allocate brokerage or principal business on the basis of sales of its shares which may be made through such firms. However, the Fund may place portfolio orders with qualified brokers or dealers who recommend the shares of the Fund to their clients and may, when a number of brokers and dealers can provide comparable best price and execution on a particular transaction, consider the sale of shares by a broker or dealer in selecting among qualified brokers or dealers.

PERFORMANCE MEASURES

Each of the investment company members of the Vanguard Group, including each Portfolio of Vanguard Tax-Managed Fund, Inc., may, from time to time, use one or more of the following unmanaged indices for comparative performance purposes.

STANDARD AND POOR'S 500 COMPOSITE STOCK PRICE INDEX -- is a well diversified list of 500 companies representing the U.S. Stock Market.

STANDARD & POOR'S/BARRA VALUE INDEX--contains common stocks of the S&P 500

Index which have lower than average price-to-book ratios.

STANDARD & POOR'S/BARRA GROWTH INDEX--contains common stocks of the S&P 500 Index which have higher than average price-to-book ratios.

WILSHIRE 5000 EQUITY INDEXES -- consists of nearly 5,000 common equity securities, covering all stocks in the U.S. for which daily pricing is available.

WILSHIRE 4500 EQUITY INDEX -- consists of all stocks in the Wilshire 5000 except for the 500 stocks in the Standard and Poor's 500 Index.

RUSSELL 1000 INDEX--consists of approximately 1,000 large and medium capitalization stocks.

RUSSELL 2000 INDEX--is composed of approximately 2,000 small capitalization stocks.

RUSSELL 3000 INDEX--consists of approximately 3,000 large, medium and small capitalization stocks.

MORGAN STANLEY CAPITAL INTERNATIONAL--SELECT EMERGING MARKETS INDEX--is an unpublished index which includes common stocks of companies located in the countries 12 emerging markets.

MORGAN STANLEY CAPITAL INTERNATIONAL EAFE INDEX -- is an arithmetic, market value-weighted average of the performance of over 900 securities listed on the stock exchanges of countries in Europe, Australia and the Far East.

GOLDMAN SACHS 100 CONVERTIBLE BOND INDEX -- currently includes 67 bonds and 33 preferreds. The original list of names was generated by screening for convertible issues of 100 million or greater in market capitalization. The index is priced monthly.

SALOMON BROTHERS GNMA INDEX -- includes pools of mortgages originated by private lenders and guaranteed by the mortgage pools of the Government National Mortgage Association.

SALOMON BROTHERS HIGH-GRADE CORPORATE BOND INDEX -- consists of publicly issued, non-convertible corporate bonds rated AA or AAA. It is a value-weighted, total return index, including approximately 800 issues with maturities of 12 years or greater.

SALOMON BROTHERS BROAD INVESTMENT-GRADE BOND -- is a market-weighted index that contains approximately 4700 individually priced investment-grade corporate bonds rated BBB or better, U.S. Treasury/agency issues and mortgage passthrough securities.

SHEARSON LEHMAN LONG-TERM TREASURY BOND -- is composed of all bonds covered by the Shearson Lehman Hutton Treasury Bond Index with maturities of 10 years or greater.

MERRILL LYNCH CORPORATE & GOVERNMENT BOND -- consists of over 4,500 U.S. Treasury, Agency and investment grade corporate bonds.

SHEARSON LEHMAN CORPORATE (BAA) BOND INDEX -- all publicly offered fixed-rate, nonconvertible domestic corporate bonds rated Baa by Moody's, with a maturity longer than 1 year and with more than \$25 million outstanding. This index includes over 1,000 issues.

BOND BUYER MUNICIPAL INDEX (20 YEAR) BOND -- is a yield index on current-coupon high grade general-obligation municipal bonds.

STANDARD & POOR'S PREFERRED INDEX -- is a yield index based upon the average yield of four high grade, non-callable preferred stock issues.

NASDAQ INDUSTRIAL INDEX -- is composed of more than 3,000 industrial issues. It is a value-weighted index calculated on price change only and does not include income.

COMPOSITE INDEX -- 70% Standard & Poor's 500 Index and 30% NASDAQ Industrial Index.

COMPOSITE INDEX -- 35% Standard & Poor's 500 Index and 65% Salomon Brothers High Grade Bond Index.

COMPOSITE INDEX -- 65% Standard & Poor's 500 Index and 35% Salomon Brothers High Grade Bond Index.

LEHMAN BROTHERS AGGREGATE BOND INDEX -- is a market weighted index that contains individually priced U.S. Treasury, agency, corporate, and mortgage pass-through securities corporate rated BBB- or better. The Index has a market

value of over \$4 trillion.

LEHMAN BROTHERS MUTUAL FUND SHORT (1-5) GOVERNMENT/CORPORATE INDEX -- is a market weighted index that contains individually priced U.S. Treasury, agency, and corporate investment grade bonds rated BBB- or better with maturities between 1 and 5 years. The Index has a market value of over \$1.3 trillion.

LEHMAN BROTHERS MUTUAL FUND INTERMEDIATE (5-10) GOVERNMENT/CORPORATE INDEX -- is a market weighted index that contains individually priced U.S. Treasury, agency, and corporate securities rated BBB- or better with maturities between 5 and 10 years. The Index has a market value of over \$600 billion.

LEHMAN BROTHERS MUTUAL FUND LONG (10+) GOVERNMENT/CORPORATE INDEX -- is a market weighted index that contains individually priced U.S. Treasury, agency, and corporate securities rated BBB- or better with maturities greater than 10 years. The Index has a market value of over \$900 billion.

LEHMAN BROTHERS MUNICIPAL BOND INDEX--is a total return performance benchmark for the long-term, investment-grade tax-exempt bond market.

LIPPER SMALL COMPANY GROWTH FUND AVERAGE -- the average performance of small company growth funds as defined by Lipper Analytical Services, Inc. Lipper defines a small company growth fund as a fund that by prospectus or portfolio practice, limits its investments to companies on the basis of the size of the company. From time to time, Vanguard may advertise using the average performance and/or the average expense ratio of the small company growth funds. (This fund category was first established in 1982. For years prior to 1982, the results of the Lipper Small Company Growth category were estimated using the returns of the Funds that constituted the Group at its inception.)

LIPPER BALANCED FUND AVERAGE -- An industry benchmark of average balanced funds with similar investment objectives and policies, as measured by Lipper Analytical Services, Inc.

LIPPER NON-GOVERNMENT MONEY MARKET FUND AVERAGE -- An industry benchmark of average non-government money market funds with similar investment objectives and policies, as measured by Lipper Analytical Services, Inc.

LIPPER GOVERNMENT MONEY MARKET FUND AVERAGE -- An industry benchmark of average government money market funds with similar investment objectives and policies, as measured by Lipper Analytical Services, Inc.

APPENDIX -- DESCRIPTION OF SECURITIES AND RATINGS

I. DESCRIPTION OF BOND RATINGS

Excerpts from Moody's Investors Service, Inc., ("Moody's") description of its four highest bond ratings: AAA -- judged to be the best quality. They carry the smallest degree of investment risk; AA -- judged to be of

high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds; A -- possess many favorable investment attributes and are to be considered as "upper medium grade obligations"; BAA -- considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. BA judged to have speculative elements; their future cannot be considered as well assured; B -- generally lack characteristics of the desirable investment; CAA -- are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest; CA -- speculative in a high degree; often in default; C -- lowest rated class of bonds; regarded as having extremely poor prospects.

Moody's also supplies numerical indicators 1, 2 and 3 to rating categories. The modifier 1 indicates that the security is in the higher end of its rating category; the modifier 2 indicates a mid-range ranking; and 3 indicates a ranking toward the lower end of the category.

Excerpts from Standard & Poor's Corporation ("S&P") description of its five highest bond ratings: AAA -- highest grade obligations. Capacity to pay interest and repay principal is extremely strong; AA -- also qualify as high grade obligations. A very strong capacity to pay interest and repay principal and differs from AAA issues only in small degree; A -- regarded as upper medium grade. They have a strong capacity to pay interest and repay principal although it is somewhat susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories; BBB -- regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories. This group is the lowest which qualifies for commercial bank investment. BB, B, CCC, CC -- predominately speculative with respect to capacity to pay interest and repay principal in accordance with terms of the obligation; BB indicates the lowest degree of speculation and CC the highest.

S&P applies indicators "+," no character, and "-" to its rating categories.

The indicators show relative standing within the major rating categories.

II. U.S. GOVERNMENT SECURITIES

The term "U.S. Government securities" refers to a variety of securities which are issued or guaranteed by the United States Treasury, by various agencies of the United States Government, and by various instrumentalities which have been established or sponsored by the United States Government. The term also refers to "repurchase agreements" collateralized by such securities.

U.S. Treasury securities are backed by the "full faith and credit" of the United States. Securities issued or guaranteed by Federal agencies and U.S. Government sponsored instrumentalities may or may not be backed by the full faith and credit of the United States. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency or instrumentality issuing or guaranteeing the obligation for ultimate repayment, and may not be able to assert a claim against the United States itself in the event the agency or instrumentality does not meet its commitment.

Some of the U.S. Government agencies that issue or guarantee securities include the Export-Import Bank of the United States, Farmers Home Administration, Federal Housing Administration, Maritime Administration, Small Business Administration, and The Tennessee Valley Authority.

An instrumentality of the U.S. Government is a government agency organized under Federal charter with government supervision. Instrumentalities issuing or guaranteeing securities include, among others, Federal Home Loan Banks, the Federal Land Banks, Central Bank for Cooperative, Federal Intermediate Credit Banks, and the Federal National Mortgage Association.

III. ZERO COUPON TREASURY BONDS

Admiral Short- and Intermediate-Term U.S. Treasury Portfolios may invest in zero coupon Treasury bonds, a term used to describe U.S. Treasury notes and bonds which have been stripped of their unmatured interest coupons, or the coupons themselves, and also receipts or certificates representing interest in such stripped debt obligations and coupons. The timely payment of coupon interest and principal on these instruments remains guaranteed by the "full faith and credit" of the United States Government.

A zero coupon bond does not pay interest. Instead, it is issued at a substantial discount to its "face value" -- what it will be worth at maturity. The difference between a security's issue or purchase price and its face value represents the imputed interest an investor will earn if the security is held until maturity. For tax purposes, a

portion of this imputed interest is deemed as income received by zero coupon bondholders each year. The Fund, which expects to qualify as a regulated investment company, intends to pass along such interest as a component of a Portfolio's distributions of net investment income.

Zero coupon bonds may offer investors the opportunity to earn higher yields than those available on U.S. Treasury bonds of similar maturity. However, zero coupon bond prices may also exhibit greater price volatility than ordinary debt securities because of the manner in which their principal and interest is returned to the investor.

The Fund has no present intention to invest 5% or more of its assets in zero coupon bonds.

IV. COLLATERALIZED MORTGAGE OBLIGATION

The Admiral Short-, Intermediate- and Long-Term U.S. Treasury Portfolios may invest in collateralized mortgage obligations (CMOs), bonds that are collateralized by whole loan mortgages or mortgage pass-through securities. Generally, the three Portfolios will purchase CMOs which are collateralized by mortgage securities issued or guaranteed by the U.S. Government or its agencies. The bonds issued in a CMO deal are divided into groups, and each group of bonds is referred to as a "tranche". Under the CMO structure, the cash flows generated by the mortgages or mortgage pass-through securities in the collateral pool are used to first pay interest and then pay principal to the CMO bondholders. The bonds issued under a CMO structure are retired sequentially as opposed to the pro rata return of principal found in traditional pass-through obligations. Subject to the various provisions of individual CMO issues, the cash flow generated by the underlying collateral (to the extent it exceeds the amount required to pay the stated interest) is used to retire the bonds. Under the CMO structure, the repayment of principal among the different tranches is prioritized in accordance with the terms of the particular CMO issuance. The "fastest-pay" tranches of bonds, as specified in the prospectus for the issuance, would initially receive all principal payments. When that tranche of bonds is retired, the next tranche, or tranches, in the sequence, as specified in the prospectus, receive all of the principal payments until they are retired. The sequential retirement of bond groups continues until the last tranche, or group of bonds, is retired. Accordingly, the CMO structure allows the issuer to use cash flows of long maturity, monthly-pay collateral to formulate securities with short, intermediate and long final maturities and expected average lives. Aside from market risk, the primary risk involved in any mortgage security, such as a CMO issuance, is its exposure to prepayment risk. To the extent a particular tranche is exposed to this risk, the bondholder is generally compensated in the form of higher yield. In order to provide security, in addition to the underlying collateral, many CMO issues also include minimum reinvestment rate

and minimum sinking-fund guarantees. Typically, the Portfolios will invest in those CMOs that most appropriately reflect their average maturities and market risk profiles. Consequently, the Short-Term Portfolios invest only in CMOs with short-term average maturities believed to be highly predictable. Similarly, Admiral Intermediate- and Long-Term Treasury Portfolios will invest in those CMOs that carry market risks and expected average maturities consistent with intermediate- and long-term bonds.

Subject to the applicable limits set forth above, in the Funds' Prospectus and in the Funds' investment limitations, the Admiral Short-, Intermediate- and Long-Term U.S. Treasury Portfolios have no specific limitation on the amount of assets they may invest in CMOs.

PART C
VANGUARD TAX-MANAGED FUND, INC.
OTHER INFORMATION

Item 24. Financial Statements and Exhibits
(a) Financial Statements

Statement of Assets and Liabilities*

Report of Independent Accountants*

(b) Exhibits

Exhibit Number	Description
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1.....	Articles of Incorporation
2.....	By-Laws of Registrant
3.....	Not Applicable
4.....	Not Applicable
5.....	Not Applicable
6.....	Not Applicable
7.....	Reference is made to the section entitled "Management of the Fund" in the Registrant's Statement of Additional Information
8.....	Form of Custody Agreement*
9.....	Form of Vanguard Service Agreement
10.....	Opinion of Counsel
11.....	Consent of Independent Accountants*
12.....	Financial Statements -- reference is made to (a) above
13.....	Not Applicable
14.....	Not Applicable
15.....	Not Applicable
16.....	Not Applicable

- -----
*To be filed by amendment.

Item 25. Persons Controlled by or under Common Control with Registrant
Registrant is not controlled by or under common control with any person. The officers of the Registrant, the 32 investment companies in The Vanguard Group of Investment Companies and The Vanguard Group, Inc. are identical. Reference is made to the caption "Management of the Fund" in the Prospectus constituting Part A and in the Statement of Additional Information constituting Part B of this Registration Statement.

Item 26. Number of Holders of Securities
As of May , 1994 each Portfolio of the Fund had the following number of shareholders:

Growth and Income Portfolio.....	
Capital Appreciation Portfolio.....	
Balanced Portfolio.....	

Item 27. Indemnification
Reference is made to Article IX of Registrant's Articles of Incorporation. Insofar as indemnification for liability arising under the Securities Act of 1933 may be permitted to trustees, directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a trustee, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act

and will be governed by the final adjudication of such issue.

Item 28. Business and Other Connections of Investment Adviser

Reference is made to the caption "Investment Advisers" in the prospectus constituting Part "A" of this Registration Statement and "Investment Advisory Services" in Part "B" of this Registration Statement.

Item 29. Principal Underwriters

- (a) None
- (b) Not Applicable

Item 30. Location of Accounts and Records

The books, accounts and other documents required by Section 31(a) under the Investment Company Act and the rules promulgated thereunder will be maintained in the physical possession of Registrant; Registrant's Transfer Agent, The Vanguard Group, Inc. c/o The Vanguard Financial Center, Valley Forge, Pennsylvania 19482; and the Registrant's Custodians.

Item 31. Management Services

Other than the Amended and Restated Funds' Service Agreement with The Vanguard Group, Inc. which is filed as Exhibit 9 and described in Part B hereof under "Management of the Fund"; the Registrant is not a party of any management-related service contract.

Item 32. Undertakings

Registrant undertakes to file a post-effective amendment, using financial statements which need not be certified, within four to six months from the effective date of this Registration Statement.

Registrant also undertakes to hold a First Annual Meeting of Shareholders by the end of the Registrant's first sixteen months of operation for the purpose of electing directors, approving the Investment Advisory and Service Agreements and appointing auditors. Thereafter, annual meetings will not be held except as required by the Investment Company Act of 1940 ("1940 Act") or other applicable law. Registrant undertakes to comply with the provisions of Section 16(c) of the 1940 Act in regard to shareholders' rights to call a meeting of shareholders for the purpose of voting on the removal of Directors and to assist in shareholder communications in such matters, to the extent required by law.

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Valley Forge and the Commonwealth of Pennsylvania, on the 17th day of May 1994.

VANGUARD TAX-MANAGED FUND, INC.

BY: (Raymond J. Klapinsky)
John C. Bogle*, Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the date indicated:

BY: (Raymond J. Klapinsky)
John C. Bogle*, Chairman of the Board, Director and Chief Executive Officer
May 17, 1994

BY: (Raymond J. Klapinsky)
John J. Brennan*, President and Director
May 17, 1994

BY: (Raymond J. Klapinsky)
Robert C. Cawthorn*, Director
May 17, 1994

BY: (Raymond J. Klapinsky)
Barbara B. Hauptfuhrer*, Director
May 17, 1994

BY: (Raymond J. Klapinsky)
Burton G. Malkiel*, Director
May 17, 1994

BY: (Raymond J. Klapinsky)
Bruce K. MacLaury, Jr.*, Director
May 17, 1994

BY: (Raymond J. Klapinsky)
Alfred M. Rankin, Jr.*, Director
May 17, 1994

BY: (Raymond J. Klapinsky)
John C. Sawhill*, Director
May 17, 1994

BY: (Raymond J. Klapinsky)
James O. Welch, Jr.*, Director
May 17, 1994

BY: (Raymond J. Klapinsky)
J. Lawrence Wilson*, Director
May 17, 1994

BY: (Raymond J. Klapinsky)
Richard F. Hyland*, Treasurer and Principal Financial Officer and
Accounting Officer
May 17, 1994

*By Power of Attorney. See File Number 2-14336, January 23, 1990. Incorporated
by Reference.

VANGUARD TAX-MANAGED FUND, INC.
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ARTICLES OF INCORPORATION
OF THE
VANGUARD TAX-MANAGED FUND, INC.

FIRST: The undersigned, Curtis R. Hilliard, whose post office address is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355 and being at least eighteen years of age, does hereby cause to be filed these Articles of Incorporation for the purpose of forming a Corporation under the General Corporation Law of the State of Maryland.

SECOND: The name of the Corporation is Vanguard Tax-Managed Fund, Inc.

THIRD: The purpose for which the Corporation is formed is to operate as an investment company and to exercise all of the powers and to do any and all of the things as fully and to the same extent as any other Corporation incorporated under the laws of the State of Maryland, now or hereinafter in force.

FOURTH: The post office address of the principal office of the Corporation in the State of Maryland is:

c/o Mr. James E. Baker, Esquire
CSC
Lawyers Incorporating Service Company
11 East Chase Street
Suite 9E
Baltimore, MD 21202

The name and post office address of the initial resident agent of the Corporation is:

c/o Mr. James E. Baker, Esquire
CSC
Lawyers Incorporating Service
11 East Chase Street
Baltimore, MD 21202

FIFTH: The total number of shares of stock which the Corporation shall have authority to issue is Seven Hundred and Fifty Million (750,000,000) shares of stock, with a par value of one-tenth of one cent (\$.001) per share, to be known and designated as Common Stock, such shares of Common Stock having an aggregate par value of Seven Hundred and Fifty Thousand dollars (\$750,000).

Subject to the provisions of these Articles of Incorporation, the Board of Directors shall have the power to issue shares of Common Stock of the Corporation from time to time, at prices not less than the net asset value or par value thereof, whichever is greater, for such consideration as may be fixed from time to time pursuant to the direction of the Board of Directors.

Pursuant to Section 2-105 of the Maryland General Corporation Law, the Board of Directors of the Corporation shall have the power to designate one or more

series of shares of Common Stock and to classify or reclassify any unissued shares with respect of such series and such series (subject to any applicable rule, regulation or order of the Securities and Exchange Commission or other applicable law or regulation) shall have such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption and other characteristics as the Board may determine in the absence of contrary determination set forth herein. Subject to such aforesaid power, the Board of Directors has initially designated three series of shares of Common Stock of the Corporation. The name of the series and the number of shares of Common Stock initially classified and allocated to them are as follows:

NUMBER OF SERIES -----	NUMBER OF SHARES OF COMMON STOCK INITIALLY CLASSIFIED AND ALLOCATED -----
Growth and Income Portfolio.....	250,000,000
Capital Appreciation Portfolio.....	250,000,000
Balanced Portfolio.....	250,000,000

At any time when there are no shares outstanding or subscribed for a particular series previously established and designated herein by the Board of Directors, the series may be liquidated by similar means. Each share of a series shall have equal rights with each other share of that series with respect to the assets of the Corporation pertaining to that series. The dividends payable to the holders of any series (subject to any applicable rule, regulation or order of the Securities and Exchange Commission or any other applicable law or regulation) shall be determined by the Board and need not be individually declared, but may be declared and paid in accordance with a formula adopted by the Board. Except as otherwise provided herein, all references in these Articles of Incorporation to Common Stock or series of stock shall apply without discrimination to the shares of each series of stock.

The holder of each share of stock of the Corporation shall be entitled to one vote for each full share, and a fractional vote for each fractional share of stock, irrespective of the series then standing in his or her name in the books of the Corporation. On any matter submitted to a vote of stockholders, all shares of the Corporation then issued and outstanding and entitled to vote, irrespective of the series, shall be voted in the aggregate and not by series except (1) when otherwise expressly provided by the Maryland General Corporation Law, or (2) when required by the Investment Company Act of 1940, as amended, shares shall be voted by individual series; and (3) when the matter does not affect any interest of a particular series, then only shareholders of affected series shall be entitled to vote thereon. Holders of shares of stock of the Corporation shall not be entitled to cumulative voting in the election of Directors or on any other matter.

Each series of stock of the Corporation shall have the following powers,

preferences and participating, voting, or other special rights and the qualifications, restrictions, and limitations thereof shall be as follows:

1. All consideration received by the Corporation for the issue or sale of stock of each series, together with all income, earnings, profits, and proceeds thereof, including any proceeds derived from the sale, exchange or liquidation thereof, and any funds or payments derived from any reinvestment of such proceeds in whatever form the same may be, shall irrevocably belong to the series of shares of stock with respect to which such assets, payments or funds were received by the Corporation for all purposes, subject only to the rights of creditors, and shall be so handled upon the books of account of the Corporation. Such assets, income, earnings, profits and proceeds thereof, including any proceeds derived from the sale, exchange or liquidation thereof and any assets derived from any reinvestment of such proceeds, in whatever form the same may be, and herein referred to as "assets belonging to" such series.

2. The Board of Directors may from time to time declare and pay dividends or distributions, in stock or in cash, on any or all series of stock; provided, such dividends or distributions on shares of any series of stock shall be paid only out of earnings, surplus, or other lawfully available assets belonging to such series.

3. The Board of Directors shall have the power in its discretion to distribute in any fiscal year as dividends, including dividends designated in whole or in part as capital gain distributions, amounts sufficient, in the opinion of the Board of Directors, to enable the Corporation to qualify as a "regulated investment company" under the Internal Revenue Code of 1954, as amended, or any successor or comparable statute thereof, and regulations promulgated thereunder (collectively, the "IRC"), and to avoid liability for the Corporation for Federal income tax in respect of that year and to make other appropriate adjustments in connection therewith. In furtherance, and not in limitation of the foregoing, to the extent deemed necessary or appropriate by the Board of Directors to comply with the provisions of the IRC, in the event that a series of shares has a net capital loss for a fiscal year, and to the extent that the net capital loss offsets net capital gains from another series, the amounts to be deemed available for distribution to the series with the net capital gain shall be reduced by the amount of offset. The shareholders of the series with the net capital gain shall be entitled to a full distribution of the net income to the extent earned and to recognition in the net asset value of such series of the amount of the realized net capital loss of a series exceeds the net capital gain from another series, the excess loss shall not reduce the net investment income available for distribution to the series with the loss, but shall be carried forward.

4. In the event of the liquidation or dissolution of the Corporation, shareholders of each series shall be entitled to receive, as a series, out of the assets of the Corporation available for distribution to shareholders, but other than general assets belonging to such series, and the assets so distributable to the shareholders of any series shall be distributed among such shareholders in proportion to the number of shares of such series held by them and recorded on the books of the Corporation. In the event that there are any general assets not belonging to any particular series of stock and available for distribution, such distribution shall be made

to the holders of stock of all series in proportion to the net asset value of the respective series determined as hereinafter provided.

5. The assets belonging to any series of stock shall be charged with the liabilities in respect to such series, and shall also be charged with its share of the general liabilities of the Corporation, in proportion to the net asset value of the respective series determined as hereinafter provided. The determination of the Board of Directors shall be conclusive as to the amount of liabilities, including accrued expenses and reserves, as to the allocation of the same as to a give series, and as to whether the same or general assets of the Corporation are allocable to one or more series.

The Board of Directors may provide for a holder of any series of stock of the Corporation, who surrenders his certificate in good form for transfer to the Corporation or, if the shares in question are not represented by certificates, who delivers to the Corporation a written request in good order signed by the shareholder, to convert the shares in question on such basis as the Board may provide, into shares of stock of any other series of the Corporation.

The Board of Directors shall have power to fix an initial offering price for the shares of any class which shall yield to the Corporation not less than the par value thereof, at which price the shares of the Common Stock of the Corporation shall be offered for sale, and to determine from time to time thereafter the offering price which shall yield to the Corporation not less than the par value thereof from the sales of shares of its Common Stock provided, however, that no shares of Common Stock of the Corporation shall be issued or sold for a consideration which shall yield to the Corporation less than the net asset value of such class determined as hereinafter provided, as of the business day on which such shares were sold, or at times set by the Board of Directors, except in the case of a dividend properly declared and payable.

The net asset value per share of a series of the Corporation's Common Stock shall be determined in accordance with the Investment Company Act of 1940, as amended, and with generally accepted accounting principles, by adding the market or appraised value of all securities, cash and other assets of the Corporation pertaining to that series, subtracting the liabilities determined by the Board of Directors to be applicable to that series, allocating any general assets and general liabilities to that series, and dividing the net result by the number of shares of that series outstanding. Securities and other investments and assets will be valued at the current market value, and in the absence of a readily available market value, will be valued at fair value as determined in good faith by the Board of Directors.

The holders of the shares of Common Stock or other securities of the Corporation shall have no pre-emptive rights to subscribe to new or additional shares of its Common Stock or other securities.

SIXTH: The number of Directors of the Corporation shall be such number as may from time to time be fixed by the By-Laws of the Corporation or pursuant to authorization contained in such By-Laws; provided, notwithstanding anything herein to the contrary, the Board of Directors shall initially consist of eight Directors until such time as the number of Directors is fixed as stated above. The name of the Directors who shall act as such until successors are duly chosen and qualify are: John C. Bogle, John J. Brennan, Robert E.

Cawthorn, Barbara B. Hauptfuhrer, Bruce K. McLaury, Burton G. Malkiel, Alfred M. Rankin, Jr., John C. Sawhill, James O. Welch, Jr. and J. Lawrence Wilson.

SEVENTH: The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation:

1. The Board shall have power to fix an initial offering price for the shares of any series which shall yield to the Corporation not less than the par value thereof, at which price the shares of the Common Stock of the Corporation shall be offered for sale, and to determine from time to time thereafter the offering price which shall yield to the Corporation not less than the par value thereof from sales of the shares of its Common Stock; provided, however, that no shares of the Common Stock of the Corporation shall be issued or sold for a consideration which shall yield to the Corporation less than the net asset value of such series determined as hereinafter provided, as of the business day on which such shares are sold, or at such other times set by the Board of Directors, except in the case of a dividend properly declared and payable.

The net asset value of the property and assets of any series of the Corporation shall be determined at such times as the Board of Directors may direct, by deducting from the total appraised value of all of the property and assets of the Corporation, determined in the manner hereinafter provided, all debts, obligations and liabilities of the Corporation (including, but without limitation of the generality of any of the foregoing, any or all debts, obligations, liabilities or claims of any and every kind and nature, whether fixed, accrued, or

unmatured, and any reserves or charges, determined in accordance with generally accepted accounting principles, for any or all thereof, whether for taxes, including estimated taxes or unrealized book profits, expenses, contingencies or otherwise).

In determining the total appraised value of all the property and assets of the Corporation or belonging to any series thereof:

(a) Securities owned shall be valued at market value or, in the absence of readily available market quotations, at fair value as determined in good faith by or as directed by the Board of Directors in accordance with applicable statutes and regulations.

(b) Dividends declared but not yet received, or rights, in respect of securities which are quoted ex-dividend or ex-rights, shall be included in the value of such securities as determined by or pursuant to the direction of the Board of Directors on the day the particular securities are first quoted ex-dividend or ex-rights, and on each succeeding day until the said dividends or rights are received and become part of the assets of the Corporation.

(c) The value of any other assets of the Corporation (and any of the assets mentioned in paragraphs (a) or (b), in the discretion of the Board of Directors in the event of national financial emergency, as hereinafter defined) shall be determined in such manner as may be approved from time to time by or pursuant to the discretion of the Board of Directors.

The net asset value of each shares of the Common Stock of the Corporation shall be determined by dividing the total market value of the property and assets of the relevant series of the Corporation by the total number of shares of its Common Stock then issued and outstanding for such series, including any

shares sold by the Corporation up to and including the date as of which such net asset value is to be determined whether or not certificates therefor have actually been issued. In case the net asset value of each shares so determined shall include a fraction of one cent, such net asset value of each shares shall be adjusted to the nearer full cent.

For the purpose of these Articles of Incorporation, a "national financial emergency" is defined as the whole or any part of any period (i) during which the New York Stock Exchange is closed other than customary weekend and holiday closings, (ii) during which trading on the New York Stock Exchange is restricted, (iii) during which an emergency exists as a result of which disposal by the Corporation of securities owned by such series is not reasonably practicable or it is not reasonably practicable for the Corporation fairly to determine the value of the net assets of such series, or (iv) during any other period when the Securities and Exchange Commission (or any succeeding governmental authority) may for the protection of security holders of the Corporation by order permit suspension of the right of redemption or postponement of the date of payment on redemption; provided that applicable rules and regulations of the Securities and Exchange Commission (or any succeeding governmental authority) shall govern as to whether the conditions prescribed in (ii), (iii), or (iv) exist. The Board of Directors may, in its discretion, declare the suspension described in (iv) above at an end, and such other suspension relating to a national financial emergency shall terminate as the case may be on the first business day on which said Stock Exchange shall have opened or the period specified in (ii) or (iii) shall have expired as to which in the absence of an official ruling by said Commission or succeeding authority, the determination of the Board of Directors shall be conclusive.

2. To the extent permitted by law, and except in the case of a national financial emergency, the Corporation shall redeem shares of its Common Stock from its stockholders upon request of the holder thereof received by the Corporation or its designated agent during business hours of any business day, provided that such request must be accompanied by surrender of outstanding certificate or certificates for such shares in form for transfer, together with such proof of the authenticity of signatures as may reasonably be required on such shares (or, on such request in the event no certificate is outstanding) by, or pursuant to the direction of the Board of Directors of the Corporation, and accompanied by proper stock transfer stamps. Shares redeemed upon any such request shall be purchased by the Corporation at the net asset value of such shares determined in the manner provided in Paragraph (1) of this Article Seventh, as of the close of business on the business day during which such request was received in good order by the Corporation.

Payments for shares of its Common Stock so redeemed by the Corporation shall be made from assets of the applicable series in cash, except payment for such shares may, at the option of the Board of Directors, or such officer or officers as they may duly authorize for the purpose in their complete discretion, be made from the assets of that series in kind or partially in cash and partially in kind. In case of any payment in kind the Board of Directors, or their delegate, shall have absolute discretion as to what security or securities of such series shall be distributed in kind and the amount of the same; and the securities shall be valued for purposes

of distribution at the value at which they were appraised in computing the current net asset value of the series of the Fund's shares, provided that any stockholder who cannot legally acquire securities so distributed in kind by reason of the prohibitions of the Investment Company Act of 1940 shall receive cash.

Payment for shares of its Common stock so redeemed by the Corporation shall be made by the Corporation as provided above within seven days after the date which such shares are deposited; provided, however, that if payment shall be made by delivery of assets of the Corporation, as provided above, any securities to be delivered as part of such payment shall be delivered as promptly as any necessary transfers of such securities on the books of the several Corporations whose securities are to be delivered may be made, but not necessarily within such seven day period.

The right of any holder of shares of the Common Stock of the Corporation to receive dividends thereon and all other rights of such stockholder with respect to the shares so redeemed by the Corporation shall cease and determine from and after the time as of which the purchase price of such shares shall be fixed, as provided above except the right of such stockholder to receive payment for such shares as provided for herein.

3. The Board of Directors, may from time to time, without the vote or consent of stockholders, establish uniform standards with respect to the minimum net asset value of a stockholder account or minimum net asset value of a stockholder account or minimum investment which may be made by a stockholder. The Board of Directors may authorize the closing of those stockholder accounts not meeting the specified minimum standards of net asset value by redeeming all of the shares in such accounts, provided there is mailed to each affected stockholder account, at least thirty (30) days prior to the planned redemption date, a notice setting forth the minimum account size requirement and the date on which the account will be closed if the minimum size requirement is not met prior to said closing date.

EIGHTH: The Corporation expressly reserves the right to amend, alter, change or repeal any provision contained in these Articles of Incorporation, and all rights, contract and otherwise, conferred herein upon the stockholders are granted subject to such reservation.

NINTH: (a) To the fullest extent that limitations on the liability of directors and officers are permitted by the Maryland General Corporation Law, no director or officer of the Corporation shall have any liability to the Corporation or its stockholders for damages. This limitation on liability applies to events occurring at the time a person serves as a director or officer of the Corporation whether or not such person is a director or officer at the time of any proceeding in which liability is asserted.

(b) The Corporation shall indemnify and advance expenses of its currently acting and its former directors to the fullest extent that indemnification of directors is permitted by the Maryland General Corporation Law. The Corporation shall indemnify and advance expenses to its officers to the same extent as its directors and to such further extent as is consistent with law. The Board of Directors may by By-Law, resolution or agreement make further provisions for indemnification of directors, officers, employees and agents to the fullest extent permitted by the Maryland General Corporation Law.

(c) No provision of this Article shall be effective to protect or purport to

protect any director or officer of the Corporation against any liability to the Corporation or its security holders to which he would otherwise be subject by reason or willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

(d) References to the Maryland General Corporation Law in this Article are to the law as from time to time amended. No further amendment to the Articles of Incorporation of the Corporation shall affect any right of any person under this Article based on any event, omission or proceeding prior to such amendment.

TENTH: In furtherance, and not in limitation, of the powers conferred by the laws of the State of Maryland, the Board of Directors is expressly authorized to make, alter or repeal the By-Laws of the Corporation, except where such power is reserved by the By-Laws to the stockholders, and except as otherwise required by the Investment Company Act of 1940.

IN WITNESS WHEREOF, the undersigned incorporator of Vanguard Tax Managed Fund, Inc. who executed the foregoing Articles of Incorporation hereby acknowledged the same to be his act and further acknowledge that, to the best of his knowledge the matters and facts set forth therein are true in all material respects under penalties of perjury.

Dated the 5th day of May, 1994.

Curtis R. Hilliard

BY-LAWS OF
VANGUARD TAX-MANAGED FUND, INC.
MAY 5, 1994

ARTICLE I

FISCAL YEAR AND OFFICES

SECTION 1. Fiscal Year. Unless otherwise provided by resolution of the Board of Directors, the fiscal year of the Corporation shall begin on January 1 and end on the last day of December.

SECTION 2. Registered Office. The registered office of the Corporation in Maryland shall be located at 11 East Chase Street, Suite 9E, Baltimore, Maryland 21202, and the name and address of its Resident Agent is James S. Baker, Esquire, c/o CSC, Lawyers Incorporating Service, 11 East Chase Street, Baltimore, Maryland 21202.

SECTION 3. Other Offices. The Corporation shall also have a place of business in Valley Forge, Pennsylvania, and the Corporation shall have the power to open additional offices for the conduct of its business, either within or outside the States of Maryland and Pennsylvania, at such places as the Board of Directors may from time to time designate.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 1. Place of Meeting. Meetings of the Stockholders for the election of Directors shall be held in such place as the Board of Directors may by resolution establish. In the absence of any specific resolution, Annual Meetings of Stockholders shall be held at the Corporation's principal office in Valley Forge, Pennsylvania. Meetings of Stockholders for any other purpose may be held at such place and time as shall be fixed by resolution of the Board of Directors and stated in the notice of the Meeting, or in a duly executed waiver of notice thereof.

SECTION 2. Annual Meetings. Annual Meetings of Stockholders shall be held in years in which action by Stockholders on any one or more of the following is required by the Investment Company Act of 1940:

- A) Election of Directors;
- B) Approval of the Investment Advisory Agreement;
- C) Ratification of the Selection of Independent Public Accountants; or
- D) Approval of a Distribution Agreement.

In any year in which Stockholder action on none of the above is required by the Investment Company Act of 1940, no Annual Meeting shall be held unless called by the Board of Directors of the Corporation. The Annual Meeting, if held, shall be held at such time and no such date during the first six months

of each fiscal year of the Corporation as may be fixed by the Board of Directors by resolution in each year.

SECTION 3. Special Meetings. Special Meetings of the Stockholders may be called at any time by the Chairman of the Board or the President, or by a majority of the Board of Directors, and shall be called by the Chairman of the Board, President or Secretary upon written request of the holders of shares entitled to cast not less than twenty-five percent of all the votes entitled to be cast at such meeting (the total shares of all of the Corporation's classes of shares ("Portfolios") will be considered as a single class) provided that (a) such request shall state the purposes of such meeting and the matters proposed to be acted on, and (b) the Stockholders requesting such meeting shall have paid to the Corporation the reasonably estimated cost of preparing and mailing the notice thereof, which the Secretary shall determine and specify to such Stockholders. No Special Meeting need be called to consider any matter which is substantially the same as a matter voted on at any meeting of the Stockholders held during the preceding twelve months.

SECTION 4. Notice. Not less than ten days before the date of every Annual or Special Stockholders' Meeting, the Secretary shall cause to be mailed to each Stockholder entitled to vote at such meeting at his (her) address (as it appears on the records of the Corporation at the time of mailing) written notice stating the time and place of the meeting and, in the case of a Special Meeting of Stockholders shall be limited to the purposes

stated in the notice. Notice of any Stockholders' meeting need not be given to any Stockholder who shall sign a written waiver of such notice whether before or after the time of such meeting, or to any Stockholder who shall attend such meeting in person or by proxy. Notice of adjournment of a Stockholders' meeting to another time or place need not be given, if such time and place are announced at the meeting.

SECTION 5. Record Date for Meetings. The Board of Directors may fix in advance a date not more than sixty days, nor less than ten days, prior to the date of any Annual or Special Meeting of the Stockholders as a record date for the determination of the Stockholders entitled to receive notice of, and to vote at any meeting and any adjournment thereof; and in such case such Stockholders and only such Stockholders as shall be Stockholders of record on the date so fixed shall be entitled to receive notice of and to vote at such meeting and any adjournment thereof as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

SECTION 6. Quorum. At any meeting of Stockholders, the presence in person or by proxy of the holders of a majority of the aggregate number of Shares of the Corporation's Portfolios at the time outstanding shall constitute a quorum for the transaction of business at the meeting, except that where any provision of law or the Articles of Incorporation require that the holders of any Portfolio shall vote as a class, then a majority of the aggregate number of shares of that Portfolio at the time outstanding shall be necessary to constitute a quorum for the transaction of such business. If, however, such quorum shall not be present or represented at any meeting of the Stockholders, any officer entitled to preside at, or act as Secretary of, such meeting, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or

represented. At such adjourned meeting at which a quorum shall be presented or represented any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 7. Voting. Each Stockholder shall have one vote for each full share and a fractional vote for each fractional share of stock having voting power held by such Stockholder on the record date set pursuant to Section 5 on each matter submitted to a vote at a meeting of Stockholders. Such vote may be made in person or by proxy. If no record date has been fixed for the determination of Stockholders, the record date for the determination of Stockholders entitled to notice of or to vote at a meeting of Stockholders shall be (a) at the close of business (i) on the day ten days before the day on which notice of the meeting is mailed or (ii) on the day 60 days before the meeting, whichever is the closer date to the meeting; or (b) if notice is waived by all Stockholders entitled to notice of or to vote at the meeting, at the close of business on the tenth day next preceding the day on which the meeting is held. At all meetings of the Stockholders, a quorum being present, all matters shall be decided by majority vote of the shares of stock entitled to vote held by Stockholders present in person or by proxy, unless the question is one which by express provision of the laws of the State of Maryland, the Investment Company Act of 1940, as from time to time amended, or the Articles of Incorporation, a different vote is required, in which case such express provision shall control the decision of such question. At all meetings of Stockholders, unless the voting is conducted by inspectors, all questions relating to the qualification of voters and the validity of proxies and the acceptance or rejection of votes shall be decided by the Chairman of the meeting.

SECTION 8. Voting -- Proxies. The right to vote by proxy shall exist only if the instrument authorizing such proxy to act shall have been executed in writing by the Stockholder himself or by his attorney thereunto duly authorized in writing. No proxy shall be voted on after eleven months from its date unless it provides for a longer period. Each proxy shall be in writing subscribed by the Stockholder or his duly authorized attorney and shall be dated, but need not be sealed, witnessed or acknowledged. Proxies shall be delivered to the Secretary of the Corporation or person acting as Secretary of the meeting before being voted. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by one of them unless at or prior to exercise of such proxy the Corporation receives a specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on behalf of a Stockholder shall be deemed valid unless challenged at or prior to its exercise.

SECTION 9. Inspectors. At any election of Directors, the Board of Directors prior thereto may, or, if they have not so acted, the Chairman of the meeting may appoint one or more inspectors of election who shall first subscribe an oath of affirmation to execute faithfully the duties of inspectors at such election with strict impartiality and according to the best of their ability, and shall after the election make a certificate of the result of the vote taken. No candidate for the office of Director shall be appointed such inspector.

SECTION 10. Stock Ledger and List of Stockholders. It shall be the duty of the Secretary or Assistant Secretary of the Corporation to cause an original or duplicate stock ledger to be maintained at the office of the Corporation's transfer agent. Such stock ledger may be in written form or any other form capable of being converted into written form within a reasonable time for visual inspection. Any one or more persons, each of them has been a Stockholder of record of the Corporation for more than six months next preceding such request, who owns or own in the aggregate 5% or more of the outstanding capital stock of the Corporation, (shares of all of the Corporation's Portfolios considered as a single class) may submit a written request to any officer of the Corporation or its resident agent in Maryland for a list of the Stockholders of the Corporation. Within 20 days after such a request, there shall be prepared and filed at the Corporation's principal office a list containing the names and addresses of all Stockholders of the Corporation and the number of shares of each class held by each Stockholder, certified as correct by an officer of the Corporation, by its stock transfer agent, or by its registrar.

SECTION 11. Action Without Meeting. Any action to be taken by Stockholders may be taken without a meeting if all Stockholders entitled to vote on the matter consent to the action in writing, and the written consents are filed with the records of the meetings of Stockholders. Such consent shall be treated for all purposes as a vote at a meeting.

ARTICLE III

DIRECTORS

SECTION 1. General Powers. The business of the Corporation shall be under the direction of its Board of Directors, which may exercise all powers of the Corporation, except such as are by statute, or the Articles of Incorporation, or by these By-Laws conferred upon or reserved to the Stockholders. All acts done by any meeting of the Directors or by any person acting as a Director, so long as his successor shall not have been duly elected or appointed, shall, notwithstanding that it be afterwards discovered that there was some defect in the election of the Directors or of such person acting as aforesaid or that they or any of them were disqualified, be as valid as if the Directors or such other person, as the case may be, had been duly elected and were or was qualified to be Directors or a Director of the Corporation.

SECTION 2. Number and Term of Office. The number of Directors which shall constitute the whole Board shall be determined from time to time by the Board of Directors, but shall not be fewer than three, nor more than sixteen. Each Director elected shall hold office until his successor is elected and qualified. Directors need not be Stockholders.

SECTION 3. Election. Initially the Directors shall be those persons named as such in the Articles of Incorporation. The Directors shall be elected annually by the vote of a majority of the shares present in person or by proxy at the Annual Meeting of the Stockholders, except that any vacancy in the Board of Directors may be filled by a majority vote of the Board of Directors, although less than a quorum, except that a newly-created directorship may be filled only by a vote of the entire Board of Directors. However, if at any

time after the filling of any vacancy, less than a majority of the Directors then holding office were elected by Stockholders, a Stockholders Meeting shall be called as soon as possible, and in any event within sixty days, for the purpose of electing an entire new Board of Directors.

SECTION 4. Removal of Directors. At any Stockholders Meeting, provided a quorum is present, any Director may be removed (either with or without cause) by the vote of the holders of a majority of the shares present or represented at the meeting, and at the same meeting a duly qualified person may be elected in his stead by a majority of the votes validly cast.

SECTION 5. Place of Meeting. Meetings of the Board of Directors, regular or special, may be held at any place in or out of the State of Maryland as the Board may from time to time determine.

SECTION 6. Quorum. At all meetings of the Board of Directors a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the action of a majority of the Directors present at any meeting at which a quorum is present shall be the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by the laws of Maryland, the Investment Company Act of 1940, these By-Laws or the Articles of Incorporation. If a quorum shall not be present at any meeting

of Directors, the Directors present thereat may by a majority vote adjourn the meeting from time to time without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 7. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board of Directors provided that notice of any change in the time or place of such meetings shall be sent promptly to each Director not present at the meeting at which such change was made in the manner provided for notice of special meetings. Members of the Board of Directors or any committee designated thereby may participate in a meeting of such Board or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time, and participation by such means shall constitute presence in person at a meeting.

SECTION 8. Special Meetings. Special Meetings of the Board of Directors may be called by the Chairman of the Board or the President on one day's notice to each Director; Special Meetings shall be called by the Chairman of the Board, President or Secretary in like manner and on like notice on the written request of two Directors.

SECTION 9. Informal Actions. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if a written consent to such action is signed in one or more counterparts by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or committee.

SECTION 10. Committees. The Board of Directors may by resolution passed by a majority of the entire Board appoint from among its members an Executive Committee and other committees composed of two or more Directors, and may delegate to such committees, in the intervals between meetings of the Board of Directors, any or all of the powers of the Board of Directors in the management of the business and affairs of the Corporation, except the powers

to declare dividends, to issue stock or to recommend to Stockholders any action requiring Stockholder approval.

SECTION 11. Action of Committees. In the absence of an appropriate resolution of the Board of Directors each committee may adopt such rules and regulations governing its proceedings, quorum and manner of acting as it shall deem proper and desirable, provided that the quorum shall not be less than two Directors. The committees shall keep minutes of their proceedings and shall report the same to the Board of Directors at the meeting next succeeding, and any action by the committee shall be subject to revision and alteration by the Board of Directors, provided that no rights of their persons shall be affected by any such revision or alteration. In the absence of any member of such committee the members thereof present at any meeting, whether or not they constitute a quorum, may appoint a member of the Board of Directors to act in the place of such absent member.

SECTION 12. Compensation. Any Director, whether or not he is a salaried officer or employee of the Corporation, may be compensated for his services as Director or as a member of a committee of Directors, or as Chairman of the Board or chairman of a committee by fixed periodic payments or by fees for attendance at meetings or by both, and in addition may be reimbursed for transportation and other expenses, all in such manner and amounts as the Board of Directors may from time to time determine.

ARTICLE IV

NOTICES

SECTION 1. Form. Notices to Stockholders shall be in writing and delivered personally or mailed to the Stockholders at their addresses appearing on the books of the Corporation. Notices to Directors shall be oral or by telephone or telegram or in writing delivered personally or mailed to the Directors at their addresses appearing on the books of the Corporation. Notice by mail shall be deemed to be given at the time when the same shall be mailed. Notice to Directors need not state the purpose of a Regular or Special Meeting.

SECTION 2. Waiver. Whenever any notice of the time, place or purpose of any meeting of Stockholders, Directors or a committee is required to be given under the provisions of Maryland law or under the provisions of the Articles of Incorporation or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice and filed with the records of the meeting, whether before or after the holding thereof,

or actual attendance at the meeting of Stockholders in person or by proxy, or at the meeting of Directors of committee in person, shall be deemed equivalent to the giving of such notice to such persons.

ARTICLE V

OFFICERS

SECTION 1. Executive Officers. The officers of the Corporation shall be chosen by the Board of Directors and shall include a President, who shall be a

Director, a Secretary and a Treasurer. The Board of Directors, at its discretion, may also appoint a Director as Chairman of the Board who shall perform and execute such executive and administrative duties and powers as the Board of Directors shall from time to time prescribe. The same person may hold two or more offices, except that no person shall be both President and Secretary and no officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument is required by law, the Articles of Incorporation or these By-Laws to be executed, acknowledged or verified by two or more officers.

SECTION 2. Election. The Board of Directors shall choose a President, a Secretary and a Treasurer at its first meeting and thereafter at the next meeting following a Stockholders' Meeting at which Directors were elected.

SECTION 3. Other Officers. The Board of Directors from time to time may appoint such other officers and agents as it shall deem advisable, who shall hold their offices for such terms and shall exercise powers and perform such duties as shall be determined from time to time by the Board. The Board of Directors from time to time may delegate to one or more officers or agents the power to appoint any such subordinate officers or agents and to prescribe their respective rights, terms of office, authorities and duties.

SECTION 4. Compensation. The salaries or other compensation of all officers and agents of the Corporation shall be fixed by the Board of Directors, except that the Board of Directors may delegate to any person or group of persons the power to fix the salary or other compensation of any subordinate officers or agents appointed pursuant to Section 3 of this Article V.

SECTION 5. Tenure. The officers of the Corporation shall serve for one year and until their successors are chosen and qualify. Any officer or agent may be removed by the affirmative vote of a majority of the Board of Directors whenever, in its judgment, the best interests of the Corporation will be served thereby. In addition, any officer or agent appointed pursuant to Section 3 may be removed, either with or without cause, by any officer upon whom such power of removal shall have been conferred by the Board of Directors. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise shall be filled by the Board of Directors, unless pursuant to Section 3 the power of appointment has been conferred by the Board of Directors on any other officer.

SECTION 6. President. The President, unless the Chairman has been so designated, shall be the Chief Executive Officer of the Corporation; he (she) shall preside at all meetings of the Stockholders and Directors, and shall see that all orders and resolutions of the Board are carried into effect. The President, unless the Chairman has been so designated, shall also be the chief administrative officer of the Corporation and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

SECTION 7. Chairman of the Board. The Chairman of the Board, if one shall be chosen, shall preside at all meetings of the Board of Directors and Stockholders, and shall perform and execute such executive duties and administrative powers as the Board of Directors shall from time to time prescribe.

SECTION 8. Vice-Presidents. The Vice-Presidents, in order of their seniority, shall, in the absence or disability of the President, perform the duties and exercise the powers of the President and shall perform such other

duties as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

SECTION 9. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of the Stockholders and record all the proceedings thereof and shall perform like duties for any Committee when required. He (she) shall give, or cause to be given, notice of meetings of the Stockholders and of the Board of Directors, shall have charge of the records of the Corporation, including the stock books, and shall perform such other duties as may be prescribed by the Board of Directors or Chief Executive Officer, under whose supervision he (she) shall be. He (she) shall keep in safe custody the seal of the Corporation and, when authorized by the Board of Directors, shall affix and attest the same to any instrument requiring it. The Board

of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his (her) signature.

SECTION 10. Assistant Secretaries. The Assistant Secretaries, in order of their seniority, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties as the Board of Directors shall prescribe.

SECTION 11. Treasurer. The Treasurer, unless another officer has been so designated, shall be the Chief Financial Officer of the Corporation. He (she) shall have general charge of the finances and books of account of the Corporation. Except as otherwise provided by the Board of Directors, he (she) shall have general supervision of the funds and property of the Corporation and of the funds and property of the Corporation and of the performance by the custodian of its duties with respect thereto. He (she) shall render to the Board of Directors, whenever directed by the Board, an account of the financial condition of the Corporation and of all his (her) transactions as Treasurer; and as soon as possible after the close of each financial year he (she) shall make and submit to the Board of Directors a like report for such financial year. He (she) shall perform all the acts incidental to the office of Treasurer, subject to the control of the Board of Directors.

SECTION 12. Controller. The Controller shall be under the direct supervision of the Chief Financial Officer of the Corporation. He (she) shall maintain adequate records of all assets, liabilities and transactions of the Corporation, and establish and maintain internal accounting controls. He (she) shall have such further powers and duties as may be conferred upon him (her) from time to time by the President or the Board of Directors.

SECTION 13. Assistant Treasurer. The Assistant Treasurers, in the order of their seniority, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as the Board of Directors may from time to time prescribe.

SECTION 14. Surety Bonds. The Board of Directors may require any officer or agent of the Corporation to execute a bond (including, without limitation, any bond required by the federal Investment Company Act of 1940, as amended, and the rules and regulations of the Securities and Exchange Commission) to the Corporation in such sum and with such surety or sureties as the Board of Directors may determine, conditioned upon the faithful performance of his (her) duties to the Corporation, including responsibility for negligence and for the accounting of any of the Corporation's property, funds or securities

that may come into his (her) hands.

ARTICLE VI

OTHER RESTRICTIONS

SECTION 1. Trading in Securities. Neither the investment adviser or any officer or director thereof, nor any officer or director of the Corporation shall take a long or short position in the securities issued by the Corporation, except as permitted by applicable laws and regulations; provided, that the foregoing shall not prevent the purchase from the Corporation of shares issued by it by the officers or directors of the Corporation or of the investment adviser or by the investment adviser at the price available to the public at the moment of such purchase.

In any case where an officer or director of the Corporation or of the investment adviser or a member of an advisory or portfolio committee of the Corporation is also an officer or director of another corporation and the purchase or sale of shares issued by that other corporation is under consideration, the officer or director or committee member concerned will abstain from participating in any decision made on behalf of the Corporation to purchase or sell any securities issued by the other corporation.

SECTION 2. Loans to Affiliates. The Corporation shall not lend assets of the Corporation to any officer or director of the Corporation, or to any partner, officer, director or stockholder of, or person who has a material, financial interest in, the investment adviser of the Corporation, or the distributor of the Corporation, or to the investment adviser of the Corporation or to the distributor of the Corporation.

SECTION 3. Conflict of Interest Transactions. The Corporation shall not permit any officer or director, or any officer or director of the investment adviser or distributor of the Corporation to deal for or on behalf of the Corporation with himself as principal or agent, or with any partnership, association or corporation in which he has a material, financial interest; provided that the foregoing provisions shall not prevent (a) officers or directors of the Corporation from buying, holding or selling shares in the Corporation, or from being partners, officers or directors of or otherwise financially interested in the investment adviser, sponsor, manager or distributor of the Corporation; (b) purchases or sales of securities or other property by the Corporation

from or to an affiliated person or to the investment adviser or distributor of the Corporation if such transaction is exempt from the applicable provisions of the Investment Company Act of 1940; (c) purchases of investments owned by the Corporation through a security dealer who is, or one or more of whose partners, stockholders, officers or director is, an officer or director of the Corporation, if such transactions are handled in the capacity of brokers only and commissions charged do not exceed customary brokerage charges for such services; (d) employment of legal counsel, registrar, transfer agent, dividend disbursing agent or custodian who is, or has a partner, stockholder, officer or director, who is an officer or director of the Corporation, if only customary fees are charged for services to the Corporation; (e) sharing statistical, research, legal and management expenses with a firm of which an

officer or director of the Corporation is an officer or director or otherwise financially interested; (f) purchase for the portfolio of the Corporation of securities issued by an issuer having an officer, director or securities holder who is an officer or director of the Corporation or of any investment adviser of the Corporation, unless the retention of such securities in the portfolio of the Corporation would be a violation of these By-Laws or the Articles of Incorporation of the Corporation.

ARTICLE VII

STOCK

SECTION 1. Stock certificates shall not be issued by the Corporation. The recording and transfer of ownership of shares of the Corporation's stock shall be provided for by electronic or other means of certificates as approved by the Board of Directors.

SECTION 2. Transfer of Capital Stock. Transfers of shares of the stock of the Corporation shall be made on the books of the Corporation by the holder of record thereof (in person or by his attorney thereunto duly authorized by a power of attorney duly executed in writings and filed with the Secretary of the Corporation).

SECTION 3. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such shares or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the General Laws of the State of Maryland.

SECTION 4. Transfer Agents and Registrars. The Board of Directors may, from time to time, appoint or remove transfer agents and or registrars of transfer of shares of stock of the Corporation, and it may appoint the same person as both transfer agent and registrar. Upon any such appointment being made all certificates representing shares of stock thereafter issued shall be countersigned by one of such transfer agents or by one of such registrars of transfers or by both and shall not be valid unless so countersigned. If the same person shall be both transfer agent and registrar, only one countersignature by such person shall be required.

SECTION 5. Stock Ledger. The Corporation shall maintain an original stock ledger containing the names and addresses of all Stockholders and the number and class of shares held by each Stockholder. Such stock ledger may be in written form or any other form capable of being converted into written form within a reasonable time for visual inspection.

ARTICLE VIII

GENERAL PROVISIONS

SECTION 1. Rights in Securities. The Board of Directors, on behalf of the Corporation, shall have the authority to exercise all of the rights of the

Corporation as owner of any securities which might be exercised by an individual owning such securities in his own right; including, but not limited to, the rights to vote by proxy for any and all purposes, to consent to the reorganization, merger or consolidation of any issuer or to consent to the sale, lease or mortgage of all or substantially all of the property and assets of any issuer; and to exchange any of the shares of stock of any issuer for the shares of stock issued therefor upon any reorganization, merger, consolidation, sale, lease or mortgage. The Board of Directors shall have the right to authorize any officer of the investment adviser to execute proxies and the right to delegate the authority granted by this Section 1 to any officer of the Corporation.

SECTION 2. Custodianship.

(a) The Corporation shall place and at all times maintain in the custody of a custodian (including any sub-custodian for the custodian) all funds, securities and similar investments owned by the Corporation. Subject to the approval of the Board of Directors the custodian may enter into arrangements with securities depositories, as long as such arrangements comply with the provisions of the Investment Company Act of 1940 and the rules and regulations promulgated thereunder. The custodian (and any sub-custodian) shall be a bank having not less than \$2,000,000 aggregate capital, surplus and undivided profits and shall be appointed from time to time by the Board of Directors, which shall fix its remuneration.

(b) Upon termination of a custodian agreement or inability of the custodian to continue to serve, the Board of Directors shall promptly appoint a successor custodian. But in the event that no successor custodian can be found who has the required qualifications and is willing to serve, the Board of Directors shall call as promptly as possible a Special Meeting of the Stockholders to determine whether the Corporation shall function without a custodian or shall be liquidated. If so directed to vote of the holders of a majority of the outstanding shares of stock of the Corporation, the custodian shall deliver and pay over all property of the Corporation held by it as specified in such vote.

(c) The following provisions shall apply to the employment of a custodian and to any contract entered into with the custodian so employed:

The Board of Directors shall cause to be delivered to the custodian all securities owned by the Corporation or to which it may become entitled, and shall order the same to be delivered by the custodian only in completion of a sale, exchange, transfer, pledge, or other disposition thereof, all as the Board of Directors may generally or from time to time require or approve or to a successor custodian; and the Board of Director shall cause all funds owned by the Corporation or to which it may become entitled to be paid to the custodian, and shall order the same disbursed only for investment against delivery of the securities acquired, or in payment of expenses, including management compensation, and liabilities of the Corporation, including distributions to shareholders or proper payments to borrowers of securities representing partial return of collateral, or to a successor custodian.

SECTION 3. Reports. Not less often than semi-annually, the Corporation shall transmit to the Stockholders a report of the operations of the

Corporation, based at least annually upon an audit by independent public accountants, which report shall clearly set forth, in addition to the information customarily furnished in a balance sheet and profit and loss statement, a statement of all amounts paid to security dealers, legal counsel, transfer agent, disbursing agent, registrar or custodian or trustee, where such payments are made to a firm, corporation, bank or trust company, having a partner, officer or director who is also an officer or director of the Corporation. A copy, or copies, of all reports submitted to the Stockholders of the Corporation shall also be sent, as required, to the regulatory agencies of the United States and of the states in which the securities of the Corporation are registered and sold.

SECTION 4. Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year or its organization and the words "Corporate Seal, Maryland". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

SECTION 5. Execution of Instruments. All deeds, documents, transfers, contracts, agreements and other instruments requiring execution by the Corporation shall be signed by the Chairman or the President or a Vice-President and by the Treasurer or Secretary or an Assistant Treasurer or an Assistant Secretary, or as the Board of Directors may otherwise, from time to time, authorize. Any such authorization may be general or confined to specific instances. Except as otherwise authorized by the Board of Directors, all requisitions or orders for the assignment of securities standing in the name of the custodian or its nominee, or for the execution of powers to transfer the same, shall be signed in the name of the Corporation by the Chairman or the President or a Vice-President and by the Secretary, Treasurer or an Assistant Treasurer.

ARTICLE IX

AMENDMENTS

The By-Laws of the Corporation may be altered, amended or repealed either by the affirmative vote of a majority of the stock issued and outstanding and entitled to vote in respect thereof and represented in person or by proxy at any annual or special meeting of the Stockholders, or by the Board of Directors at any regular

or special meeting of the Board of Directors; provided, that the Board of Directors may not alter, amend or repeal Article VI, and that the vote of Stockholders required for alteration, amendment or repeal of any of such provisions shall be subject to all applicable requirements of federal or state laws or of the Articles of Incorporation.

SECOND AMENDED AND RESTATED FUNDS' SERVICE AGREEMENT

This Second Amended and Restated Funds' Service Agreement, made as of the 10th day of May, 1993 (the "Agreement"), between and among the 32 investment companies registered under the Investment Company Act of 1940 ("1940 Act"), whose names are set forth on the signature page of this Agreement, which together with any additional investment companies which may become a party to this Agreement pursuant to Section 5.4 are collectively called the "Funds"; and The Vanuard Group, Inc., a Pennsylvania corporation ("Service Company").

Whereas, each of the Funds has heretofore determined (as evidenced by, among many documents, prior versions* of this Agreement (the "Prior Agreements"), and by prospectuses and proxy statements of the Funds related thereto): (i) to manage and perform the corporate management, administrative and share distribution functions required for its continued operation, (ii) to create a structure which enhances the independence of the Funds from the providers of external services, (iii) to share, on an equitable and fair basis, with all of the other Funds the expenses of establishing the means to accomplish these objectives at the lowest reasonable cost; and

Whereas, each of the Funds: (i) has heretofore determined that these objectives can best be accomplished by establishing a company: (a) to be wholly-owned by the Funds; (b) to provide corporate management, administrative, and distribution services, and upon the reasonable request of any Fund to provide other service to such Fund at cost; (c) to employ the executive, managerial, administrative, secretarial and clerical personnel necessary or appropriate to perform such services; and (d) to acquire such assets and to obtain such facilities and equipment as are necessary or appropriate to carry out such services, and to make those assets available to the Funds; and (ii) since May 1, 1975 (or the commencement of its operations after that date) has utilized Service Company, pursuant to the provisions of the Prior Agreements; and

Whereas, each of the Funds recognizes that it may, from time to time, be in the best interests of the Funds (i) for Service Company to provide similar services to investment companies other than the Funds, (ii) for the Funds to organize, from time to time, new investment companies which are intended to become parties to this Agreement; and, (iii) for Service Company to engage in business activities (directly or through subsidiaries), supportive of the Funds' operations as investment companies; and

Whereas, each of the Funds desires to enter into a completely integrated Seconded Amended and Restated Funds' Service Agreement with the other Funds to set forth the current terms and provisions of the relationships which the Funds have determined to establish;

Now, Therefore, each Fund agrees with each and all of the other Funds, and with Service Company, as follows:

I. CAPITALIZATION AND ASSETS OF SERVICE COMPANY

1.1 Capital and Assets. To provide the Service Company with the cash and with the office space, facilities and equipment necessary for it to discharge its responsibilities hereunder, each Fund agrees:

A. To make cash investments in the Service Company as provided in Sections 1.2, 1.3 and 1.4.

B. To assign and transfer to Service Company on and after May 1, 1975 any and all right, title and interest which the Funds may have in any office facilities and equipment necessary for it to discharge its responsibilities and in any other assets which Service Company may develop or acquire, subject only to the rights reserved in Section 1.6 (concerning certain major assets), Section 5.2 (concerning rights upon withdrawal) and Section 5.3 (concerning rights upon termination) of the Agreement.

1.2 Cash Investments in Service Company. To provide Service Company with such cash as may be necessary or appropriate from time to time to accomplish the purposes of the Funds and to discharge its responsibilities hereunder, each Fund agrees to purchase, for cash, shares of common stock of Service Company ("Shares") or such other securities of Service Company (hereafter referred to as "other securities") upon the

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*Funds' Service Agreement dated May 1, 1975; and, an Amended and Restated Funds' Service Agreement dated October 1, 1977, as thereafter amended.

favorable vote of the holders of a majority of the Shares adopting a resolution setting forth the terms and provisions of the purchase. Provided, however, that:

A. Without the consent of all of the Funds, the date for the purchase of Shares or other securities shall not be less than 15 days following the date on which the resolution is approved by shareholders.

B. The cash purchase price to be paid by any Fund for the Shares or other securities, expressed as a percentage of the total purchase price for the additional securities to be paid by all of the Funds shall not exceed the percentage which the then current net assets of the Fund bears to the aggregate current net assets of all of the Funds as of the most recent month-end preceding the purchase date.

1.3 Periodic Adjustments of Cash Investments. To maintain and re-establish periodically a fair and proportionate ratio of cash investments by each Fund in the Service Company as compared to its then current net assets, each Fund agrees to purchase from one or more of the other Funds, or to sell one or more of the Funds, sufficient Shares or other securities to re-establish the ratio.

A. Such purchases and sales shall be made (1) as of the last business day of any month upon the addition or withdrawal of any Fund as a party to this Agreement, provided that if the addition or withdrawal of a Fund creates no material disparity in the ratios (as determined by the Service Company's Board of Directors), and no Fund requests that an adjustment be made, the adjustment may be deferred until the close of the Service Company's fiscal year; (2) in connection with additional investments pursuant to Section 1.2; and (3) annually as of the close of the Service Company's fiscal year, on a date fixed by Service Company's Board of Directors within 90 days after the close of the fiscal year unless there is no material disparity in the ratios (as determined by the Service Company's Board of Directors) and no Fund requests that an adjustment be made.

B. The cash purchases and sale price of the Share or other securities shall be for each Fund (1) in the case of Shares, the fair market value of Shares determined in accord with generally accepted accounting principles and procedures established by the Board of Directors of Service Company; and (2) in the case of debt securities, the face value thereof.

C. Unless specifically required by applicable law, the issuance and transfer of Shares or other securities of Service Company, and the cash investments of the Funds in Service Company, may be evidenced by proper records of Service Company; and, no certificates need be issued.

1.4 Limitation Upon Funds' Obligations To Make Cash Investments or Purchases. Notwithstanding the provisions of Sections 1.1, 1.2 and 1.3, above, no Fund shall be obligated to purchase Shares or other securities of Service Company if, as a result of such purchase the Fund would thereby have invested in cash a total of more than 0.40% of its then current net assets in Shares or other securities of Service Company.

1.5 Restrictions on Transfer of Shares or Other Securities. Each Fund agrees that it will not, without the written consent of all other parties to this Agreement, transfer or dispose of or encumber any of its Shares or other securities of Service Company except as provided in this Agreement, and that, if issued, each certificate for Shares or other securities of Service Company will be stamped with a legend referring to this restriction.

1.6 Assets of Service Company. The Funds agree that Service Company may acquire, by purchase or lease, office space, furniture, equipment, supplies, files, records, computer hardware and software, and other assets necessary or appropriate for the discharge of the Service Company's responsibilities hereunder. Each of the Funds hereby assigns and transfers to Service Company any and all right, title and interest that it may have or hereafter acquire in any such assets, subject to the rights of each Fund (A) to receive the then fair value of such assets upon the purchase or sale of Shares pursuant to this Agreement, (B) to the continued use of such assets in the administration of the business affairs of a Fund so long as the Fund remains a party to this Agreement.

1.7 Borrowing by Service Company. The Funds agree that Service Company may borrow money, and may issue a note or other security in connection with such borrowing, as long as such borrowing, is in connection with the discharge of Service Company's responsibilities hereunder and is undertaken in accord with procedures approved by the Service Company's Board of Directors.

II. SERVICES TO BE OBTAINED INDEPENDENTLY BY EACH FUND

2.1 Services and Expenses. Each Fund shall, at its own expense, obtain from Service Company or an outside vendor (as that Fund's Board of Directors shall determine):

- A. Services of an independent public accountant.
- B. Services of outside legal counsel.
- C. Transfer agency services, including "shareholder services."
- D. Custodian, registrar and dividend disbursing services.
- E. Brokerage fees, commissions and transfer taxes in connection with the

purchase and sale of securities for its investment portfolio.

F. Investment advisory services.

G. Taxes and other fees applicable to its operations.

H. Costs incident to its annual or special meetings of shareholders, including but not limited to legal and accounting fees, and the preparation, printing and mailing of proxy materials.

I. Directors' fees.

J. Costs incurred in the continued maintenance of its corporate existence, including reports to shareholders and government agencies, and the expenses, if any, attributable to the registration of the Fund's shares with Federal and state regulatory authorities.

K. And, in general and except as provided in Section 3.2(B), any other costs directly attributable to and identified with a particular Fund or Funds rather than all Funds which are parties to this Agreement.

2.2 Disbursement of Payment for These Services. Notwithstanding the provisions of Section 2.1 above, Service Company may, as agent for any Fund, disburse to third parties payments for any of the foregoing services or expenses. Each Fund shall reimburse Service Company promptly for such disbursements made on behalf of the Fund.

III. SERVICES PROVIDED BY AND EXPENSES OF SERVICE COMPANY

3.1 Services to be Provided to Funds. Service Company shall with respect to each Fund, subject to the direction and control of the Board of Directors and officers of the Fund:

A. Manage, administer and/or conduct the general business activities of the Fund.

B. Provide the personnel and obtain the office space, facilities and equipment necessary to perform such general business activities under the direction of the Funds' executive officers (who may also be officers of Service Company) who will have the full responsibility for the general management of these functions.

C. Establish wholly-owned subsidiaries, and supervise the management and operations of such subsidiaries, as are necessary or appropriate to carry on or support the business activities of the Fund; and authorize such subsidiaries to perform such other functions for the Funds, including organizing new investment companies which are intended to become parties to this Agreement pursuant to Section 5.4, as Service Company's Board of Directors shall determine.

No provisions hereof shall prohibit the Service Company from performing such additional services to the Fund as the Fund's Board of Directors may appropriately request and which two-thirds of the shareholders of the Service Company and the holders of two-thirds of the Shares of the Service Company shall approve.

3.2 Expenses of Operation of Service Company. Each of the Funds agrees to pay to the Service Company, within 10 days after the last business day of each month or at such other time as agreed to by the Fund and the Service Company, the Fund's portion of the actual cost of operation (determined in accord with generally accepted accounting principles) of Service Company for each monthly period, or for such other period as is agreed upon, during which the Fund is a party to this Agreement.

A. Corporate Management and Administrative Expenses. A Fund's portion of the cost of operation of Service Company shall mean its share of the direct and indirect expenses of Service Company's providing corporate management and administrative services, including distribution services of an administrative nature, as allocated among the Funds with allocation of indirect costs based on one or more of the following methods of allocation:

(1) Net Assets: The proportionate allocation of expenses based upon the value of each Fund's net assets, computed as a percentage of the value of total net assets of all Funds receiving services from Service Company, determined at the end of the last preceding monthly period.

(2) Personnel Time: The proportionate allocation of expenses based upon a summary by each Fund of the time spent by each employee who works directly on the affairs of one or more of the Funds, computed as a percentage of the total time spent by such employee on the affairs of all of the Funds.

(3) Shareholder Accounts: The proportionate allocation of expenses based upon the number of each Fund's shareholder accounts and transaction activity in those accounts, measured over a period of time, relative to the total number of shareholder accounts and transaction activity in those accounts for all Funds receiving number of portfolio transactions for all Funds receiving services from the Service Company during such period.

(4) Such other methods of allocation as may be approved by the Board of Directors of the Service Company based upon its determination that the allocation method is fair to each Fund in view of (i) the nature, amount and purpose of the expenditure, (ii) the benefits, if any, to be derived directly by each Fund relative to the benefits derived by other Funds, (iii) the need or desirability for the Funds as a group to provide competitive investment programs and services at competitive prices for the group to survive and grow, (iv) the benefits which each Fund derives by being a member of a strong Fund group, and (v) such other factors as the Board considers relevant to the specific expenditure and allocation.

B. Distribution Expenses. Each of the Funds expressly agrees to pay to Service Company, as requested, the Fund's portion of the actual cost of distributing shares of the Funds, which shall mean its share of all of the direct and indirect expenses of a marketing and promotional nature including, but not limited to, advertising, sales literature and sales personnel, as well as expenditures on behalf of any newly organized registered investment company which is to become a party of this Agreement pursuant to Section 5.4. The cost of distributing shares of the Funds shall not include distribution-related expenses of an administrative nature, which shall be allocated among the Funds pursuant to Section 3.2(A). Distribution expenses of a marketing and promotional nature shall be allocated among the Funds in the manner approved by the Securities and Exchange Commission in Investment Company Act Release No. 11645 (Feb. 25, 1981):

(1) 50% of these expenses will be allocated based upon each Fund's average month-end assets during the preceding quarter relative to the average month-end assets during preceding quarter of the Funds as a group.

(2) 50% of these expenses will be allocated initially among the Funds based upon each Fund's sales for the 24 months ended with the last day of

the preceding quarter relative to the sales of the Funds as a group for the same period. (Shares issued pursuant to a reorganization shall be excluded from the sales of a Fund and the Funds as a group.)

(3) Provided, however, that no Fund's aggregate quarterly contribution for distribution expenses, expressed as a percentage of its assets, shall exceed 125% of the average expenses for the Funds as a Group, expressed as a percentage of the total assets of the Funds. Expenses not charged to a particular Fund(s) because of this 125% limitation shall be re-allocated to other Funds on iterative basis; and that no Fund's annual expenses for distribution shall exceed 0.2% of its average month-end net assets.

IV. CONCERNING THE SERVICE COMPANY

4.1 Name. Each Fund acknowledges and agrees:

A. That the name "The Vanguard Group, Inc.", and any variants thereof used to identify (1) the Funds as a group, (2) any Fund as a member of a group being served by Service Company, or (3) any other person as being served or related to Service Company (whether now in existence or hereafter created), shall be the sole and exclusive property of Service Company, its affiliates and its successors.

B. That Service Company shall have the sole and exclusive right to permit the use of said name or variants thereof so long as this Agreement or any amendments thereto are effective.

C. That upon its withdrawal from this Agreement and upon the written request of Service Company, the Fund shall cease to use, or in any way to refer to itself as related to, "The Vanguard Group, Inc." or any variant thereof.

The foregoing agreements on the part of each Fund are hereby made binding upon it, its directors, officers, shareholders and creditors and all other persons claiming under or through it.

4.2 Services to Others. The Service Company may render services to any person other than the Funds so long as:

A. The services to be rendered to the Funds hereunder are not impaired thereby.

B. The terms and provisions upon which the services are to be rendered have been approved by the holders of a majority of the Shares.

C. The services rendered for compensation and, to the extent achievable, for the purpose of gaining a profit thereon.

D. Any income earned and fees received by Service Company shall be used to reduce the total costs and expenses of Service Company.

4.3 Books, Records and Audits of Service Company. The Service Company, and any subsidiary established pursuant to Section 3.1(C), shall maintain complete, accurate and current books, records and financial statements concerning its activities. To the extent appropriate it will preserve said records in the manner and for the periods prescribed by law. Financial records and statements shall be kept in accord with generally accepted accounting principles and shall be audited at least annually by independent public accountants (who may also be accountants for any of the Funds). Within 120 days after the close of Service Company's fiscal year it shall deliver to each

Fund a copy of its audited financial statements for that year and the accountants report thereon. Service Company, on behalf of itself and any subsidiary, acknowledges that all of the records they shall prepare and maintain pursuant to this Agreement shall be the property of the Funds and that upon a request of any Fund they shall make the Fund's records available to it, along with such other information and data as are reasonably requested by the Fund, for inspection, audit or copying, or turn said records over to the Fund.

4.4 Indemnification.

A. Each Fund (herein the "Indemnitor") agrees to indemnify, hold harmless and reimburse (herein "indemnify") every other Fund, Service Company and/or any subsidiary of Service Company (herein the "Indemnitee"):

(1) which Indemnitee (a) was or is a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (herein a "suit"), or (b) incurs an actual economic loss or expense (herein a "loss").

(2) if: (a) such suit or loss arises from an action or failure to act, event, occurrence, transaction or other analogous happening (herein an "event") under circumstances in which the Indemnitee is involved in a suit or incurs a loss.

(i) as a result substantially of, or attributable primarily to, its being a party to this Agreement, or to its indirect participation in transactions contemplated by this Agreement; and

(ii) where the suit or loss arises primarily and substantially from an event related primarily and substantially to the business and/or operations of the Indemnitor; and

(b) an independent third party, who may but need not be legal counsel for the Funds, advises the Funds in writing (i) that the condition set forth in "(1)" and "(2) (a)" have occurred and (ii) that the Indemnitee is without significant fault or responsibility for the suit or loss as measured by the comparative conduct of the Indemnitor and Indemnitee and by the purposes sought to be accomplished by this Agreement.

B. The financial obligations of the Indemnitor under this Section shall be limited to:

(1) In the case of a suit, to expenses (including attorneys' fees), actually incurred by the Indemnitee. The termination of any suit by judgment, order, settlement, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Indemnitee is not entitled to be indemnified hereunder.

(2) In the case of an event, to losses and/or expenses (including attorneys' fees) actually incurred by the Indemnitee.

The Indemnitee shall not be liable financially hereunder for lost profits in the case of either a suit or loss.

C. Expenses incurred in defending a suit or resolving an event may be paid by the prospective Indemnitor in advance of the final disposition of such suit or event if authorized by the Board of Directors of the prospective Indemnitor in the specific case upon receipt of an undertaking by or on behalf of the prospective Indemnitee to repay such amount unless it shall ultimately be determined that the Indemnitee is entitled to be indemnified

by the Indemnitor as provided in this Section.

D. The indemnification provided by this Section shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled under any agreement or otherwise.

V. TERM OF AGREEMENT

5.1 Effective Period. This Agreement shall become effective on the date first written above, and shall continue in full force and effect as to all parties hereto until terminated or amended by mutual agreement of all parties hereto. The withdrawal pursuant to Section 5.2(A) or 5.2(B) of one or more of the Funds from this Agreement shall not affect the continuance of this Agreement except as to the parties withdrawing.

5.2 Withdrawal from Agreement.

A. Any Fund may elect to withdraw from this Agreement effective at the end of any monthly period by giving at least 90 days' prior written notice to each of the parties to this Agreement. Upon the written demand of all other Funds which are parties to this Agreement a Fund shall withdraw, and in the event of its failure to do so shall be deemed to have withdrawn, from this Agreement; such demand shall specify the date of withdrawal which shall be at the end of any monthly period at least 90 days from the time of service of such demand.

B. In the event of the withdrawal of any Fund from this Agreement, all its rights and obligations, except for lease commitments, under this Agreement (except such rights or obligations as have accrued prior to the date of withdrawal) shall terminate as of the date of the withdrawal. The withdrawing Fund shall surrender its Shares to Service Company, and (1) shall be entitled to receive from Service Company an amount equal to the excess of the fair value of (i) its Shares of other securities Service Company as of the date of its withdrawal less (ii) its proportionate interest in any liabilities of Service Company, including when appropriate any commitments of Service Company and unexpired leases at the date of withdrawal; (2) shall be obligated to pay to Service Company an amount equal to the excess of (ii) over (i). Such amount to be received from or paid to Service Company shall be determined by the favorable vote of the holders of a majority of the Shares whose determination shall be conclusive upon the Funds. Any amount found payable by Service Company to the withdrawing Fund shall be recoverable by Service Company from the Funds remaining under this Agreement in accordance with the provisions of Sections 1.2, 1.3 and 1.4 hereof.

5.3 Termination by Mutual Consent. In the event that all Funds withdraw from this Agreement without entering into a comparable successor agreement, each Fund shall surrender its Shares to Service Company and after payment by Service Company of all its liabilities, including the settlement of unexpired lease obligations, shall:

A. Receive from Service Company in cash an amount equal to its proportionate share of the actual value of all assets of the Service Company which can be reduced readily to cash.

B. Negotiate in good faith with the other Funds provision for the equitable use and/or disposition of assets of the Service Company which are not readily reducible to cash.

5.4 Additional Parties to Agreement. Upon the favorable vote of two-thirds of the shareholders and of the holders of two-thirds of the Shares of the Service Company, any investment company registered under the Investment Company Act of 1940 may become a party to this Agreement and share as a Fund in all of the rights, duties and liabilities hereunder by adopting, executing and delivering to the Service Company and the Funds a signed copy of this Agreement which shall evidence that investment company's agreement to assume the duties and obligations of a Fund hereunder. Upon the delivery of a signed copy of this Agreement, the new Fund shall be subject to all the provisions of this Agreement and become a holder of Shares by adjustment in cash investments among the Funds pursuant to Section 1.3. No person shall become a holder of Shares without becoming a party to this Agreement.

VI. GENERAL

6.1 Definition of Certain Terms. As used in this Agreement, the terms set forth below shall mean:

A. "Fair Value of Shares" shall mean the proportionate interest, as represented by the ratio of the number of Shares owned by a Fund to the number of Shares issued and outstanding, in all assets of the Service Company less all liabilities of the Service Company on the date fair value is to be determined. Assets shall be valued at fair market value. In case of any dispute as to the proportionate interest of any

Fund or as to the fair value of the Shares, the issue shall be determined by the favorable vote of the holders of a majority of the Shares, whose determination shall be conclusive upon the Fund.

B. "Person" shall mean a natural person, a corporation, a partnership, an association, a joint-stock company, a trust, a fund or any organized group of persons whether incorporated or not.

6.2 Assignment. This Agreement shall bind and inure to the benefit of the parties thereto, their respective successors and assigns.

6.3 Captions. The captions in this Agreement are included for convenience of reference only and in no way define any of the provisions hereof or otherwise affect their construction or effect.

6.4 Amendment. Unless prohibited by applicable laws, regulations or orders of regulatory authorities and except as set forth below, this Agreement may be amended at any time and in one or more respects upon the favorable vote of the holders of a majority of the Shares (except that the vote required in Sections 3.1 and 5.4 may be amended only by the favorable votes of the number of holders or Shares specified therein) and without the further approval or vote of shareholders of any of the Funds; provided, however, that Section 1.4 (limiting cash investments by the Funds in Service Company) may not be amended unless an exemptive order permitting such amendment is obtained from the U.S. Securities and Exchange Commission.

6.5 Severability. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this

Agreement shall not be affected thereby.

In Witness Whereof, each of the parties hereto has caused the Agreement to be signed and its corporate seal to be hereto affixed by its proper officers thereunto duly authorized, all as of the date and year first above written.

Attest:

/s/ Raymond J. Klapinsky

SECRETARY

The Vanguard Group, Inc.

By

/s/ John C. Bogle

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Vanguard Group of Investment Companies:

- | | |
|---|--|
| Vanguard Money Market Reserves, Inc. | Vanguard Equity Income Fund, Inc. |
| Vanguard Institutional Portfolios, Inc. | Vanguard Index Trust |
| Vanguard Municipal Bond Fund, Inc. | Vanguard International Equity Index Fund, Inc. |
| Vanguard California Tax-Free Fund | Vanguard Quantitative Portfolios, Inc. |
| Vanguard New Jersey Tax-Free Fund | Vanguard/Windsor Funds, Inc. |
| Vanguard New York Insured Tax-Free Fund | (formerly The Windsor Funds, Inc.) |
| Vanguard Ohio Tax-Free Fund | Gemini II, Inc. |
| Vanguard Pennsylvania Tax-Free Fund | Vanguard/Primecap Fund, Inc. |
| Vanguard Bond Index Fund, Inc. | (formerly PRIMECAP Fund, Inc.) |
| (formerly Vanguard Bond Market Fund, Inc.) | Vanguard World Fund, Inc. |
| Vanguard Fixed Income Securities Fund, Inc. | Vanguard/Morgan Growth Fund, Inc. |
| Vanguard/Wellesley Income Fund, Inc. | Vanguard Explorer Fund, Inc. |
| (formerly Wellesley Income Fund, Inc.) | Vanguard Small Capitalization Stock Fund, Inc. |
| Vanguard Preferred Stock Fund | Vanguard Specialized Portfolios |
| Vanguard Asset Allocation Fund, Inc. | Vanguard Variable Insurance Fund |
| Vanguard Convertible Securities Fund, Inc. | Vanguard Admiral Funds, Inc. |
| Vanguard/Wellington Fund, Inc. | Vanguard Balanced Index Fund, Inc. |
| (formerly Wellington Fund, Inc.) | Vanguard Florida Tax-Free Fund |
| Vanguard/Trustees' Equity Fund | |
| (formerly Trustees' Commingled Fund) | |

Attest:

/s/ Raymond J. Klapinsky

SECRETARY

By

/s/ John C. Bogle

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Vanguard Tax-Managed Fund, Inc.
P.O. Box 2600
Valley Forge, PA 19482

Gentlemen:

Vanguard Tax-Managed Fund, Inc. (the "Fund") was organized under the laws of the State of Maryland on May 9, 1994. I am acting as counsel to the Fund in connection with the Fund's initial registration as an open-end management investment company under the Investment Company Act of 1940 ("1940 Act"), as amended. It is in my capacity as counsel to the Fund that I am furnishing you this opinion.

I have examined the Fund's: (1) Articles of Incorporation; (2) by-laws; (3) minutes of the meetings of the Board of Directors; (4) Notification of Registration on Form N-8A under the 1940 Act; (5) Registration Statement on Form N-1A under the Securities Act of 1933 ("1933 Act") and 1940 Act and all amendments thereto; (6) registration statements, applications and other documents filed with various state securities authorities; and (7) all other relevant documents and records, as well as the procedures and requirements relative to the issuance and sale of the Fund's shares.

Based upon the foregoing information and my examination, it is my opinion that:

1. The Fund is valid and existing corporation of the State of Maryland authorized to issue seven hundred and fifty million shares of common stock interest, \$.001 par value. The Board of Directors has the power to designate one or more classes ("Portfolios") of shares of common stock and to classify and reclassify any unissued shares with respect to such Portfolios. Currently, the Fund is offering three Portfolios.

2. The Fund has filed a Registration Statement with the U.S. Securities and Exchange Commission on Form N-1A to register as an open-end management company under the 1940 Act and to register an indefinite number of its securities under the 1933 Act.

3. The Fund has filed registration statements, applications and/or other documents required to register its securities under various State securities laws.

4. The Fund will be authorized to offer and sell its shares when all necessary Federal and State regulatory authorizations, which are prerequisite to the issuance of the Fund's shares, have been obtained, subject to the Fund's continuing to maintain the effectiveness of the requisite Registration Statement under the 1933 Act and certain of the State securities laws.

5. Such shares, when issued for consideration deemed by the Board of Directors to be consistent with the Fund's Articles of Incorporation, will be legally authorized, fully paid and non-assessable.

6. The holders of the Fund's shares will have all the rights provided with respect to such holdings by the Articles of Incorporation and the laws of the State of Maryland.

I hereby consent to use of this opinion as an Exhibit to the Fund's Registration Statement on Form N-1A filed under the 1933 and 1940 Acts, and to the applications and registration statements, and amendments thereto, filed in accordance with the securities laws of the states in which shares of the Fund are offered. I further consent to reference in the Prospectus of the Fund to the fact that this opinion concerning the legality of the issue has been rendered by me.

Very truly yours,

BY: (Raymond J. Klapinsky)