

SECURITIES AND EXCHANGE COMMISSION

FORM 485BPOS

Post-effective amendments [Rule 485(b)]

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FILER

VANGUARD SPECIALIZED PORTFOLIOS INC

CIK: **734383** | Fiscal Year End: **0131**
Type: **485BPOS** | Act: **40** | File No.: **811-03916** | Film No.: **01697182**

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VALLEY FORGE PA 19482

Business Address
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6106696295

VANGUARD SPECIALIZED PORTFOLIOS INC

CIK: **734383** | Fiscal Year End: **0131**
Type: **485BPOS** | Act: **33** | File No.: **002-88116** | Film No.: **01697181**

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT (NO. 2-88116) UNDER THE SECURITIES ACT OF 1933

PRE-EFFECTIVE AMENDMENT NO.
POST-EFFECTIVE AMENDMENT NO. 33
AND

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

AMENDMENT NO. 35

VANGUARD SPECIALIZED FUNDS
(EXACT NAME OF REGISTRANT AS SPECIFIED IN DECLARATION OF TRUST)

P.O. BOX 2600, VALLEY FORGE, PA 19482
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)

REGISTRANT'S TELEPHONE NUMBER (610) 669-1000

R. GREGORY BARTON, ESQUIRE
P.O. BOX 876
VALLEY FORGE, PA 19482

IT IS PROPOSED THAT THIS AMENDMENT BECOME EFFECTIVE:
ON August 6, 2001, PURSUANT TO PARAGRAPH (B) OF RULE 485.

VANGUARD PRECIOUS METALS FUND
INVESTOR SHARES - August 6, 2001

This prospectus contains
financial data for the
Funds through the
fiscal year ended
January 31, 2001.

STOCK

PROSPECTUS

Neither the Securities and Exchange Commission nor any state securities
commission has approved or disapproved of these securities or passed upon the
accuracy or adequacy of this prospectus. Any representation to the contrary is a
criminal offense.

THE VANGUARD GROUP (R)

VANGUARD PRECIOUS METALS FUND
Prospectus August 6, 2001

An Aggressive Stock Mutual Fund

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WHY READING THIS PROSPECTUS IS IMPORTANT

This prospectus explains the investment objective, policies, strategies, and risks associated with the Fund. To highlight terms and concepts important to mutual fund investors, we have provided "Plain Talk/(R)/" explanations along the way. Reading the prospectus will help you decide whether the Fund is the right investment for you. We suggest that you keep this prospectus for future reference.

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FUND PROFILE

INVESTMENT OBJECTIVE

The Fund seeks to provide long-term capital appreciation.

PRIMARY INVESTMENT STRATEGIES

The Fund invests at least 80% of its assets in the stocks of foreign and U.S. companies engaged in the exploration, mining, marketing, and distribution of (and other activities related to) gold, silver, platinum, diamonds, or other precious and rare metals and minerals. Up to 100% of the Fund's assets may be invested in foreign securities. The Fund may also invest up to 20% of its assets directly in gold, silver, or other precious metal bullion and coins. For more information, see "Security Selection" under MORE ON THE FUND.

PRIMARY RISKS

An investment in the Fund could lose money over short or even long periods. You should expect the Fund's share price and total return to fluctuate within a wide range like the overall stock market. The Fund's performance could be hurt by:

- Industry concentration risk, which is the chance that there will be overall problems affecting a particular industry. Because the Fund normally invests at least 80% of its assets in precious metals industries, the Fund's performance largely depends--for better or for worse--on the overall condition of those industries. Prices of stocks in these industries, typically small- and mid-cap companies, are subject to significant volatility.
- Country risk, which is the chance that domestic events--such as political upheaval, financial troubles, or a natural disaster--will weaken a country's securities markets.
- Currency risk, which is the chance that investments in a particular country will decrease in value if the U.S. dollar rises in value against that country's currency.
- Manager risk, which is the chance that poor security selection will cause the Fund to underperform other funds with similar investment objectives.

- Nondiversification risk, which is the chance that the Fund's performance may be hurt disproportionately by the poor performance of relatively few securities. The Fund is considered nondiversified, which means that it may invest a greater percentage of its assets in the securities of particular issuers as compared with other mutual funds.

PERFORMANCE/RISK INFORMATION

The following bar chart and table are intended to help you understand the risks of investing in the Fund. The bar chart shows how the Fund's performance has varied from one calendar year to another over the past ten years. The table shows how the Fund's average annual total returns compare with those of a relevant market index and a composite index over set periods of time. Keep in mind that the Fund's past performance does not indicate how it will perform in the future.

ANNUAL TOTAL RETURNS

1991	- 4.37%
1992	- -19.41%
1993	- 93.36%
1994	- -5.42%
1995	- -4.48%
1996	- -0.75%
1997	- -38.92%
1998	- -3.91%
1999	- 28.82%
2000	- -7.34%

The Fund's year-to-date return as of the most recent calendar quarter ended June 30, 2001, was 9.86%.

During the period shown in the bar chart, the highest return for a calendar quarter was 31.28% (quarter ended June 30, 1993), and the lowest return for a quarter was -28.74% (quarter ended December 31, 1997).

AVERAGE ANNUAL TOTAL RETURNS FOR YEARS ENDED DECEMBER 31, 2000

	1 YEAR	5 YEARS	10 YEARS
Vanguard Precious Metals Fund	-7.34%	-7.01%	0.22%
Standard & Poor's 500 Index	-9.10	18.33	17.46
Salomon Smith Barney World	-10.66	-9.26	-0.84

 *Morgan Stanley Capital International Gold Mines Index through December 31, 1994; Salomon Smith Barney World Equity Gold Index thereafter.

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FEES AND EXPENSES

The following table describes the fees and expenses you may pay if you buy and hold shares of the Fund. The expenses shown under Annual Fund Operating Expenses are based on those incurred in the fiscal year ended January 31, 2001.

SHAREHOLDER FEES (fees paid directly from your investment)

Sales Charge (Load) Imposed on Purchases:	None
Sales Charge (Load) Imposed on Reinvested	None
Dividends:	
Redemption Fee:	1%*

ANNUAL FUND OPERATING EXPENSES (expenses deducted from the Fund's assets)

Management Expenses:	0.61%
12b-1 Distribution Fee:	None
Other Expenses:	0.04%
TOTAL ANNUAL FUND OPERATING EXPENSES:	0.65%

*The 1% fee applies to shares redeemed (either by selling or exchanging to another fund) within one year of purchase. The fee is withheld from redemption proceeds and retained by the Fund. Shares held for one year or more are not subject to the 1% fee.

The following example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. It illustrates the hypothetical expenses that you would incur over various periods if you invest \$10,000 in the Fund's shares. This example assumes that the Fund provides a return of 5% a year and that operating expenses remain the same. The results apply whether or not you redeem your investment at the end of the given period.

1 YEAR	3 YEARS	5 YEARS	10 YEARS
\$66	\$208	\$362	\$810

 THIS EXAMPLE SHOULD NOT BE CONSIDERED TO REPRESENT ACTUAL EXPENSES OR PERFORMANCE FROM THE PAST OR FOR THE FUTURE. ACTUAL FUTURE EXPENSES MAY BE

HIGHER OR LOWER THAN THOSE SHOWN.

PLAIN TALK ABOUT
FUND EXPENSES

All mutual funds have operating expenses. These expenses, which are deducted from a fund's gross income, are expressed as a percentage of the net assets of the fund. Vanguard Precious Metals Fund's expense ratio in fiscal year 2001 was 0.65%, or \$6.50 per \$1,000 of average net assets. The average precious metals mutual fund had expenses in 2000 of 2.21%, or \$22.10 per \$1,000 of average net assets (derived from data provided by Lipper Inc., which reports on the mutual fund industry). Management expenses, which are one part of operating expenses, include investment advisory fees as well as other costs of managing a fund--such as account maintenance, reporting, accounting, legal, and other administrative expenses.

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PLAIN TALK ABOUT
COSTS OF INVESTING

Costs are an important consideration in choosing a mutual fund. That's because you, as a shareholder, pay the costs of operating a fund, plus any transaction costs associated with the fund's buying and selling of securities. These costs can erode a substantial portion of the gross income or capital appreciation a fund achieves. Even seemingly small differences in expenses can, over time, have a dramatic effect on a fund's performance.

ADDITIONAL INFORMATION

DIVIDENDS AND CAPITAL GAINS

Distributed annually in December

MINIMUM INITIAL INVESTMENT

\$3,000; \$1,000 for IRAs and custodial accounts for minors

INVESTMENT ADVISER

M&G Investment Management Limited,
Minster Court, London, England,
since inception

NEWSPAPER ABBREVIATION

PrecMtls

INCEPTION DATE

May 23, 1984

VANGUARD FUND NUMBER

053

NET ASSETS AS OF JANUARY 31, 2001
\$307 million

CUSIP NUMBER
921908208

SUITABLE FOR IRAS
Yes

TICKER SYMBOL
VGPMX

MORE ON THE FUND

This prospectus describes risks you would face as a Fund shareholder. It is important to keep in mind one of the main axioms of investing: The higher the risk of losing money, the higher the potential reward. The reverse, also, is generally true: The lower the risk, the lower the potential reward. As you consider an investment in any mutual fund, you should take into account your personal tolerance for daily fluctuations in the securities markets. Look for this [FLAG] symbol throughout the prospectus. It is used to mark detailed information about each type of risk that you would confront as a Fund shareholder.

The following sections explain the primary investment strategies and policies that the Fund uses in pursuit of its objective. The Fund's board of trustees, which oversees the Fund's management, may change investment strategies or policies in the interest of shareholders without a shareholder vote unless those strategies or policies are designated as fundamental.

Finally, you'll find information on other important features of the Fund.

MARKET EXPOSURE

The Fund invests at least 80% of its assets in the stocks of foreign and domestic companies engaged in the exploration, mining, marketing, and distribution of (and other activities related to) gold, silver, platinum, diamonds, or other precious and rare metals and minerals. The Fund may also invest up to 20% of its assets directly in gold, silver, or other precious metal bullion and coins. The Fund invests mainly in small- and mid-capitalization stocks.

The Fund is subject to the risk of sharp price volatility for gold and other precious metals, and for mining company shares. Investments related to gold or other precious metals or minerals are considered speculative, and prices may fluctuate significantly over short

periods due to a variety of worldwide economic, financial, and political factors, including: changes in inflation or expectations about inflation in various countries; currency fluctuations; metal sales by governments, central

banks, or international agencies; investment speculation; changes in industrial and commercial demand; and government prohibitions or restrictions on the private ownership of certain precious metals.

[FLAG]

THE FUND IS SUBJECT TO INDUSTRY CONCENTRATION RISK, WHICH IS THE CHANCE THAT THE FUND'S PERFORMANCE CAN BE SIGNIFICANTLY AFFECTED, FOR BETTER OR WORSE, BY DEVELOPMENTS IN THE PRECIOUS METALS INDUSTRY.

In addition, political and economic conditions in gold-producing countries may have a direct effect on the mining and distribution of gold, and consequently, on its price. The vast majority of gold producers are domiciled in just five countries. In order of magnitude, they are South Africa, the United States, Australia, Canada, and Russia.

[FLAG]

BECAUSE THE FUND IS NONDIVERSIFIED (WHICH MEANS IT MAY INVEST A GREATER PERCENTAGE OF ITS ASSETS IN THE SECURITIES OF FEWER ISSUERS AS COMPARED WITH OTHER MUTUAL FUNDS), THE FUND IS SUBJECT TO THE RISK THAT ITS PERFORMANCE MAY BE HURT DISPROPORTIONATELY BY THE POOR PERFORMANCE OF RELATIVELY FEW SECURITIES.

Effective May 22, 2001, a shareholder vote changed the Fund's status from diversified to nondiversified. The new policy permits the Fund to acquire larger positions in individual companies when the investment adviser believes that potential returns justify any additional risk.

[FLAG]

THE FUND IS SUBJECT TO INVESTMENT STYLE RISK, WHICH IS THE CHANCE THAT RETURNS FROM THE MARKET SECTOR IN WHICH IT INVESTS WILL TRAIL RETURNS FROM OTHER MARKET SECTORS. AS A GROUP, SMALL- AND MID-CAPITALIZATION STOCKS TEND TO GO THROUGH CYCLES OF DOING BETTER--OR WORSE--THAN THE STOCK MARKET IN GENERAL. THESE PERIODS HAVE, IN THE PAST, LASTED FOR AS LONG AS SEVERAL YEARS.

U.S. STOCKS

The Fund invests in small- and mid-cap stocks of U.S. companies.

To illustrate the volatility of stock prices, the following table shows the best, worst, and average total returns for the U.S. stock market over various periods as measured by the Standard & Poor's 500 Index, a widely used barometer of market activity. (Total returns consist of dividend income plus change in market price.) Note that the returns shown do not include the costs of buying and selling stocks or other expenses that a real-world investment portfolio would incur. Note, also, that the gap between best and worst tends to narrow over the long term.

U.S. STOCK MARKET RETURNS (1926-2000)

	1 YEAR	5 YEARS	10 YEARS	20 YEARS
Best	54.2%	28.6%	19.9%	17.8%
Worst	-43.1	-12.4	-0.8	3.1
Average	12.9	11.1	11.2	11.2

The table covers all of the 1-, 5-, 10-, and 20-year periods from 1926 through 2000. You can see, for example, that while the average return on common stocks for all of the 5-year periods was 11.1%, returns for individual 5-year periods ranged from a -12.4% average (from 1928 through 1932) to 28.6% (from 1995 through 1999). These average returns reflect past performance on common stocks; you should not regard them as an indication of future returns from either the stock market as a whole or this Fund in particular.

Keep in mind that the S&P 500 Index tracks mainly large-cap stocks. Historically, industry-specific mid- and small-cap stocks such as those held by the Fund have been more volatile than--and at times have performed quite differently from--the large-cap stocks found in the S&P 500 Index. This is due to several factors, including special industry risks and less-certain growth and dividend prospects for smaller companies.

PLAIN TALK ABOUT
LARGE-CAP, MID-CAP, AND SMALL-CAP STOCKS

Stocks of publicly traded companies--and mutual funds that hold these stocks--can be classified by the companies' market value, or capitalization. Market capitalization changes over time, and there is no "official" definition of the boundaries of large-, mid-, and small-cap stocks. Vanguard generally defines large-cap funds as those holding stocks of companies whose outstanding shares have, on average, a market value exceeding \$13 billion; mid-cap funds as those holding stocks of companies with a market value between \$1.5 billion and \$13 billion; and small-cap funds as those holding stocks of companies with a market value of less than \$1.5 billion. Vanguard periodically reassesses these classifications.

[FLAG]

THE FUND IS SUBJECT TO STOCK MARKET RISK, WHICH IS THE CHANCE THAT STOCK PRICES OVERALL WILL DECLINE OVER SHORT OR EVEN LONG PERIODS. STOCK MARKETS TEND TO MOVE IN CYCLES, WITH PERIODS OF RISING PRICES AND PERIODS OF FALLING PRICES.

IN ADDITION, INVESTMENTS IN FOREIGN STOCK MARKETS CAN BE RISKIER THAN U.S. STOCK INVESTMENTS. THE PRICES OF INTERNATIONAL STOCKS AND THE PRICES OF U.S. STOCKS HAVE OFTEN MOVED IN OPPOSITE DIRECTIONS. THESE PERIODS HAVE, IN THE PAST,

PLAIN TALK ABOUT
INTERNATIONAL INVESTING

Because foreign stock and bond markets operate differently from the U.S. market, Americans investing abroad will encounter risks not typically associated with U.S. companies. For instance, foreign companies are not subject to the same accounting, auditing, and financial reporting standards and practices as are U.S. companies; and their stocks may not be as liquid as those of similar U.S. firms. In addition, foreign stock exchanges, brokers, and companies generally have less government supervision and regulation than their counterparts in the United States. These factors, among others, could negatively impact the returns Americans receive from foreign investments.

FOREIGN STOCKS

The Fund may invest up to 100% of its assets in foreign stocks.

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To illustrate the volatility of international stock prices, the following table shows the best, worst, and average total returns for foreign stock markets over various periods as measured by the Morgan Stanley Capital International Europe, Australasia, Far East (MSCI EAFE) Index, a widely used barometer of international market activity. (Total returns consist of dividend income plus change in market price.) Note that the returns shown do not include the costs of buying and selling stocks or other expenses that a real-world investment portfolio would incur. Note, also, that the gap between best and worst tends to narrow over the long term.

INTERNATIONAL STOCK MARKET RETURNS (1969-2000)

	1 YEAR	5 YEARS	10 YEARS	20 YEARS
Best	69.9%	36.5%	22.8%	16.3%
Worst	-23.2	1.5	5.9	12.0
Average	14.2	13.4	14.2	14.6

The table covers all of the 1-, 5-, 10-, and 20-year periods from 1969 through 2000. Keep in mind that this was a particularly favorable period for all stock markets. These average returns reflect past performance on international stocks;

you should not regard them as an indication of future returns from either foreign markets as a whole or this Fund in particular.

Note that the table does not take into account returns for emerging markets, which can be substantially more volatile than those of the more developed markets included in the MSCI EAFE Index. In addition, because the MSCI EAFE Index tracks the European and Pacific markets collectively, the above returns do not reflect the variability of returns for these markets individually. To illustrate this variability, the following table shows returns for different international markets--as well as the U.S. market for comparison--from 1991 through 2000, as measured by their respective indexes. Note that the returns shown do not include the costs of buying and selling stocks or other expenses that a real-world investment portfolio would incur.

STOCK MARKET RETURNS FOR DIFFERENT INTERNATIONAL MARKETS*

	EUROPEAN MARKET	PACIFIC MARKET	EMERGING MARKETS	U.S. MARKETS
1991	14.12%	11.51%	59.91%	30.47%
1992	-3.92	-18.51	11.40	7.62
1993	29.25	36.15	74.84	10.08
1994	2.82	12.82	-7.31	1.32
1995	22.08	2.89	0.01**	37.58
1996	21.42	-8.23	15.19	22.96
1997	23.75	-25.74	-16.37	33.36
1998	28.68	2.64	-18.39	28.58
1999	15.77	56.38	60.86	21.04
2000	-8.39	-25.78	-27.93	-9.10

*European market returns are measured by the MSCI Europe Index; Pacific market returns are measured by the MSCI Pacific Free Index; emerging markets returns are measured by the Select Emerging Markets Free Index; and U.S. market returns are measured by the Standard & Poor's 500 Index.

**The inception date of the Select Emerging Markets Free Index was May 4, 1994; returns shown for 1991 to 1994 are measured by the MSCI Emerging Markets Free Index.

Keep in mind, however, that these average returns reflect past performance of the various indexes; you should not consider them as an indication of future returns from the indexes, or from this Fund in particular.

[FLAG]

THE FUND IS SUBJECT TO COUNTRY RISK AND CURRENCY RISK. COUNTRY RISK IS THE

CHANCE THAT DOMESTIC EVENTS--SUCH AS POLITICAL UPHEAVAL, FINANCIAL TROUBLES, OR A NATURAL DISASTER--WILL WEAKEN A COUNTRY'S SECURITIES MARKET. CURRENCY RISK IS THE CHANCE THAT INVESTMENTS IN A PARTICULAR COUNTRY WILL DECREASE IN VALUE IF THE U.S. DOLLAR RISES IN VALUE AGAINST THAT COUNTRY'S CURRENCY.

SECURITY SELECTION

The investment strategy of the Fund is designed to provide returns that are broadly representative of the precious metals sector. To achieve this, the Fund focuses on stocks of foreign and domestic companies engaged in the exploration, mining, fabrication, processing, or marketing and distribution of gold, silver, platinum, diamonds, or other precious and rare metals and minerals.

In addition, up to 20% of the Fund's assets may be invested directly in gold, silver, and other precious metal bullion and coins. Bullion and coins for the Fund will only be bought from and sold to banks (both U.S. and foreign) and dealers who are members--or affiliated with members--of a regulated U.S. commodities exchange. Gold, silver, or other precious metal bullion will not be purchased in any form that is not readily marketable. Coins will not be bought for their numismatic value, and will not be considered for the Fund if they cannot be bought and sold in an active market. Any bullion or coins bought by the Fund will be delivered to and stored with a qualified custodian bank in the United States. Keep in mind that bullion and coins do not generate income--they offer only the potential for capital appreciation or depreciation, and may subject the Fund to higher custody and transaction costs than those normally associated with the ownership of stocks. Investments relating to gold and other precious metals or minerals are considered speculative.

[FLAG]

THE FUND IS SUBJECT TO MANAGER RISK, WHICH IS THE CHANCE THAT THE ADVISER WILL DO A POOR JOB OF SELECTING THE SECURITIES OR COUNTRIES IN WHICH THE FUND INVESTS.

In selecting stocks for the Fund, M&G Investment Management Limited (M&G), adviser to the Fund, emphasizes quality companies with attractive reserve positions and sound operations. The adviser considers, among other things, the ability of a company to mine ore in a cost-effective way, to find and establish new reserves, and to increase production relative to competitors. The adviser also seeks to maintain geographic diversity in the Fund. A security will generally be considered appropriate if (as determined by the investment adviser) at least 50% of the issuer's assets, revenues, or net income is related to, or derived from, the precious metals industries. Also, a security will be sold when the adviser believes that an alternative investment provides more attractive risk/return characteristics.

The Fund is generally managed without regard to tax ramifications.

OTHER INVESTMENT POLICIES AND RISKS

The Fund may enter into forward foreign currency exchange contracts, which may help protect its holdings against unfavorable short-term changes in exchange rates. A forward foreign currency exchange contract is an agreement to buy or

sell a country's currency at a

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specific price on a specific date, usually 30, 60, or 90 days in the future. In other words, the contract guarantees an exchange rate on a given date. Managers of funds that invest in foreign securities use these contracts to guard against sudden, unfavorable changes in U.S. dollar/foreign currency exchange rates. These contracts will not prevent the Fund's securities from falling in value during foreign market downswings. Note that the Fund will not enter into such contracts for speculative purposes. Under normal circumstances, the Fund will not commit more than 20% of its assets to forward foreign currency exchange contracts.

{FLAG}

THE FUND MAY INVEST, TO A LIMITED EXTENT, IN DERIVATIVES. DERIVATIVES MAY INVOLVE RISKS DIFFERENT FROM, AND POSSIBLY GREATER THAN, THOSE OF TRADITIONAL INVESTMENTS.

The Fund may invest in futures and options contracts, which are traditional types of derivatives. Losses (or gains) involving futures can sometimes be substantial--in part because a relatively small price movement in a futures contract may result in an immediate and substantial loss (or gain) for a fund. The Fund will not use futures for speculative purposes or as leveraged investments that magnify gains or losses. The Fund's obligation under futures contracts will not exceed 20% of its total assets.

The reasons for which the Fund will invest in futures and options are:

- To keep cash on hand to meet shareholder redemptions or other needs while simulating full investment in stocks.
- To reduce the Fund's transaction costs or add value when these instruments are favorably priced.

PLAIN TALK ABOUT
DERIVATIVES

A derivative is a financial contract whose value is based on (or "derived" from) a traditional security (such as a stock or a bond), an asset (such as a commodity like gold), or a market index (such as the S&P 500 Index). Some forms of derivatives, such as exchange-traded futures and options on securities, commodities, or indexes, have been trading on regulated exchanges for more than two decades. These types of derivatives are standardized contracts that can easily be bought and sold, and whose market values are determined and published daily. Non-standardized derivatives (such as swap agreements), on the other hand, tend to be more specialized or complex, and may be harder to value. If used for speculation or as leveraged investments, derivatives can carry considerable risks.

TEMPORARY INVESTMENT MEASURES

The Fund may temporarily depart from its normal investment policies--for instance, by investing substantially in cash investments--in response to extraordinary market, economic, political, or other conditions. In doing so, the Fund may succeed in avoiding losses but otherwise fail to achieve its investment objective.

THE FUND'S REDEMPTION FEE

The Fund charges a redemption fee on shares that are redeemed before they have been held for one year. This fee also applies when shares are redeemed by exchange to another Vanguard fund. Unlike a sales charge or load paid to a broker or fund management com-

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pany, the redemption fee is paid directly to the Fund to offset the costs of buying and selling securities. The fee, which is intended to discourage short-term trading, ensures that short-term investors pay their share of the Fund's transaction costs and that long-term investors do not subsidize the activities of short-term traders.

COSTS AND MARKET-TIMING

Some investors try to profit from a strategy called market-timing--switching money into mutual funds when they expect prices to rise and taking money out when they expect prices to fall. As money is shifted in and out, a fund incurs expenses for buying and selling securities. These costs are borne by all fund shareholders, including the long-term investors who do not generate the costs. This is why all Vanguard funds have adopted special policies to discourage short-term trading. Specifically:

- Each Vanguard fund reserves the right to reject any purchase request--including exchanges from other Vanguard funds--that it regards as disruptive to efficient portfolio management. A purchase request could be rejected because of the timing of the investment or because of a history of excessive trading by the investor.
- Each Vanguard fund (except the money market funds) limits the number of times that an investor can exchange into and out of the fund.
- Each Vanguard fund reserves the right to stop offering shares at any time.
- Vanguard U.S. Stock Index Funds, International Stock Index Funds, REIT Index Fund, Balanced Index Fund, and Growth and Income Fund generally do NOT accept exchanges by telephone or fax, or online. (IRAs and other retirement accounts are not subject to this rule.)
- Certain Vanguard funds charge purchase and/or redemption fees on

transactions.

See the INVESTING WITH VANGUARD section of this prospectus for further details on Vanguard's transaction policies.

THE VANGUARD FUNDS DO NOT PERMIT MARKET-TIMING. DO NOT INVEST WITH VANGUARD IF YOU ARE A MARKET-TIMER.

TURNOVER RATE

Although the Fund normally seeks to invest for the long term, it may sell securities regardless of how long they have been held. The FINANCIAL HIGHLIGHTS section of this prospectus shows historic turnover rates for the Fund. A turnover rate of 100%, for example, would mean that the Fund had sold and replaced securities valued at 100% of its net assets within a one-year period.

PLAIN TALK ABOUT TURNOVER RATE

Before investing in a mutual fund, you should review its turnover rate. This gives an indication of how transaction costs could affect the fund's future returns. In general, the greater the volume of buying and selling by the fund, the greater the impact that brokerage commissions and other transaction costs will have on its return. Also, funds with high turnover rates may be more likely to generate capital gains that must be distributed to shareholders as taxable income. As of January 31, 2001, the average turnover rate for all precious metals funds was approximately 86%, according to Morningstar, Inc.

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THE FUND AND VANGUARD

The Fund is a member of The Vanguard Group, a family of more than 35 investment companies with more than 100 funds holding assets worth more than \$560 billion. All of the Vanguard funds share in the expenses associated with business operations, such as personnel, office space, equipment, and advertising.

Vanguard also provides marketing services to the funds. Although shareholders do not pay sales commissions or 12b-1 distribution fees, each fund pays its allocated share of The Vanguard Group's marketing costs.

PLAIN TALK ABOUT VANGUARD'S UNIQUE CORPORATE STRUCTURE

The Vanguard Group is truly a MUTUAL mutual fund company. It is owned jointly by the funds it oversees and thus indirectly by the shareholders in those funds. Most other mutual funds are operated by for-profit management companies that may be owned by one person, by a group of individuals, or by investors who own the management company's stock. By contrast, Vanguard provides its services on an "at-cost" basis, and the funds' expense ratios reflect only these costs. No separate management company reaps profits or absorbs losses from operating the funds.

INVESTMENT ADVISER

M&G Investment Management Limited (M&G), 3 Minster Court, Great Tower Street, London EC3R 7XH, England, is an advisory firm and wholly owned subsidiary of Prudential plc. M&G, a separate business unit within the Prudential group, launched Great Britain's first unit trust (mutual fund) in 1931. As of January 31, 2001, M&G managed about \$184 billion in assets. M&G's advisory fee is paid quarterly, and is based on certain annual percentage rates applied to the Fund's average month-end assets for each quarter. Please consult the Fund's Statement of Additional Information for a complete explanation of how advisory fees are calculated.

For the fiscal year ended January 31, 2001, the advisory fee represented an effective annual rate of 0.22% of the Fund's average net assets.

The adviser is authorized to choose broker-dealers to handle the purchase and sale of the Fund's portfolio securities and to obtain the best available price and most favorable execution for all transactions. Also, the Fund may direct the adviser to use a particular broker for certain transactions in exchange for commission rebates or research services provided to the Fund.

In the interest of obtaining better execution of a transaction, the adviser may at times choose brokers who charge higher commissions. If more than one broker can obtain the best available price and most favorable execution, then the adviser is authorized to choose a broker who, in addition to executing the transaction, will provide research services to the adviser or the Fund.

The board of trustees may, without prior approval from shareholders, change the terms of an advisory agreement or hire a new investment adviser--either as a replacement for an existing adviser or as an additional adviser. Any significant change in the Fund's advisory arrangements will be communicated to shareholders in writing. In addition, as the Fund's sponsor and overall manager, The Vanguard Group may provide investment advisory services to the Fund, on an at-cost basis, at any time.

PLAIN TALK ABOUT
THE FUND'S ADVISER

The manager primarily responsible for overseeing the Fund's investments is:

GRAHAM E. FRENCH, Manager at M&G Investment Management Limited. He has worked in investment management since 1988; has been with M&G since 1989; was Assistant Fund Manager from 1991 through 1996; and has been Fund Manager since 1996. Education: B.Sc., University of Durham.

DIVIDENDS, CAPITAL GAINS, AND TAXES

FUND DISTRIBUTIONS

The Fund distributes to shareholders virtually all of its net income (interest and dividends, less expenses), as well as any capital gains realized from the sale of its holdings. Distributions generally occur in December. In addition, the Fund may occasionally be required to make supplemental dividend or capital gains distributions at some other time during the year. You can receive distributions of income dividends or capital gains in cash, or you can have them automatically reinvested in more shares of the Fund.

PLAIN TALK ABOUT DISTRIBUTIONS

As a shareholder, you are entitled to your portion of a fund's income from interest and dividends, and gains from the sale of investments. You receive such earnings as either an income dividend or a capital gains distribution. Income dividends come from both the dividends that the fund earns from any stock holdings and the interest it receives from any money market and bond investments. Capital gains are realized whenever the fund sells securities for higher prices than it paid for them. These capital gains are either short-term or long-term, depending on whether the fund held the securities for one year or less, or more than one year.

BASIC TAX POINTS

Vanguard will send you a statement each year showing the tax status of all your distributions. In addition, taxable investors should be aware of the following basic tax points:

- Distributions are taxable to you for federal income tax purposes whether or not you reinvest these amounts in additional Fund shares.
- Distributions declared in December--if paid to you by the end of January--are taxable for federal income tax purposes as if received in December.
- Any dividends and short-term capital gains that you receive are taxable to you as ordinary income for federal income tax purposes.
- Any distributions of net long-term capital gains are taxable to you as long-term capital gains for federal income tax purposes, no matter how long

you've owned shares in the Fund.

- Capital gains distributions may vary considerably from year to year as a result of the Fund's normal investment activities and cash flows.
- A sale or exchange of Fund shares is a taxable event. This means that you may have a capital gain to report as income, or a capital loss to report as a deduction, when you complete your federal income tax return.

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- Dividend and capital gains distributions that you receive, as well as your gains or losses from any sale or exchange of Fund shares, may be subject to state and local income taxes.
- The Fund may be subject to foreign taxes or foreign tax withholding on dividends, interest, and some capital gains that it receives on foreign securities. You may qualify for an offsetting credit or deduction under U.S. tax laws for your portion of the Fund's foreign tax obligations, provided that you meet certain requirements. See your tax adviser or IRS publications for more information.

GENERAL INFORMATION

BACKUP WITHHOLDING. By law, Vanguard must withhold 31% of any taxable distributions or redemptions from your account if you do not: n provide us with your correct taxpayer identification number; n certify that the taxpayer identification number is correct; and n confirm that you are not subject to backup withholding. Similarly, Vanguard must withhold taxes from your account if the IRS instructs us to do so.

FOREIGN INVESTORS. Vanguard funds generally are not sold outside the United States, except to certain qualifying investors. If you reside outside the United States, please consult our website at Vanguard.com and review the area entitled "Non-U.S. Investors." Foreign investors should be aware that U.S. withholding and estate taxes may apply to any investments in Vanguard funds.

INVALID ADDRESSES. If a dividend or capital gains distribution check mailed to your address of record is returned as undeliverable, Vanguard will automatically reinvest all future distributions until you provide us with a valid mailing address.

TAX CONSEQUENCES. This prospectus provides general tax information only. If you are investing through a tax-deferred retirement account, such as an IRA, special tax rules apply. Please consult your tax adviser for detailed information about a fund's tax consequences for you.

PLAIN TALK ABOUT "BUYING A DIVIDEND"

Unless you are investing through a tax-deferred retirement account (such as an IRA), you should avoid buying shares of a fund shortly before it makes a distribution, because doing so can cost you money in taxes. This is known as

"buying a dividend." For example: On December 15, you invest \$5,000, buying 250 shares for \$20 each. If the fund pays a distribution of \$1 per share on December 16, its share price would drop to \$19 (not counting market change). You still have only \$5,000 (250 shares x \$19 = \$4,750 in share value, plus 250 shares x \$1 = \$250 in distributions), but you owe tax on the \$250 distribution you received--even if you reinvest it in more shares. To avoid "buying a dividend," check a fund's distribution schedule before you invest.

SHARE PRICE

The Fund's share price, called its net asset value, or NAV, is calculated each business day after the close of regular trading on the New York Stock Exchange, generally 4 p.m., Eastern time. Net asset value per share is computed by dividing the net assets of the Fund by the number of Fund shares outstanding. On holidays or other days when the Exchange is closed, the NAV is not calculated, and the Fund will not transact purchase or redemption requests. However, on those days the value of the Fund's assets may be affected to the extent the Fund's foreign securities trade on markets that are open.

Stocks held by a Vanguard fund are valued at their market value when reliable market quotations are readily available. Certain short-term debt instruments used to manage a fund's cash are valued on the basis of amortized cost. The values of foreign securities held by a fund are converted into U.S. dollars using an exchange rate obtained from an independent third party.

When reliable market quotations are not readily available, securities are priced at their fair value, calculated according to procedures adopted by the board of trustees. A fund also may use fair-value pricing if the value of a security it holds is materially affected by events occurring after the close of the primary markets or exchanges on which the security is traded. This most commonly occurs with foreign securities but may occur in other cases as well. When fair-value pricing is used, the prices of securities used by a fund to calculate its net asset value may differ from quoted or published prices for the same securities.

Vanguard fund share prices can be found daily in the mutual fund listings of most major newspapers under various "Vanguard" headings.

FINANCIAL HIGHLIGHTS

The following financial highlights table is intended to help you understand the Fund's financial performance for the past five years, and certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned or lost each year on an investment in the Fund (assuming reinvestment of all dividend and capital

gains distributions). This information has been derived from the financial statements audited by PricewaterhouseCoopers LLP, independent accountants, whose report--along with the Fund's financial statements--is included in the Fund's most recent annual report to shareholders. You may have the annual report sent to you without charge by contacting Vanguard.

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PLAIN TALK ABOUT
HOW TO READ THE FINANCIAL HIGHLIGHTS TABLE

The Fund began fiscal 2001 with a net asset value (price) of \$7.67 per share. During the year, the Fund earned \$0.22 per share from investment income (interest and dividends). There was a decline of \$0.18 per share in the value of investments bought or sold by the Fund, resulting in a net increase of \$0.04 from investment operations.

Shareholders received \$0.20 per share in the form of dividend and capital gains distributions. A portion of each year's distributions may come from the prior year's income or capital gains.

The earnings (\$0.04 per share) minus the distributions (\$0.20 per share) resulted in a share price of \$7.51 at the end of the year. This was a decrease of \$0.16 per share (from \$7.67 at the beginning of the year to \$7.51 at the end of the year). For a shareholder who reinvested the distributions in the purchase of more shares, the total return from the Fund was 0.67% for the year.

As of January 31, 2001, the Fund had \$307 million in net assets. For the year, its expense ratio was 0.65% (\$6.50 per \$1,000 of net assets); and its net investment income amounted to 2.94% of its average net assets. It sold and replaced securities valued at 17% of its net assets.

<TABLE>
<CAPTION>

VANGUARD PRECIOUS METALS FUND
YEAR ENDED JANUARY 31,

	2001	2000	1999	1998
1997				

<S> <C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, \$14.07 BEGINNING OF YEAR	\$7.67	\$6.61	\$7.53	\$10.94

INVESTMENT OPERATIONS				
Net Investment Income .13	.22	.11	.10	.14
Net Realized and Unrealized Gain (Loss) on (2.98) Investments	(.18)	1.05	(.93)	(3.42)

Total from Investment (2.85) Operations	.04	1.16	(.83)	(3.28)

DISTRIBUTIONS				
Dividends from Net Investment Income (.21)	(.20)	(.10)	(.09)	(.13)
Distributions from Realized Capital (.07) Gains	--	--	--	--

Total Distributions (.28)	(.20)	(.10)	(.09)	(.13)

NET ASSET VALUE, END \$10.94 OF YEAR	\$7.51	\$7.67	\$6.61	\$ 7.53

TOTAL RETURN* -20.51%	0.67%	17.49%	-11.06%	-29.85%

RATIOS/SUPPLEMENTAL DATA				
Net Assets, End of Year (Millions) \$463	\$307	\$341	\$310	\$327

Ratio of Total Expenses to Average Net Assets	0.65%	0.77%	0.77%	0.62%
0.50%				
Ratio of Net Investment Income to Average Net Assets	2.94%	1.42%	1.33%	1.41%
1.07%				
Turnover Rate	17%	28%	23%	26%
19%				

</TABLE>

*Total return figures do not reflect the 1% fee that is assessed on redemptions of shares that are held in the Fund for less than one year.

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INVESTING WITH VANGUARD

This section of the prospectus explains the basics of doing business with Vanguard. A special booklet, *The Vanguard Service Directory*, provides details of our many shareholder services for individual investors. A separate booklet, *The Compass*, does the same for institutional investors. You can request either booklet by calling or writing Vanguard, using the Contacting Vanguard instructions found at the end of this section.

BUYING SHARES
REDEEMING SHARES
OTHER RULES YOU SHOULD KNOW
FUND AND ACCOUNT UPDATES
CONTACTING VANGUARD

BUYING SHARES

ACCOUNT MINIMUMS

TO OPEN AND MAINTAIN AN ACCOUNT: \$3,000 for regular accounts; \$1,000 for IRAs and custodial accounts for minors.

TO ADD TO AN EXISTING ACCOUNT: \$100 by mail or exchange; \$1,000 by wire.

Vanguard reserves the right to increase or decrease the minimum amount required to open and maintain an account, or to add to an existing account, without prior notice.

HOW TO BUY SHARES

BY CHECK: Mail your check and a completed account registration form to Vanguard.

When adding to an existing account, send your check with an Invest-By-Mail form detached from your last account statement. Make your check payable to: The Vanguard Group--53. For addresses, see Contacting Vanguard.

BY EXCHANGE PURCHASE: You can purchase shares with the proceeds of a redemption from another Vanguard fund. All open Vanguard funds permit exchange purchases requested in writing. MOST VANGUARD FUNDS--OTHER THAN THE STOCK AND BALANCED INDEX-ORIENTED FUNDS--ALSO ACCEPT EXCHANGE PURCHASES REQUESTED ONLINE OR BY TELEPHONE. See Other Rules You Should Know for specifics.

BY WIRE: Call Vanguard to purchase shares by wire. See Contacting Vanguard.

YOUR PURCHASE PRICE

You buy shares at a fund's next-determined NAV after Vanguard receives your purchase request. As long as your request is received before the close of regular trading on the New York Stock Exchange (generally 4 p.m., Eastern time), you will buy your shares at that day's NAV. This is known as your TRADE DATE.

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PURCHASE RULES YOU SHOULD KNOW

^THIRD PARTY CHECKS. To protect the funds from check fraud, Vanguard will not accept checks made payable to third parties.

^U.S. CHECKS ONLY. All purchase checks must be written in U.S. dollars and drawn on a U.S. bank.

^LARGE PURCHASES. Vanguard reserves the right to reject any purchase request that may disrupt a fund's operation or performance. Please call us before attempting to invest a large dollar amount.

^NO CANCELLATIONS. Place your transaction requests carefully. Vanguard will NOT cancel any transaction once it has been initiated and a confirmation number has been assigned (if applicable).

^FUTURE PURCHASES. All Vanguard funds reserve the right to stop selling shares at any time, or to reject specific purchase requests, including purchases by exchange from another Vanguard fund.

REDEEMING SHARES

HOW TO REDEEM SHARES

Be sure to check Other Rules You Should Know before initiating your request.

ONLINE: Request a redemption through our website at Vanguard.com.

BY TELEPHONE: Contact Vanguard by telephone to request a redemption. For telephone numbers, see Contacting Vanguard.

BY MAIL: Send your written redemption instructions to Vanguard. For addresses, see Contacting Vanguard.

REDEMPTION FEES

The Fund charges a 1% redemption fee on shares redeemed (either by selling or exchanging to another fund) within one year of purchase. From time to time, the Fund may waive or modify redemption fees for certain categories of investors.

YOUR REDEMPTION PRICE

You redeem shares at a fund's next-determined NAV after Vanguard receives your redemption request, including any special documentation required under the circumstances. As long as your request is received before the close of regular trading on the New York Stock Exchange (generally 4 p.m., Eastern time), your shares are redeemed at that day's NAV. This is known as your TRADE DATE.

TYPES OF REDEMPTIONS

^CHECK REDEMPTIONS: Unless instructed otherwise, Vanguard will mail you a check, normally within two business days of your trade date.

^EXCHANGE REDEMPTIONS: You may instruct Vanguard to apply the proceeds of your redemption to purchase shares of another Vanguard fund. All open Vanguard funds accept exchange redemptions requested in writing. Most Vanguard

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funds--other than the stock and balanced index-oriented funds--also accept exchange redemptions requested online or by telephone. See Other Rules You Should Know for specifics.

^WIRE REDEMPTIONS: When redeeming from a money market fund or a bond fund, you may instruct Vanguard to wire your redemption proceeds to a previously designated bank account. Wire redemptions are not available for Vanguard's other funds. The wire redemption option is not automatic; you must establish it by completing a special form or the appropriate section of your account registration. Also, wire redemptions must be requested in writing or by telephone, not online. For these funds, a \$5 fee applies to wire redemptions under \$5,000.

Money Market Funds: For telephone requests received at Vanguard by 10:45 a.m., Eastern time, the redemption proceeds will arrive at your bank by the close of business that same day. For other requests received before 4 p.m., Eastern time, the redemption proceeds will arrive at your bank by the close of business on the following business day.

Bond Funds: For requests received at Vanguard by 4 p.m., Eastern time, the redemption proceeds will arrive at your bank by the close of business on the following business day.

REDEMPTION RULES YOU SHOULD KNOW

^SPECIAL ACCOUNTS. Special documentation may be required to redeem from certain types of accounts, such as trust, corporate, nonprofit, or retirement accounts. Please call us before attempting to redeem from these types of accounts.

^POTENTIALLY DISRUPTIVE REDEMPTIONS. Vanguard reserves the right to pay all or part of your redemption in-kind--that is, in the form of securities--if we believe that a cash redemption would disrupt the fund's operation or performance. Under these circumstances, Vanguard also reserves the right to delay payment of your redemption proceeds for up to seven days. By calling us before you attempt to redeem a large dollar amount, you are more likely to avoid in-kind or delayed payment of your redemption.

^RECENTLY PURCHASED SHARES. While you can redeem shares at any time, proceeds will not be made available to you until the Fund collects payment for your

purchase. This may take up to ten calendar days for shares purchased by check or Vanguard Fund Express(R).

^SHARE CERTIFICATES. If share certificates have been issued for your account, those shares cannot be redeemed until you return the certificates (unsigned) to Vanguard by registered mail. For the correct address, see Contacting Vanguard.

^PAYMENT TO A DIFFERENT PERSON OR ADDRESS. We can make your redemption check payable to a different person or send it to a different address. However, this requires the written

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consent of all registered account owners, which must be provided under signature guarantees. You can obtain a signature guarantee from most commercial and savings banks, credit unions, trust companies, or member firms of a U.S. stock exchange.

^NO CANCELLATIONS. Place your transaction requests carefully. Vanguard will NOT cancel any transaction once it has been initiated and a confirmation number has been assigned (if applicable).

^EMERGENCY CIRCUMSTANCES. Vanguard funds can postpone payment of redemption proceeds for up to seven calendar days at any time. In addition, Vanguard funds can suspend redemptions and/or postpone payments of redemption proceeds at times when the New York Stock Exchange is closed or during emergency circumstances, as determined by the U.S. Securities and Exchange Commission.

OTHER RULES YOU SHOULD KNOW

TELEPHONE TRANSACTIONS

^AUTOMATIC. In setting up your account, we'll automatically enable you to do business with us by regular telephone, unless you instruct us otherwise in writing.

^TELE-ACCOUNT(TM). To conduct account transactions through Vanguard's automated telephone service, you must first obtain a personal identification number (PIN). Call Tele-Account to obtain a PIN, and allow seven days before using this service.

^PROOF OF A CALLER'S AUTHORITY. We reserve the right to refuse a telephone request if the caller is unable to provide the following information exactly as registered on the account:

- Ten-digit account number.
- Complete owner name and address.
- Primary Social Security or employer identification number.
- Personal Identification Number (PIN), if applicable.

^SUBJECT TO REVISION. We reserve the right to revise or terminate Vanguard's telephone transaction service at any time, without notice.

^SOME VANGUARD FUNDS DO NOT PERMIT TELEPHONE EXCHANGES. To discourage market-timing, Vanguard's Stock Index Funds, Growth and Income Fund, and Balanced Index Fund generally do not permit telephone exchanges (in or out), except for IRAs and certain other retirement accounts.

VANGUARD.COM

^REGISTRATION. You can use your personal computer to review your account holdings, to sell or exchange shares of most Vanguard funds, and to perform other transactions. To establish this service, you can register online.

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^SOME VANGUARD FUNDS DO NOT PERMIT ONLINE EXCHANGES. To discourage market-timing, Vanguard's Stock Index Funds, Growth and Income Fund, and Balanced Index Fund do not permit online exchanges (in or out), except for IRAs and certain other retirement accounts.

WRITTEN INSTRUCTIONS

^"GOOD ORDER" REQUIRED. We reserve the right to reject any written transaction instructions that are not in "good order." This means that your instructions must include:

- The fund name and account number.
- The amount of the transaction (in dollars or shares).
- Signatures of all owners exactly as registered on the account.
- Signature guarantees, if required for the type of transaction.*
- Any supporting legal documentation that may be required.

*For instance, signature guarantees must be provided by all registered account shareholders when redemption proceeds are to be sent to a different person or address.

RESPONSIBILITY FOR FRAUD

Vanguard will not be responsible for any account losses due to fraud, so long as we reasonably believe that the person transacting on an account is authorized to do so. Please take precautions to protect yourself from fraud. Keep your account information private and immediately review any account statements that we send to you. Contact Vanguard immediately about any transactions you believe to be unauthorized.

UNCASHED CHECKS

Please cash your distribution or redemption checks promptly. Vanguard will not pay interest on uncashed checks.

LIMITS ON ACCOUNT ACTIVITY

Because excessive account transactions can disrupt management of a fund and increase the fund's costs for all shareholders, Vanguard limits account activity as follows:

- You may make no more than TWO SUBSTANTIVE "ROUND TRIPS" THROUGH A NON-MONEY-MARKET FUND during any 12-month period.
- Your round trips through a non-money-market fund must be at least 30 days apart.
- All funds may refuse share purchases at any time, for any reason.
- Vanguard reserves the right to revise or terminate the exchange privilege, limit the amount of an exchange, or reject an exchange, at any time, for any

reason.

A "round trip" is a redemption from a fund followed by a purchase back into the same fund. Also, a "round trip" covers transactions accomplished by any combination of methods, including transactions conducted by check, wire, or exchange

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to/from another Vanguard fund. "Substantive" means a dollar amount that Vanguard determines, in its sole discretion, could adversely affect the management of the fund.

UNUSUAL CIRCUMSTANCES

If you experience difficulty contacting Vanguard online, by telephone, or by Tele-Account, you can send us your transaction request by regular or express mail. See Contacting Vanguard for addresses.

INVESTING WITH VANGUARD THROUGH OTHER FIRMS

You may purchase or sell shares of most Vanguard funds through a financial intermediary, such as a bank, broker, or investment adviser. If you invest with Vanguard through an intermediary, please read that firm's program materials carefully to learn of any special rules that may apply. For example, special terms may apply to additional service features, fees, or other policies.

LOW-BALANCE ACCOUNTS

All Vanguard funds reserve the right to close any investment-only retirement-plan account or any nonretirement account whose balance falls below the minimum initial investment.

Vanguard deducts a \$10 fee in June from each nonretirement account whose balance at that time is below \$2,500 (\$500 for Vanguard STAR(TM) Fund). The fee is waived if your total Vanguard account assets are \$50,000 or more.

FUND AND ACCOUNT UPDATES

PORTFOLIO SUMMARIES

We will send you quarterly portfolio summaries to help you keep track of your accounts throughout the year. Each summary shows the market value of your account at the close of the statement period, as well as all distributions, purchases, sales, and exchanges for the current calendar year.

AVERAGE COST REVIEW STATEMENTS

For most taxable accounts, average cost review statements will accompany the quarterly portfolio summaries. These statements show the average cost of shares that you redeemed during the current calendar year, using the average cost single category method.

CONFIRMATION STATEMENTS

Each time you buy, sell, or exchange shares, we will send you a statement confirming the trade date and amount of your transaction.

TAX STATEMENTS

We will send you annual tax statements to assist in preparing your income tax returns. These statements, which are generally mailed in January, will report the previous year's dividend and capital gains distributions, proceeds from the

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sale of shares, and distributions from IRAs or other retirement plans.

REPORTS

Fund financial reports about Vanguard Precious Metals Fund will be mailed twice a year--in March and September. These comprehensive reports include an assessment of the Fund's performance (and a comparison to its industry benchmark), an overview of the financial markets, the Fund's adviser report, and the Fund's financial statements, which include a listing of the Fund's holdings.

To keep the Fund's costs as low as possible (so that you and other shareholders can keep more of the Fund's investment earnings), Vanguard attempts to eliminate duplicate mailings to the same address. When we find that two or more shareholders have the same last name and address, we send just one Fund report to that address instead of mailing separate reports to each shareholder. If you want us to send separate reports, however, you may notify our Client Services Department.

CONTACTING VANGUARD

ONLINE

VANGUARD.COM

- Your best source of Vanguard news
- For fund, account, and service information
- For most account transactions
- For literature requests
- 24 hours per day, 7 days per week

VANGUARD TELE-ACCOUNT(R)

1-800-662-6273

(ON-BOARD)

- For automated fund and account information
- For redemptions by check, exchange, or wire
- Toll-free, 24 hours per day, 7 days per week

INVESTOR INFORMATION

1-800-662-7447 (SHIP)

(Text telephone at 1-800-952-3335)

- For fund and service information
- For literature requests
- Business hours only

CLIENT SERVICES

1-800-662-2739 (CREW)

(Text telephone at 1-800-749-7273)

- For account information
- For most account transactions
- Business hours only

INSTITUTIONAL DIVISION

1-888-809-8102

- For information and services for large institutional investors
- Business hours only

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VANGUARD ADDRESSES

REGULAR MAIL (INDIVIDUALS--CURRENT CLIENTS):

The Vanguard Group

P.O. Box 1110

Valley Forge, PA 19482-1110

REGULAR MAIL (INSTITUTIONS):

The Vanguard Group

P.O. Box 2900

Valley Forge, PA 19482-2900

REGULAR MAIL (GENERAL INQUIRIES):

The Vanguard Group

P.O. Box 2600

Valley Forge, PA 19482-2600

REGISTERED OR EXPRESS MAIL:

The Vanguard Group

455 Devon Park Drive

Wayne, PA 19087-1815

FUND NUMBER

Please use the specific fund number when contacting us about Vanguard Precious Metals Fund--53.

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GLOSSARY OF INVESTMENT TERMS

CAPITAL GAINS DISTRIBUTION

Payment to mutual fund shareholders of gains realized on securities that a fund has sold at a profit, minus any realized losses.

CASH INVESTMENTS

Cash deposits, short-term bank deposits, and money market instruments that include U.S. Treasury bills, bank certificates of deposit (CDs), repurchase agreements, commercial paper, and banker's acceptances.

COMMON STOCK

A security representing ownership rights in a corporation. A stockholder is entitled to share in the company's profits, some of which may be paid out as dividends.

COUNTRY RISK

The chance that domestic events--such as political upheaval, financial troubles, or a natural disaster--will weaken a country's securities markets.

CURRENCY RISK

The chance that a foreign investment will decrease in value because of unfavorable changes in currency exchange rates.

DIVIDEND INCOME

Payment to shareholders of income from interest or dividends generated by a fund's investments.

EXPENSE RATIO

The percentage of a fund's average net assets used to pay its expenses. The expense ratio includes management fees, administrative fees, and any 12b-1 distribution fees.

INDUSTRY CONCENTRATION

Focusing on the securities of a specific industry (such as energy, precious metals, health care, real estate, or utilities).

INVESTMENT ADVISER

An organization that makes the day-to-day decisions regarding a fund's investments.

NET ASSET VALUE (NAV)

The market value of a mutual fund's total assets, minus liabilities, divided by the number of shares outstanding. The value of a single share is called its share value or share price.

PRICE/EARNINGS (P/E) RATIO

The current share price of a stock, divided by its per-share earnings (profits). A stock selling for \$20, with earnings of \$2 per share, has a price/earnings ratio of 10.

PRINCIPAL

The amount of money you put into an investment.

SECURITIES

Stocks, bonds, money market instruments, and other investment vehicles.

TOTAL RETURN

A percentage change, over a specified time period, in a mutual fund's net asset value, assuming the reinvestment of all distributions of dividends and capital gains.

VOLATILITY

The fluctuations in value of a mutual fund or other security. The greater a fund's volatility, the wider the fluctuations between its returns.

YIELD

Income (interest or dividends) earned by an investment, expressed as a percentage of the investment's price.

[VANGUARD SHIP LOGO]

Post Office Box 2600

Valley Forge, PA 19482-2600

FOR MORE INFORMATION

If you'd like more information about Vanguard Precious Metals Fund, the following documents are available free upon request:

ANNUAL/SEMIANNUAL REPORTS TO SHAREHOLDERS

Additional information about the Fund's investments is available in the Fund's annual and semiannual reports to shareholders. In the Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year.

STATEMENT OF ADDITIONAL INFORMATION (SAI)

The SAI provides more detailed information about the Fund.

The current annual and semiannual reports and the SAI are incorporated by reference into (and are thus legally a part of) this prospectus.

All market indexes referenced in this prospectus are the exclusive property of their respective owners.

To receive a free copy of the latest annual or semiannual report or the SAI, or to request additional information about the Fund or other Vanguard funds, please contact us as follows:

THE VANGUARD GROUP
INVESTOR INFORMATION DEPARTMENT
P.O. BOX 2600
VALLEY FORGE, PA 19482-2600

TELEPHONE: 1-800-662-7447 (SHIP)

TEXT TELEPHONE: 1-800-952-3335

WORLD WIDE WEB: WWW.VANGUARD.COM

If you are a current Fund shareholder and would like information about your account, account transactions, and/or account statements, please call:

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

TEXT TELEPHONE: 1-800-749-7273

INFORMATION PROVIDED BY THE SECURITIES AND EXCHANGE COMMISSION (SEC)
You can review and copy information about the Fund (including the SAI) at the SEC's Public Reference Room in Washington, DC. To find out more about this public service, call the SEC at 1-202-942-8090. Reports and other information about the Fund are also available on the SEC's Internet site at <http://www.sec.gov>, or you can receive copies of this information, for a fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-0102.

Fund's Investment Company Act file number: 811-3916
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P053 072001

PART B

VANGUARD(R) SPECIALIZED FUNDS (THE TRUST) STATEMENT OF ADDITIONAL INFORMATION August 6, 2001

This Statement is not a prospectus but should be read in conjunction with the Trust's current Prospectuses (dated August 6, 2001). To obtain, without

charge, a Prospectus or the most recent Annual Report to Shareholders, which contains the Funds' financial statements as hereby incorporated by reference, please call:

INVESTOR INFORMATION DEPARTMENT

1-800-662-7447

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DESCRIPTION OF THE TRUST

ORGANIZATION

The Trust was organized as a Pennsylvania business trust in 1983, and then reorganized as a Maryland corporation in 1986. It reorganized again as a Delaware business trust in June 1998. Prior to its reorganization as a Delaware business trust, the Trust was known as Vanguard Specialized Portfolios, Inc. The Trust is registered with the United States Securities and Exchange Commission (the Commission) under the Investment Company Act of 1940 (the 1940 Act) as an open-end, management investment company. Each Fund, other than Vanguard Precious Metals Fund, is diversified. The Trust currently offers the following funds, each of which has outstanding one class of shares:

Vanguard(R) Energy Fund
Vanguard(R) Precious Metals Fund
Vanguard(R) Health Care Fund
Vanguard(R) Utilities Income Fund
Vanguard(R) REIT Index Fund
(individually, a Fund; collectively, the Funds)

The Trust has the ability to offer additional funds or classes of shares. There is no limit on the number of full and fractional shares that each Fund may issue.

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SERVICE PROVIDER

CUSTODIANS. State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02110, The Chase Manhattan Bank, N.A., 4 Chase MetroTech Center, Brooklyn, New York 11245, and First Union National Bank, 530 Walnut Street, Philadelphia, Pennsylvania 19106, serve as the Funds' custodians. The custodians are responsible for maintaining the Funds' assets and keeping all necessary accounts and records of Fund assets.

INDEPENDENT ACCOUNTANTS. PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042, serves as the Funds' independent accountants. The accountants audit the Funds' financial statements and provide other related services.

TRANSFER AND DIVIDEND-PAYING AGENT. The Funds' transfer agent and dividend-paying agent is The Vanguard Group, Inc., 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

CHARACTERISTICS OF THE FUNDS' SHARES

RESTRICTIONS ON HOLDING OR DISPOSING OF SHARES. There are no restrictions on the right of shareholders to retain or dispose of the Funds' shares, other than the possible future termination of any Fund. Each Fund may be terminated by reorganization into another mutual fund or by liquidation and distribution of the assets of the Fund. Unless terminated by reorganization or liquidation, the Funds will continue indefinitely.

SHAREHOLDER LIABILITY. The Funds are organized under Delaware law, which provides that shareholders of a business trust are entitled to the same limitations of personal liability as shareholders of a corporation organized under Delaware law. Effectively, this means that a Fund shareholder will not be personally liable for payment of the Fund's debts except by reason of his or her own conduct or acts. In addition, a shareholder could incur a financial loss on account of a Fund obligation only if the Fund itself had no remaining assets with which to meet such obligation. We believe that the possibility of such a situation arising is extremely remote.

DIVIDEND RIGHTS. The shareholders of a fund are entitled to receive any dividends or other distributions declared for such fund. No shares have priority or preference over any other shares of the same fund with respect to distributions. Distributions will be made from the assets of a fund, and will be

paid ratably to all shareholders of the fund (or class) according to the number of shares of such fund (or class) held by shareholders on the record date. The amount of income dividends per share may vary between separate share classes of the same fund based upon differences in the way that expenses are allocated between share classes pursuant to a multiple class plan.

VOTING RIGHTS. Shareholders are entitled to vote on a matter if: (i) a shareholder vote is required under the 1940 Act; (ii) the matter concerns an amendment to the Declaration of Trust that would adversely affect to a material degree the rights and preferences of the shares of any class or fund; or (iii) the trustees determine that it is necessary or desirable to obtain a shareholder vote. The 1940 Act requires a shareholder vote under various circumstances, including to elect or remove trustees upon the written request of shareholders representing 10% or more of a Fund's net assets, and to change any fundamental policy of the Fund.

Unless otherwise required by applicable law, shareholders of each Fund receive one vote for each dollar of net asset value owned on the record date, and a fractional vote for each fractional dollar of net asset value owned on the record date. However, only the shares of the Funds affected by a particular matter are entitled to vote on that matter. Voting rights are non-cumulative and cannot be modified without a majority vote.

LIQUIDATION RIGHTS. In the event of liquidation, shareholders will be entitled to receive a pro rata share of the net assets of the applicable Fund.

PREEMPTIVE RIGHTS. There are no preemptive rights associated with shares of the Funds.

CONVERSION RIGHTS. There are no conversion rights associated with shares of the Funds.

REDEMPTION PROVISIONS. The Funds' redemption provisions are described in their current prospectuses and elsewhere in this Statement of Additional Information.

SINKING FUND PROVISIONS. The Funds have no sinking fund provisions.

CALLS OR ASSESSMENT. Each Fund's shares, when issued, are fully paid and non-assessable.

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TAX STATUS OF THE FUNDS

Each Fund intends to continue to qualify as a "regulated investment company" under Subchapter M of the Internal Revenue Code. This special tax status means that a Fund will not be liable for federal tax on income and capital gains distributed to shareholders. In order to preserve its tax status, each Fund must comply with certain requirements. If a Fund fails to meet these requirements in

any taxable year, it will be subject to tax on its taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net tax-exempt income and net long-term capital gains, will be taxable to shareholders as ordinary income. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest, and make substantial distributions before regaining its tax status as a regulated investment company.

INVESTMENT POLICIES

The following policies supplement each Fund's investment objectives and policies set forth in the Prospectuses.

FOREIGN INVESTMENTS. As indicated in the Prospectuses, each Fund (other than the REIT Index Fund) may include foreign securities to a certain extent. Investors should recognize that investing in foreign companies involves certain special considerations which are not typically associated with investing in U.S. companies.

Currency Risk. Since the stocks of foreign companies are frequently denominated in foreign currencies, and since the Funds may temporarily hold uninvested reserves in bank deposits in foreign currencies, the Funds will be affected favorably or unfavorably by changes in currency rates and in exchange control regulations, and may incur costs in connection with conversions between various currencies. The investment policies of the Funds permit each to enter into forward foreign currency exchange contracts in order to hedge the Fund's holdings and commitments against changes in the level of future currency rates. Such contracts involve an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract.

Country Risk. As foreign companies are not generally subject to uniform accounting, auditing, and financial reporting standards and practices comparable to those applicable to domestic companies, there may be less publicly available information about certain foreign companies than about domestic companies. Securities of some foreign companies are generally less liquid and more volatile than securities of comparable domestic companies. There is generally less government supervision and regulation of stock exchanges, brokers, and listed companies than in the U.S. In addition, with respect to certain foreign countries, there is the possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments which could affect U.S. investments in those countries. Although the Funds will endeavor to achieve the most favorable execution costs in their portfolio transactions, commissions on many foreign stock exchanges are generally higher than commissions on U.S. exchanges. In addition, it is expected that the expenses for custodian arrangements of the Funds' foreign securities will be somewhat greater than the expenses for the custodian arrangements for handling U.S. securities of equal value. Certain foreign governments levy withholding taxes against dividend and interest income. Although in some countries a portion of these taxes is recoverable, the non-recovered portion of foreign withholding taxes will reduce the income received from foreign companies held by the Funds. However, these foreign withholding taxes are not expected to have a significant impact on the

Funds, since each Fund seeks long-term capital appreciation and any income should be considered incidental.

Federal Tax Treatment of Non-U.S. Transactions. Special rules govern the Federal income tax treatment of certain transactions denominated in terms of a currency other than the U.S. dollar or determined by reference to the value of one or more currencies other than the U.S. dollar. The types of transactions covered by the special rules include the following: (i) the acquisition of, or becoming the obligor under, a bond or other debt instrument (including, to the extent provided in Treasury regulations, preferred stock); (ii) the accruing of certain trade receivables and payables; and (iii) the entering into or acquisition of any forward contract, futures contract, option, or similar financial instrument if such instrument is not marked to market. The disposition of a currency other than the U.S. dollar by a taxpayer whose functional currency is the U.S. dollar is also treated as a transaction subject to the special currency rules. However, foreign currency-related regulated futures contracts and nonequity options are generally not subject to the special currency rules if they are or would be treated as sold for their fair market value at year-end under the marking-to-market rules applicable to other futures

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contracts unless an election is made to have such currency rules apply. With respect to transactions covered by the special rules, foreign currency gain or loss is calculated separately from any gain or loss on the underlying transaction and is normally taxable as ordinary income or loss. A taxpayer may elect to treat as capital gain or loss foreign currency gain or loss arising from certain identified forward contracts, futures contracts, and options that are capital assets in the hands of the taxpayer and which are not part of a straddle. The Treasury Department issued regulations under which certain transactions subject to the special currency rules that are part of a "section 988 hedging transaction" (as defined in the Internal Revenue Code of 1986, as amended, and the Treasury regulations) will be integrated and treated as a single transaction or otherwise treated consistently for purposes of the Code. Any gain or loss attributable to the foreign currency component of a transaction engaged in by a Fund which is not subject to the special currency rules (such as foreign equity investments other than certain preferred stock) will be treated as capital gain or loss and will not be segregated from the gain or loss on the underlying transaction. It is anticipated that some of the non-U.S. dollar-denominated investments and foreign currency contracts the Funds may make or enter into will be subject to the special currency rules described above.

FOREIGN TAX CREDIT. Foreign governments may withhold taxes on dividends and interest paid with respect to foreign securities. Foreign governments may also impose taxes on other payments or gains with respect to foreign securities. If, at the close of its fiscal year, more than 50% of a fund's total assets are invested in securities of foreign issuers, the fund may elect to pass through foreign taxes paid, and thereby allow shareholders to take a tax credit or deduction on their tax returns. If shareholders meet certain holding period

requirements with respect to fund shares, an offsetting tax credit may be available. If shareholders do not meet the holding period requirements, they may still be entitled to a deduction for certain foreign taxes. In either case, a shareholder's tax statement will show more taxable income or capital gains than were actually distributed by the fund, but will also show the amount of the available offsetting credit or deduction.

ILLIQUID SECURITIES. Each Fund may invest up to 15% of its net assets in illiquid securities. Illiquid securities are securities that may not be sold or disposed of in the ordinary course of business within seven business days at approximately the value at which they are being carried on the Fund's books.

Each Fund may invest in restricted, privately placed securities that, under the Commission's rules, may be sold only to qualified institutional buyers. Because these securities can be resold only to qualified institutional buyers or after they have been held for a number of years, they may be considered illiquid securities--meaning that they could be difficult for the Fund to convert to cash if needed.

If a substantial market develops for a restricted security held by any of the Funds, it may be treated as a liquid security, in accordance with procedures and guidelines approved by the Fund's board of trustees. This generally includes securities that are unregistered that can be sold to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933. While the Fund's investment adviser determines the liquidity of restricted securities on a daily basis, the board oversees and retains ultimate responsibility for the adviser's decisions. Several factors that the board considers in monitoring these decisions include the valuation of a security, the availability of qualified institutional buyers, and the availability of information about the security's issuer.

TURNOVER RATE. While the rate of turnover is not a limiting factor when management deems changes appropriate, it is anticipated that each Fund's annual turnover rate will not normally exceed 100%. A turnover rate of 100% would occur if all of the Fund's securities, exclusive of U.S. Government securities and other securities whose maturities at the time of acquisition are one year or less, were replaced within the period of one year. Turnover rates may vary greatly from year to year as well as within a particular year and may also be affected by cash requirements for redemptions of each Fund's shares and by requirements which enable the Fund to receive certain favorable tax treatments. The turnover rates will, of course, depend in large part on the level of purchases and redemptions of shares of each Fund. Higher turnover can result in corresponding increases in brokerage costs to the Funds and their shareholders.

FUTURES CONTRACTS. Each Fund may enter into futures contracts, options, and options on futures contracts for several reasons: to maintain cash investments while remaining fully invested, to facilitate trading, to reduce transaction costs, or to seek higher investment returns when a futures contract is priced more attractively than the underlying equity security or index. 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.

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Futures contracts which are standardized as to maturity date and underlying financial instrument 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. Assets committed to futures contracts will be segregated to the extent required by law.

Although 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. 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. Each Fund's margin deposits will be placed in a segregated account maintained by the Fund's custodian bank. 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 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 Fund expects 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.

Regulations of the CFTC applicable to each Fund require that all of its futures transactions constitute bona fide hedging transactions except to the

extent that the aggregate initial margins and premiums required to establish any nonhedging positions do not exceed five percent of the value of the Fund's portfolio. A Fund will only sell futures contracts to protect securities it owns against price declines or purchase contracts to protect against an increase in the price of securities it intends to purchase. As evidence of this hedging interest, the Fund expects 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 the Fund upon sale of open futures contracts.

Although techniques other than the sale and purchase of futures contracts could be used to control a Fund's exposure to market fluctuations, the use of futures contracts may be a more effective means of hedging this exposure. While a Fund 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. A 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 5% of the market value of its total assets. In addition, a Fund will not enter into futures contracts to the extent that its outstanding obligations to purchase securities under these contracts would exceed 20% of its total assets.

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 Fund would continue to be required to make daily cash payments to maintain its required margin. In such situations, if the Fund 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, a Fund may be required to make delivery of the instruments underlying

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futures contracts it holds. The inability to close options and futures positions also could have an adverse impact on the ability to effectively hedge.

Each Fund 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 Funds are engaged in only for hedging purposes, the advisers do not believe that the Funds are subject to the risks of loss frequently associated with futures transactions. A Fund 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 a Fund does involve the risk of imperfect or no correlation, particularly considering that futures contracts have set maturity dates (referred to as "expiration dates") while the underlying equity securities of the contract generally do not. It is also possible that a Fund 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 a Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in a futures contract or related option. Additionally, investments in futures contracts and options involve the risk that the investment advisers 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 futures positions and subjecting some futures traders to substantial losses.

Federal Tax Treatment of Futures Contracts. Each Fund 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 as of the end of the year as well as those actually realized during the year. In these 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. Gains and losses on certain other futures contracts (primarily non-U.S. futures contracts) are not recognized until the contracts are closed and are treated as long-term or short-term depending on the holding period of the contract. Sales of futures contracts which are intended to hedge against a change in the value of securities held by a Fund may affect the holding period of such securities and, consequently, the nature of the gain or loss on such securities upon disposition. A Fund may be required to defer the recognition of losses on futures contracts to the extent of any unrecognized gains on related positions

held by the Fund.

In order for a Fund 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 foreign currencies, or other income derived with respect to the Fund's business of investing in securities or currencies. It is anticipated that any net gain recognized on futures contracts will be considered qualifying income for purposes of the 90% requirement.

A Fund will distribute to shareholders annually any net capital gains which have been recognized for Federal income tax purposes on futures transactions. Such distributions will be combined with distributions of capital gains realized on the Fund's other investments and shareholders will be advised on the nature of the transactions.

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REPURCHASE AGREEMENTS. Each 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 Fund acquires a fixed-income security (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 Fund and is unrelated to the interest rate on the underlying instrument. In these transactions, the securities acquired by the Fund (including accrued interest earned thereon) must have a total value in excess of the value of the repurchase agreement and are held by a custodian bank until repurchased. In addition, the Funds' board of trustees will monitor each Fund'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 any Fund.

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 Fund 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 bankruptcy or other laws, a court may determine that the underlying security is collateral for a loan by the Fund not within the control of the Fund and therefore the realization by the Fund on such collateral may be automatically stayed. Finally, it is possible that the Fund 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 the advisers

acknowledge these risks, it is expected that they will be controlled through careful monitoring procedures.

LENDING OF SECURITIES. Each Fund may lend its securities on a short-term basis or long-term basis to qualified institutional investors (typically brokers, dealers, banks, or other financial institutions) who need to borrow securities in order to complete certain transactions, such as covering short sales, avoiding failures to deliver securities, or completing arbitrage operations. By lending its securities, the Fund will be attempting to increase its net investment income through the receipt of interest on the loan. Any gain or loss in the market price of the securities loaned that might occur during the term of the loan would be for the account of the Fund. The terms, the structure, and the aggregate amount of such loans must be consistent with the 1940 Act and the Rules or interpretations of the Commission thereunder. These provisions limit the amount of securities a fund may lend to 33 1/3% of the Fund's total assets, and require that (a) the borrower pledge and maintain with the Fund collateral consisting of cash, an irrevocable letter of credit or securities issued or guaranteed by the United States Government having a value at all times not less than 100% 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 Fund at any time, and (d) the Fund receives reasonable interest on the loan (which may include the Fund's investing any cash collateral in interest bearing short-term investments), any distribution on the loaned securities, and any increase in their market value. Loan arrangements made by a 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 three business days. All relevant facts and circumstances, including the creditworthiness of the broker, dealer, or institution, will be considered in making decisions with respect to the lending of securities, subject to review by the Funds' board of trustees.

At the present time, the Staff of the Commission does not object if an investment company pays reasonably negotiated fees in connection with loaned securities, so long as such fees are set forth in a written contract and approved by the investment company's trustees. In addition, voting rights pass with the loaned securities, but if a material event will occur affecting an investment on loan, the loan must be called and the securities voted.

VANGUARD INTERFUND LENDING PROGRAM. The Commission has issued an exemptive order permitting the Funds and other Vanguard funds to participate in Vanguard's interfund lending program. This program allows the Vanguard funds to borrow money from and loan money to each other for temporary or emergency purposes. The program is subject to a number of conditions, including the requirement that no fund may borrow or lend money through the program unless it receives a more favorable interest rate than is available from a typical bank

for a comparable transaction. In addition, a Vanguard fund may participate in the program only if and to the extent that such participation is consistent with the fund's investment objective and other investment policies. The boards of trustees of the Vanguard funds are responsible for ensuring that the interfund lending program operates in compliance with all conditions of the Commission's exemptive order.

TEMPORARY INVESTMENTS. The Funds (excluding the REIT Index Fund) may take temporary defensive measures that are inconsistent with the Funds' normal fundamental or non-fundamental investment policies and strategies in response to adverse market, economic, political or other conditions. Such measures could include investments in (a) highly liquid short-term fixed income securities issued by or on behalf of municipal or corporate issuers, obligations of the U.S. Government and its agencies, commercial paper, and bank certificates of deposit; (b) shares of other investment companies which have investment objectives consistent with those of the Fund; (c) repurchase agreements involving any such securities; and (d) other money market instruments. There is no limit on the extent to which the Funds may take temporary defensive measures. In taking such measures, the Funds may fail to achieve their investment objectives.

FUNDAMENTAL INVESTMENT LIMITATIONS

Each Fund is subject to the following fundamental investment limitations, which cannot be changed in any material way without the approval of the holders of a majority of the affected Fund's shares. For these purposes, a "majority" of shares means the lesser of: (i) 67% or more of the shares voted, so long as more than 50% of the Fund's outstanding shares are present or represented by proxy; or (ii) more than 50% of the Fund's outstanding shares.

BORROWING. Each Fund may not borrow money, except for temporary or emergency purposes in an amount not exceeding 15% of the Fund's net assets. Each Fund may borrow money through banks, reverse repurchase agreements, or Vanguard's interfund lending program only, and must comply with all applicable regulatory conditions. Each Fund may not make any additional investments whenever its outstanding borrowings exceed 5% of net assets.

COMMODITIES. Each Fund may not invest in commodities or commodity contracts, except that it may invest in forward foreign currency exchange transactions, and that each Fund may invest in futures contracts and options on futures and securities. No more than 5% of each Fund's total assets may be used as initial margin deposit for futures contracts, and no more than 20% of each Fund's total assets may be obligated under stock futures contracts or options at any time. The Precious Metals Fund may also invest in bullion as described in the prospectus.

DIVERSIFICATION. With respect to 75% of its total assets, each Fund except Vanguard Precious Metals Fund may not: (i) purchase more than 10% of the outstanding voting securities of any one issuer, or (ii) purchase securities of

any issuer if, as a result, more than 5% of the Fund's total assets would be invested in that issuer's securities. This limitation does not apply to obligations of the United States Government, its agencies, or instrumentalities.

ILLIQUID SECURITIES. Each Fund may not acquire any security if, as a result, more than 15% of its net assets would be invested in securities that are illiquid.

INDUSTRY CONCENTRATION. Each Fund will concentrate its assets in securities of issuers in a particular industry or group of industries denoted by the Fund's name.

INVESTING FOR CONTROL. Each Fund may not invest in a company for purposes of controlling its management.

INVESTMENT COMPANIES. Each Fund may not invest in any other investment company, except through a merger, consolidation, or acquisition of assets, or to the extent permitted by Section 12 of the 1940 Act. Investment companies whose shares the Fund acquires pursuant to Section 12 must have investment objectives and investment policies consistent with those of the Fund.

LOANS. Each Fund may not lend money to any person except by purchasing fixed income securities that are publicly distributed or customarily purchased by institutional investors, by lending its portfolio securities, or through Vanguard's interfund lending program.

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MARGIN. Each Fund may not purchase securities on margin or sell securities short (unless by virtue of its ownership of other securities it has a right to obtain, at no added cost, securities equivalent in kind and amount to the securities sold), except as permitted by the Fund's investment policies relating to commodities.

PLEDGING ASSETS. Each Fund may not pledge, mortgage, or hypothecate more than 15% of its net assets.

PUTS AND CALLS. Each Fund may not invest in puts or calls, or combinations thereof, except as permitted by the Fund's investment policies relating to commodities.

REAL ESTATE. Each Fund (with the exception of the REIT Index Fund, which may invest 100% of its assets in real estate investment trusts) may not invest directly in real estate, although it may invest in securities of companies that deal in real estate, or interests therein.

SENIOR SECURITIES. Each Fund may not issue senior securities, except as permitted by the 1940 Act.

UNDERWRITING. Each Fund may not engage in the business of underwriting

securities issued by other persons. Each Fund will not be considered an underwriter when disposing of its investment securities.

The investment limitations set forth above are considered at the time investment securities are purchased. If a percentage restriction is adhered to at the time the investment is made, a later increase in percentage resulting from a change in the market value of assets will not constitute a violation of such restriction.

None of these limitations prevent a Fund from participating in The Vanguard Group (Vanguard). Because each Fund is a member of Vanguard, the Funds may own securities issued by Vanguard, make loans to Vanguard, and contribute to Vanguard's costs or other financial requirements. See "Management of the Funds" for more information.

MANAGEMENT OF THE FUNDS

OFFICERS AND TRUSTEES

The officers of each Fund manage its day-to-day operations and are responsible to the Fund's board of trustees. The trustees set broad policies for the Funds and choose their officers. The following is a list of the trustees and officers of the Funds and a statement of their present positions and principal occupations during the past five years. As a group, the Funds' trustees and officers own less than 1% of the outstanding shares of each Fund. Each trustee (except Mr. MacLaury) also serves as a director of The Vanguard Group, Inc. In addition, each trustee serves as a trustee of each of the 109 funds administered by Vanguard (107 in the case of Mr. Malkiel and 99 in the case of Mr. MacLaury). The mailing address of the trustees and officers of the Funds is Post Office Box 876, Valley Forge, PA 19482.

JOHN J. BRENNAN, (DOB: 7/29/1954) Chairman, Chief Executive Officer & Trustee* Chairman, Chief Executive Officer and Director of The Vanguard Group, Inc., and Trustee of each of the investment companies in The Vanguard Group.

CHARLES D. ELLIS, (DOB: 10/23/37) Trustee Retired Managing Partner of Greenwich Associates (International Business Strategy Consulting); Successor Trustee of Yale University; Overseer of the Stern School of Business at New York University; Trustee of the Whitehead Institute for Biomedical Research.

JOANN HEFFERNAN HEISEN, (DOB: 1/25/1950) Trustee Vice President, Chief Information Officer, and member of the Executive Committee of Johnson & Johnson (Pharmaceuticals/Consumer Products), Director of Johnson & Johnson*MERCK Consumer Pharmaceuticals Co., The Medical Center at Princeton, and Women's Research and Education Institute.

BRUCE K. MACLAURY, (DOB: 5/7/1931) Trustee President Emeritus of The Brookings Institution (Independent Non-Partisan Research Organization); Director of American Express Bank, Ltd., The St. Paul Companies, Inc. (Insurance and Financial Services), and National Steel Corp.

BURTON G. MALKIEL, (DOB: 8/28/1932) Trustee Chemical Bank Chairman's Professor of Economics, Princeton University; Director of Prudential Insurance Co. of

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America, Banco Bilbao Argentaria, Gestion, BKF Capital (Investment Management), The Jeffrey Co. (Holding Company), NeuVis, Inc. (Software Company), and Select Sector SPDR Trust (Exchange-Traded Mutual Fund).

ALFRED M. RANKIN, JR., (DOB: 10/8/1941) Trustee Chairman, President, Chief Executive Officer, and Director of NACCO Industries, Inc. (Machinery/Coal/Appliances); and Director of The BFGoodrich Co. (Aircraft Systems/Manufacturing/Chemicals).

JAMES O. WELCH, JR., (DOB: 5/13/1931) Trustee Retired Chairman of Nabisco Brands, Inc. (Food Products); retired Vice Chairman and Director of RJR Nabisco (Food and Tobacco Products); Director of TECO Energy, Inc., and Kmart Corp.

J. LAWRENCE WILSON, (DOB: 3/2/1936) Trustee Retired Chairman and CEO of Rohm & Haas Co. (Chemicals); Director of Cummins Engine Co. (Diesel Engines), The Mead Corp. (Paper Products), and AmeriSource Health Corp. (Pharmaceutical Distribution); and Trustee of Vanderbilt University.

RAYMOND J. KLAPINSKY, (DOB: 12/7/1938) Secretary* Managing Director of The Vanguard Group, Inc.; Secretary of The Vanguard Group, Inc. and of each of the investment companies in The Vanguard Group.

THOMAS J. HIGGINS, (DOB: 5/21/1957) Treasurer* Principal of The Vanguard Group, Inc.; Treasurer of each of the investment companies in The Vanguard Group.

* Officers of the Funds are "interested persons" as defined in the 1940 Act.

THE VANGUARD GROUP

Each Fund is a member of The Vanguard Group of Investment Companies, which consists of more than 100 funds. Vanguard employs a supporting staff of management 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 procedures approved by the trustees of each fund. In addition, each fund bears its own direct expenses such as legal, auditing, and custodian fees.

The officers of the Funds and the other Vanguard funds are also officers and employees of Vanguard. No officer or employee is permitted to own any securities of any external adviser for the Vanguard funds.

Vanguard, Vanguard Marketing Corporation, the Funds' advisers, and the Funds have adopted Codes of Ethics designed to prevent employees who may have access to nonpublic information about the trading activities of the Fund (access persons) from profiting from that information. The Codes permit access persons to invest in securities for their own accounts, including securities that may be held by the Funds, but place substantive and procedural restrictions on their trading activities. For example, the Codes require that access persons receive advance approval for every securities trade to ensure that there is no conflict with the trading activities of the Funds.

Vanguard was established and operates under an Amended and Restated 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. At January 31, 2001, each Fund had contributed capital to Vanguard representing 0.02% of each Fund's net assets. The total amount contributed by the Funds was \$4,213,000, which represented 4.3% of Vanguard's capitalization. The Amended and Restated Funds' Service Agreement provides as follows: (a) each Vanguard fund may be called upon to invest up to 0.40% of its current assets in Vanguard, and (b) there is no other limitation on the dollar amount that each Vanguard fund may contribute to Vanguard's capitalization.

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 Vanguard funds by third parties.

DISTRIBUTION. Vanguard Marketing Corporation, a wholly-owned subsidiary of The Vanguard Group, Inc., provides all distribution and marketing activities for the funds in the Group. The principal distribution expenses

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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 Vanguard Group. The trustees 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 Vanguard 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 Vanguard Group, and that no fund shall incur annual distribution expenses in excess of 0.20 of 1% of its average month-end net assets.

During the fiscal years ended January 31, 1999, 2000, and 2001, the Funds incurred the following approximate amounts of The Vanguard Group's management (including transfer agency), distribution, and marketing expenses.

FUND	1999	2000	2001
Energy Fund. . . .	\$3,200,000	\$3,926,000	\$3,822,000
Precious Metals Fund	1,598,000	1,731,000	1,220,000
Health Care Fund. .	18,650,000	34,004,000	38,775,000
Utilities Income Fund	2,417,000	3,105,000	2,547,000
REIT Index Fund. .	2,774,000	2,909,000	3,125,000

INVESTMENT ADVISORY SERVICES. Vanguard also provides investment advisory services to several Vanguard funds including Vanguard REIT Index Fund. These services are provided on an at-cost basis from a money management staff employed directly by Vanguard. The compensation and other expenses of this staff are paid by the funds utilizing these services.

TRUSTEE COMPENSATION

The same individuals serve as trustees of all Vanguard funds (with two exceptions, which are noted in the table on page B-12), and each fund pays a proportionate share of the trustees' compensation. The funds employ their officers on a shared basis, as well. However, officers are compensated by The Vanguard Group, Inc., not the funds.

INDEPENDENT TRUSTEES. The funds compensate their independent trustees--that is, the ones who are not also officers of the funds--in three ways:

- The independent trustees receive an annual fee for their service to the funds, which is subject to reduction based on absences from scheduled board meetings.
- The independent trustees are reimbursed for the travel and other expenses that they incur in attending board meetings.
- Upon retirement, the independent trustees receive an aggregate annual fee of \$1,000 for each year served on the board, up to fifteen years of service. This annual fee is paid for ten years following retirement, or until each trustee's death.

"INTERESTED" TRUSTEE. Mr. Brennan serves as a trustee, but is not paid in this capacity. He is, however, paid in his role as officer of The Vanguard Group, Inc.

COMPENSATION TABLE. The following table provides compensation details for each of the trustees. We list the amounts paid as compensation and accrued as retirement benefits by the Funds for each trustee. In addition, the table shows the total amount of benefits that we expect each trustee to receive from all Vanguard funds upon retirement, and the total amount of compensation paid to each trustee by all Vanguard funds.

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VANGUARD SPECIALIZED FUNDS COMPENSATION TABLE

<TABLE>
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<C>	<C>	<C>	<C>
TOTAL COMPENSATION FROM ALL ANNUAL VANGUARD FUNDS UPON NAMES OF TRUSTEES PAID TO TRUSTEES (2)	AGGREGATE COMPENSATION FROM THESE FUNDS (1)	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF THESE FUNDS' EXPENSES (1)	ESTIMATED BENEFITS RETIREMENT
John J. Brennan None	None	None	None
Charles D. Ellis (3) \$0	\$0	\$0	\$15,000
JoAnn Heffernan Heisen \$100,000	\$3,947	\$174	\$15,000
Bruce K. MacLaury \$95,000	\$4,085	\$290	\$12,000
Burton G. Malkiel \$100,000	\$3,970	\$287	\$15,000
Alfred M. Rankin, Jr. \$98,000	\$3,868	\$211	\$15,000
John C. Sawhill (4) \$44,483	\$1,756	\$0	N/A
James O. Welch, Jr. \$98,000	\$3,868	\$308	\$15,000
J. Lawrence Wilson \$115,000	\$4,539	\$222	\$15,000

</TABLE>

- (1) The amounts shown in this column are based on the Funds' fiscal year ended January 31, 2000.
- (2) The amounts reported in this column reflect the total compensation paid to each trustee for his or her service as trustee of 103 Vanguard funds (102 in the case of Mr. Malkiel; 93 in the case of Mr. MacLaury) for the 1999 calendar year.
- (3) Mr. Ellis joined the Funds' board effective January 1, 2001.
- (4) Mr. Sawhill died in May 2000. Compensation consisting of monthly retainer paid through 5/2000 (\$33,333) plus deferred retirement (\$65,222 of which \$54,072 was previously accrued). Net 2000 compensation totals \$44,483.

INVESTMENT ADVISORY SERVICES

INVESTMENT ADVISORY AGREEMENT WITH WELLINGTON MANAGEMENT COMPANY, LLP. The Funds employ Wellington Management Company, LLP (Wellington Management) under an investment advisory agreement to manage the investment and reinvestment of the assets of the Energy, Health Care, and Utilities Income Funds and to continuously review, supervise, and administer each such Fund's investment program. Wellington Management discharges its responsibilities subject to the control of the officers and trustees of the Funds. Under the investment advisory agreement, the three Funds are required to pay the adviser an aggregate fee at the end of each fiscal quarter, calculated by applying a quarterly rate, based on the following annual percentage rates, to the aggregate average month-end net assets of the Portfolios for the quarter:

NET ASSETS -----	RATE -----
First \$500 million.150%
Next \$500 million.125%
Next \$1 billion.100%
Next \$1 billion.075%
Over \$3 billion.050%

The advisory fee is based on the total assets of the Funds and is allocated to each Fund based on the relative net assets of each. In addition, once the advisory fee to Wellington Management is calculated for the three Funds under this schedule, the total fee will be reduced in order that the annual advisory fee paid by the Utilities Income Fund does not exceed 0.08% of the Fund's average annual net assets.

During the fiscal years ended January 31, 1999, 2000, and 2001, the Funds paid the following amounts in advisory fees to Wellington Management.

FUND -----	1999	2000	2001
Energy Fund.	\$688,000	\$646,000	\$697,000
Health Care Fund.	4,847,000	6,662,000	8,801,000

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Description of Wellington Management. Wellington Management is a Massachusetts limited liability partnership, of which the following persons are managing partners: Laurie A. Gabriel, Duncan M. McFarland, and John R. Ryan.

INVESTMENT ADVISORY AGREEMENT WITH M&G GROUP P.L.C. The Precious Metals Fund has entered into an investment advisory agreement with M&G Investment Management Limited (M&G), to manage its assets. Under this agreement M&G manages the investment and reinvestment of the assets of the Precious Metals Fund and continuously reviews, supervises, and administers the Fund's investment program. M&G will discharge its responsibilities subject to the control of the officers and trustees of the Fund.

The Precious Metals Fund will pay M&G a fee at the end of each fiscal quarter, calculated by applying a quarterly rate, based on the following annual percentage rates, to the aggregate average month-end net assets of the Fund for the quarter:

NET ASSETS -----	RATE -----
First \$100 million.30%
Next \$150 million.20%
Next \$250 million.15%
Over \$500 million.10%

During the fiscal years ended January 31, 1999, 2000, and 2001, the Precious Metals Fund paid advisory fees of \$712,000, \$739,000, and \$668,000, respectively, to M&G.

Description of M&G. M&G is a wholly-owned subsidiary of the M&G Group P.L.C. M&G Group P.L.C. is a wholly-owned subsidiary of Prudential Corporation plc (an English insurance company not related to The Prudential Insurance Company of America).

INVESTMENT ADVISORY SERVICES PROVIDED BY THE VANGUARD GROUP. An experienced investment management staff employed directly by Vanguard provides investment advisory services to Vanguard REIT Index Fund on an at-cost basis. During the fiscal years ended January 31, 1999, 2000, and 2001, the Fund incurred expenses for investment advisory services of approximately \$53,000, \$80,000, and \$15,000, respectively.

DURATION AND TERMINATION OF INVESTMENT ADVISORY AGREEMENTS. The Funds' current agreement with each adviser is renewable for successive one year periods, only if (1) each renewal is specifically approved by a vote of the Funds' board of trustees, including the affirmative votes of a majority of the trustees who are not parties to the agreement or "interested persons" (as defined in the 1940 Act) of any such party cast in person at a meeting called for the purpose of considering such approval, or (2) each renewal is specifically approved by a vote of a majority of the Fund's outstanding voting securities. An agreement is automatically terminated if assigned, and may be terminated by the Fund without penalty, at any time, (1) either by vote of the board of trustees on sixty (60) days' written notice to the adviser, (2) by a vote of a majority of the Fund's outstanding voting securities, or (3) by the adviser upon ninety (90) days' written notice to the Fund.

PORTFOLIO TRANSACTIONS

The investment advisory agreements with Wellington Management and M&G authorize the investment advisers (with the approval of the Funds' board of trustees) to select the brokers or dealers that will execute the purchases and sales of securities for the Funds and direct the investment adviser to use its best efforts to obtain the best available price and most favorable execution with respect to all transactions for the Funds. Each investment adviser has undertaken to execute each investment transaction at a price and commission which provides the most favorable total cost or proceeds reasonably obtainable under the circumstances.

In placing portfolio transactions, each investment adviser will use 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. The full range and quality of brokerage services available will be 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 may be given to those brokers which supply investment research and statistical information, and provide other

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services in addition to execution services to the Funds and/or the investment adviser. Each investment adviser considers the investment services it receives useful in the performance of its obligations under the agreement but is unable to determine the amount by which such services may reduce its expenses.

The investment advisory agreements also incorporate the concepts of Section 28(e) of the Securities Exchange Act of 1934 by providing that, subject to the approval of the Funds' board of trustees, each investment adviser may cause the Funds to pay a broker-dealer which furnishes brokerage and research services a

higher commission than that which might be charged by another broker-dealer for effecting the same transaction; provided that such commission is deemed reasonable in terms of either that particular transaction or the overall responsibilities of the investment adviser to the Funds and the other funds in Vanguard.

Currently, it is the Funds' policy that each investment adviser may at times pay higher commissions in recognition of brokerage services felt necessary for the achievement of better execution of certain securities transactions that otherwise might not be available. An investment adviser will only pay such higher commissions if it believes this to be in the best interest of the Funds. Some brokers or dealers who may receive such higher commissions in recognition of brokerage services related to execution of securities transactions are also providers of research information to the investment adviser and/or the Funds. However, the investment advisers have informed the Funds that they generally will not pay higher commission rates specifically for the purpose of obtaining research services.

During the fiscal years ended January 31, 1999, 2000, and 2001, the Funds paid the following amounts in brokerage commissions.

FUND	1999	2000	2001
Energy Fund. . . .	\$903,000	\$492,000	\$724,821
Precious Metals Fund	533,000	635,000	328,025
Health Care Fund. .	4,587,000	6,175,000	6,080,356
Utilities Income Fund	1,057,000	1,292,000	911,024
REIT Index Fund. .	705,000	342,000	236,974

Some securities considered for investment by one Fund may also be appropriate for the other funds and/or clients served by the investment advisers. If purchase or sale of securities consistent with the investment policies of a Fund, the other funds, and/or one or more of these other clients are considered at or about the same time, transactions in such securities will be allocated among the Funds and the other funds and clients in a manner deemed equitable by the respective investment adviser. Although there will be no specified formula for allocating such transactions, the allocation methods used, and the results of such allocations, will be subject to periodic review by the Funds' board of trustees.

PURCHASE OF SHARES

Each Fund 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 investment for or any other restrictions on 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 Fund's shares.

REDEMPTION OF SHARES

Each Fund 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 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 Fund 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.

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Each 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.

For the Energy, Precious Metals, and REIT Index Funds, a redemption fee of 1% of the value of shares redeemed will be deducted from the redemption proceeds if shares held for less than one year are redeemed. For the Health Care Fund, shares purchased on or after April 19, 1999 are subject to a 1% redemption fee if redeemed within five years of purchase. Shares purchased before April 19, 1999 are subject to a 1% redemption fee if redeemed within one year of purchase. The fee is withheld from redemption proceeds and retained by the Fund. Shares redeemed may be worth more or less than what was paid for them, depending on the market value of the securities held by the Funds. In the event of an early redemption due to a shareholder's death, all redemption fees will be waived. In order to substantiate the death, a certified copy of the death certificate must be provided.

There are no redemption fees associated with the Utilities Income Fund.

SHARE PRICE

Each Fund's share price, or "net asset value" per share, is calculated by dividing the total assets of the Fund, less all liabilities, by the total number of shares outstanding. The net asset value is determined as of the regular close of the New York Stock Exchange (the Exchange, generally 4:00 p.m. Eastern time) on each day that the Exchange is open for trading.

Portfolio securities for which market quotations are readily available (includes those securities listed on national securities exchanges, as well as those quoted on the NASDAQ Stock Market) will be valued at the last quoted sales price on the day the valuation is made. Such securities which are not traded on the valuation date are valued at the mean of the bid and ask prices. Price information on exchange-listed securities is taken from the exchange where the security is primarily traded. 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.

Short term instruments (those with remaining maturities of 60 days or less) may be valued at cost, plus or minus any amortized discount or premium, which approximates market value.

Bonds and other fixed income 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. The prices provided by a pricing service may be determined without regard to bid or last sale prices of each security, but take into account institutional-size transactions in similar groups of securities as well as any developments related to specific securities.

Foreign securities are valued at the last quoted sales price, or the most recently determined closing price calculated according to local market convention, available at the time a Fund is valued. Prices are obtained from the broadest and most representative market on which the securities trade. If events which materially affect the value of a Fund's investments occur after the close of the securities markets on which such securities are primarily traded, those investments may be valued by such methods as the board of trustees deems in good faith to reflect fair value.

In determining each Fund's net asset value per share, all assets and liabilities initially expressed in foreign currencies will be converted into U.S. dollars using the officially quoted daily exchange rates used by Morgan Stanley Capital International in calculating various benchmarking indexes. This officially quoted exchange rate may be determined prior to or after the close of a particular securities market. If such quotations are not available or do not reflect market conditions at the time the Fund is valued, the rate of exchange will be determined in accordance with policies established in good faith by the board of trustees.

Other assets and securities for which no quotations are readily available or which are restricted as to sale (or resale) are valued by such methods as the board of trustees deems in good faith to reflect fair value.

Vanguard fund share prices can be found daily in the mutual fund listings of most major newspapers under various "Vanguard" headings.

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YIELD AND TOTAL RETURN

The yield of each Fund for the 30-day period ended January 31, 2001 is set forth below. Yields are calculated monthly.

Energy Fund.	1.20%
Precious Metals Fund.	N/A
Health Care Fund.	1.0%

REIT Index Fund.	N/A
Utilities Income Fund.	2.4%

The average annual total return of each Fund for the one-, five-, and ten-year periods ended January 31, 2001 was as follows:

	1 YEAR ENDED	5 YEARS ENDED	10 YEARS ENDED
Energy Fund.	35.08%	14.30%	12.76%
Precious Metals Fund. . .	0.67%	-10.12%	1.03%
Health Care Fund*. . .	41.94%	27.33%	23.76%
REIT Index Fund. . . .	26.13%	10.10%**	--
Utilities Income Fund.	7.08%	11.40%	12.30%**

*Total return figures do not reflect the 1% fee assessed on redemptions of shares held for less than five years (or less than one year in the case of shares purchased prior to April 19, 1999).

** Since Inception: Inception for REIT Index Fund, May 13, 1996; Inception for Utilities Income Fund, May 15, 1992.

AVERAGE ANNUAL TOTAL RETURN

Average annual total return is the average annual compounded rate of return for the periods of one year, five years, ten years or the life of a fund, all ended on the last day of a recent month. Average annual total return quotations will reflect changes in the price of the fund's shares and assume that all dividends and capital gains distributions during the respective periods were reinvested in fund shares. Average annual total return is calculated by finding the average annual compounded rates of return of a hypothetical investment over such periods according to the following formula (average annual total return is then expressed as a percentage):

$$T = (ERV/P)^{1/N} - 1$$

Where:

T =average annual total return P =a hypothetical initial investment of \$1,000 n =number of years ERV =ending redeemable value: ERV is the value, at the end of the applicable period, of a hypothetical \$1,000 investment made at the beginning of the applicable period

AVERAGE ANNUAL AFTER-TAX TOTAL RETURN QUOTATION

We calculate a fund's average annual after-tax total return by finding the average annual compounded rate of return over the 1-, 5-, and 10-year periods (or for periods of the fund's operations) that would equate the initial amount invested to the after-tax value, according to the following formulas:

$$P (1+T)^N = ATV$$

Where:

P =a hypothetical initial payment of \$1,000 T =average annual after-tax total return n =number of years

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ATV =after-tax value at the end of the 1-, 5-, or 10-year periods of a hypothetical \$1,000 payment made at the beginning of the time period, assuming no liquidation of the investment at the end of the measurement periods

Instructions:

1. Assume all distributions by the fund are reinvested--less the taxes due on such distributions--at the price on the reinvestment dates during the period. Adjustments may be made for subsequent re-characterizations of distributions.
2. Calculate the taxes due on distributions by the fund by applying the highest federal marginal tax rates to each component of the distributions on the reinvestment date (e.g., ordinary income, short-term capital gain, long-term capital gain, etc.). For periods after December 31, 1997, the federal marginal tax rates used for the calculations are 39.6% for ordinary income and short-term capital gains and 20% for long-term capital gains. Note that the applicable tax rates may vary over the measurement period. Assume no taxes are due on the portions of any distributions classified as exempt interest or non-taxable (i.e., return of capital). Ignore any potential tax liabilities other than federal tax liabilities (e.g., state and local taxes).
3. Include all recurring fees that are charged to all shareholder accounts. For any account fees that vary with the size of the account, assume an account size equal to the fund's mean (or median) account size. Assume that no additional taxes or tax credits result from any redemption of shares required to pay such fees.
4. State the total return quotation to the nearest hundredth of one percent.

CUMULATIVE TOTAL RETURN

Cumulative total return is the cumulative rate of return on a hypothetical initial investment of \$1,000 for a specified period. Cumulative total return quotations reflect changes in the price of the fund's shares and assume that all dividends and capital gains distributions during the period were reinvested in fund shares. Cumulative total return is calculated by finding the cumulative rates of a return of a hypothetical investment over such periods, according to

the following formula (cumulative total return is then expressed as a percentage):

$$C = (ERV/P) - 1$$

Where:

C =cumulative total return
P =a hypothetical initial investment of \$1,000
ERV =ending redeemable value: ERV is the value, at the end of the applicable period, of a hypothetical \$1,000 investment made at the beginning of the applicable period

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SEC YIELDS

Yield is the net annualized yield based on a specified 30-day (or one month) period assuming semiannual compounding of income. Yield is calculated by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period, according to the following formula:

$$YIELD = 2 [((A-B)/CD+1)/6 - 1]$$

Where:

a =dividends and interest earned during the period b =expenses accrued for the period (net of reimbursements) c =the average daily number of shares outstanding during the period that were entitled to receive dividends
d =the maximum offering price per share on the last day of the period

COMPARATIVE INDEXES

Each of the investment company members of The Vanguard Group, including Vanguard Specialized Funds, may, from time to time, use one or more of the following unmanaged indexes for comparative performance purposes.

STANDARD AND POOR'S 500 COMPOSITE STOCK PRICE INDEX--includes stocks selected by Standard & Poor's Index Committee to include leading companies in leading industries and to reflect the U.S. stock market.

STANDARD & POOR'S MIDCAP 400 INDEX--is composed of 400 medium sized domestic stocks.

STANDARD & POOR'S SMALLCAP 600/BARRA VALUE INDEX--contains stocks of the S&P SmallCap 600 Index which have a lower than average price-to-book ratio.

STANDARD & POOR'S SMALLCAP 600/BARRA GROWTH INDEX--contains stocks of the S&P SmallCap 600 Index which have a higher than average price-to-book ratio.

RUSSELL 1000 VALUE INDEX--consists of the stocks in the Russell 1000 Index (comprising the 1,000 largest U.S.-based companies measured by total market capitalization) with the lowest price-to-book ratios, comprising 50% of the market capitalization of the Russell 1000.

WILSHIRE 5000 TOTAL MARKET INDEX--consists of more than 6,600 common equity securities, covering all stocks in the U.S. for which daily pricing is available.

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

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, Asia, and the Far East.

GOLDMAN SACHS 100 CONVERTIBLE BOND INDEX--currently includes 71 bonds and 29 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.

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

MORGAN STANLEY REIT INDEX--consists of approximately 125 stocks of equity Real Estate Investment Trusts (REITs). REITs in the index meet size and liquidity criteria specified by Morgan Stanley. The index has a market value of \$111.5 billion.

LEHMAN BROTHERS LONG-TERM TREASURY BOND INDEX--is a market weighted index that contains individually priced U.S. Treasury securities with maturities of ten years or greater.

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

LEHMAN BROTHERS CREDIT (BAA) BOND INDEX--all publicly offered fixed-rate, nonconvertible domestic corporate bonds rated Baa by Moody's, with a maturity longer than one year and with more than \$100 million outstanding. This index includes over 1,500 issues.

LEHMAN BROTHERS LONG-TERM CREDIT INDEX--is a subset of the Lehman Brothers Corporate Bond Index covering all corporate, publicly issued, fixed-rate, nonconvertible U.S. debt issues rated at least Baa, with at least \$100 million principal outstanding and maturity greater than ten years.

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

MERRILL LYNCH DRD-ELIGIBLE INDEX--includes preferred stock issues which are eligible for the corporate dividends-received deduction.

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--65% Standard & Poor's 500 Index and 35% Lehman Brothers Corporate A or Better Bond Index.

COMPOSITE INDEX--65% Lehman Brothers Corporate A or Better Bond Index and a 35% weighting in a blended equity composite (75% Standard & Poor's/BARRA Value Index, 12.5% Standard & Poor's Utilities Index, and 12.5% Standard & Poor's Telephone Index).

COMPOSITE INDEX--63.75% S&P Utilities Index, 21.25% S&P Telephone Index, and 15% Lehman Brothers Utility Bond Index.

LEHMAN BROTHERS LONG CREDIT AA OR BETTER BOND INDEX--consists of all publicly issued, fixed rate, nonconvertible investment grade, dollar-denominated, SEC-registered corporate debt rated AA or AAA.

RUSSELL 2000 STOCK INDEX--consists of the smallest 2,000 stocks within the Russell 3000; a widely-used benchmark for small capitalization common stocks.

LEHMAN BROTHERS CREDIT A OR BETTER BOND INDEX--consists of all publicly issued, investment grade corporate bonds rated A or better, of all maturity levels.

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 \$5 trillion.

LEHMAN BROTHERS MUTUAL FUND SHORT (1-5) GOVERNMENT/CREDIT 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 one and five years. The index has a market value of over \$1.6 trillion.

LEHMAN BROTHERS MUTUAL FUND INTERMEDIATE (5-10) GOVERNMENT/CREDIT INDEX--is a market-weighted index that contains individually priced U.S. Treasury, agency, and corporate securities rated BBB- or better with maturities between five and

ten years. The index has a market value of over \$800 billion.

LEHMAN BROTHERS LONG (10+) GOVERNMENT/CREDIT 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 ten years. The index has a market value of over \$1.1 trillion.

LIPPER SMALL-CAP GROWTH FUND AVERAGE--a fund that by prospectus or portfolio invests primarily in growth companies with market capitalizations less than \$1 billion at the time of purchase.

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

RUSSELL 3000 INDEX--consists of approximately the 3,000 largest stocks of U.S.-domiciled companies commonly traded on the New York and American Stock Exchanges or the NASDAQ over-the-counter market, accounting for over 90% of the market value of publicly traded Stocks in the U.S.

Advertisements which refer to the use of a Fund as a potential investment for Individual Retirement Accounts may quote a total return based upon compounding of dividends on which it is presumed no Federal income tax applies. In assessing such comparisons of yields, an investor should keep in mind that the composition of the investments in the reported averages is not identical to the Fund and that the items

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included in the calculations of such averages may not be identical to the formula used by the Fund to calculate its yield. In addition there can be no assurance that the Fund will continue its performance as compared to such other averages.

FINANCIAL STATEMENTS

Each Fund's financial statements as of and for the year ended January 31, 2001 appearing in the Vanguard Specialized Funds' Annual Report to Shareholders, and the report thereon of PricewaterhouseCoopers LLP, independent accountants, also appearing therein, are incorporated by reference in this Statement of Additional

Information. For a more complete discussion of the performance, please see the Funds' Annual Report to Shareholders, which may be obtained without charge.

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PART C

VANGUARD SPECIALIZED FUNDS
OTHER INFORMATION

ITEM 23. EXHIBITS

- (a) Declaration of Trust**
- (b) By-Laws**
- (c) Reference is made to Articles III and V of the Registrant's Declaration of Trust
- (d) Investment Advisory Contracts**
- (e) Not applicable
- (f) Reference is made to the section entitled "Management of the Funds" in the Registrant's Statement of Additional Information
- (g) Custodian Agreements**
- (h) Amended and Restated Funds' Service Agreement**
- (i) Legal Opinion**
- (j) Consent of Independent Accountants**
- (k) Not Applicable
- (l) Not Applicable
- (m) Not Applicable
- (n) Not Applicable
- (o) Not Applicable
- (p) Codes of Ethics**

* Filed herewith

** Filed previously

ITEM 24. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT

Registrant is not controlled by or under common control with any person.

ITEM 25. INDEMNIFICATION

The Registrant's organizational documents contain provisions indemnifying Trustees and officers against liability incurred in their official capacity. Article VII, Section 2 of the Declaration of Trust provides that the Registrant

may indemnify and hold harmless each and every Trustee and officer from and against any and all claims, demands, costs, losses, expenses, and damages whatsoever arising out of or related to the performance of his or her duties as a Trustee or officer. However, this provision does not cover any liability to which a Trustee or officer would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his or her office. Article VI of the By-Laws generally provides that the Registrant shall indemnify its Trustees and officers from any liability arising out of their past or present service in that capacity. Among other things, this provision excludes any liability arising by reason of willful misfeasance, bad faith, gross negligence, or the reckless disregard of the duties involved in the conduct of the Trustee's or officer's office with the Registrant.

ITEM 26. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

Wellington Management Company, LLP (Wellington Management) is an investment adviser registered under the Investment Advisers Act of 1940, as amended (the Advisers Act). The list required by this Item 26 of officers and partners of Wellington Management, together with any information as to any business, profession, vocation or employment of a substantial nature engaged in by such officers and partners during the past two years, is incorporated herein by reference from Schedules B and D of form ADV filed by Wellington Management pursuant to the Advisers Act (SEC File No. 801-15908).

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M&G Investment Management Limited (M&G) is an investment adviser registered under the Advisers Act. The list required by this Item 26 of officers and directors of M&G, together with any information as to any business, profession, vocation or employment of a substantial nature engaged in by such officers and directors during the past two years, is incorporated herein by reference from Schedules B and D of Form ADV filed by M&G pursuant to the Advisers Act (SEC File No. 801-21981).

The Vanguard Group, Inc. (Vanguard) is an investment adviser registered under the Advisers Act. The list required by this Item 26 of officers and directors of Vanguard, together with any information as to any business, profession, vocation, or employment of a substantial nature engaged in by such officers and directors during the past two years, is incorporated herein by reference from Schedules B and D of Form ADV filed by Vanguard pursuant to the Advisers Act (SEC File No. 801-11953).

ITEM 27. PRINCIPAL UNDERWRITERS

- (a) Not Applicable
- (b) Not Applicable

(c) Not Applicable

ITEM 28. LOCATION OF ACCOUNTS AND RECORDS

The books, accounts, and other documents required to be maintained by Section 31 (a) of the Investment Company Act and the rules promulgated thereunder will be maintained at the offices of Registrant; Registrant's Transfer Agent, The Vanguard Group, Inc., 100 Vanguard Boulevard, Malvern, Pennsylvania 19355; and the Registrant's Custodians, First Union National Bank, PA4943, 530 Walnut Street, Philadelphia, Pennsylvania 19106, State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02110, and The Chase Manhattan Bank, N.A., 4 Chase MetroTech Center, Brooklyn, New York 11245.

ITEM 29. MANAGEMENT SERVICES

Other than as set forth under the description of The Vanguard Group in Part B of this Registration Statement, the Registrant is not a party to any management-related service contract.

ITEM 30. UNDERTAKINGS

Not Applicable

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Post-Effective Amendment to 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 3rd day of August, 2001.

VANGUARD SPECIALIZED FUNDS

BY: _____ (signature) _____
(HEIDI STAM)
JOHN J. BRENNAN*

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

SIGNATURE	TITLE	DATE
----- By:/S/ JOHN J. BRENNAN ----- (Heidi Stam) John J. Brennan*	President, Chairman, Chief Executive Officer, and Trustee	August 3, 2001
----- By:/S/ JOANN HEFFERNAN HEISEN ----- (Heidi Stam) JoAnn Heffernan Heisen*	Trustee	August 3, 2001
----- By:/S/ BRUCE K. MACLAURY ----- (Heidi Stam) Bruce K. MacLaury*	Trustee	August 3, 2001
----- By:/S/ BURTON G. MALKIEL ----- (Heidi Stam) Burton G. Malkiel*	Trustee	August 3, 2001
----- By:/S/ ALFRED M. RANKIN, JR. ----- (Heidi Stam) Alfred M. Rankin, Jr.*	Trustee	August 3, 2001
----- By:/S/ JOHN C. SAWHILL ----- (Heidi Stam) John C. Sawhill*	Trustee	August 3, 2001
----- By:/S/ JAMES O. WELCH, JR. ----- (Heidi Stam) James O. Welch, Jr.*	Trustee	August 3, 2001

By:/S/ J. LAWRENCE WILSON

Trustee

August 3, 2001

(Heidi Stam)

J. Lawrence Wilson*

By:/S/ THOMAS J. HIGGINS

Treasurer, Principal Financial

August 3, 2001

(Heidi Stam)

Thomas J. Higgins*

Officer and Principal

Accounting Officer

*By Power of Attorney. See File Number 33-32548, filed on July 24, 2001.
Incorporated by Reference.

INDEX TO EXHIBITS

Custodian Agreement. Ex-99.BG

GLOBAL CUSTODY AGREEMENT

This Amended and Restated Agreement, dated June 25, 2001, is between THE CHASE MANHATTAN BANK ("Bank"), a New York banking corporation with a place of business at 4 MetroTech Center, Brooklyn, New York 11245; and each of the open-end management investment companies listed on Exhibit 1 of this Agreement, registered with the U.S. Securities and Exchange Commission under the Investment Company Act of 1940, organized as Delaware business trusts (each a "Trust"), severally and for and on behalf of certain of their respective portfolios listed on Exhibit 1 (each a "Fund"), each Trust and their respective Funds with a place of business at P.O. Box 2600, Valley Forge, PA 19482. Each Trust for which Bank serves as custodian under this Agreement, shall individually be referred to as "Customer".

1. INTENTION OF THE PARTIES; DEFINITIONS

1.1 INTENTION OF THE PARTIES.

(a) This Agreement sets out the terms governing custodial, settlement and certain other associated services offered by Bank to Customer. Bank shall be responsible for the performance of only those duties that are set forth in this Agreement or expressly contained in Instructions that are consistent with the provisions of this Agreement and with Bank's operations and procedures. Customer acknowledges that Bank is not providing any legal, tax or investment advice in providing the services hereunder.

(b) Investing in foreign markets may be a risky enterprise. The holding of Global Assets and cash in foreign jurisdictions may involve risks of loss or other special features. Bank shall not be liable for any loss that results from the general risks of investing or Country Risk.

1.2 DEFINITIONS.

(a) As used herein, the following terms have the meaning hereinafter stated.

"ACCOUNT" has the meaning set forth in Section 2.1 of this Agreement.

"AFFILIATE" means an entity controlling, controlled by, or under common control with, Bank.

"AFFILIATED SUBCUSTODIAN" means a Subcustodian that is an Affiliate.

"APPLICABLE LAW" means any statute, whether national, state or local, applicable in the United States or any other country, the rules of the treaty establishing the European Community, other applicable treaties, any other law, rule, regulation or

interpretation of any governmental entity, any applicable common law, and any decree, injunction, judgment, order, ruling, or writ of any governmental entity.

"AUTHORIZED PERSON" means any person (including an investment manager or other agent) who has been designated by written notice from Customer or its designated agent to act on behalf of Customer hereunder. Such persons shall continue to be Authorized Persons until such time as Bank receives Instructions from Customer or its designated agent that any such person is no longer an Authorized Person.

"BANK INDEMNITEES" means Bank, its Subcustodians, and their respective nominees, directors, officers, employees and agents.

"BANK'S LONDON BRANCH" means the London branch office of The Chase Manhattan Bank.

"CASH ACCOUNT" has the meaning set forth in Section 2.1(a)(ii).

"CORPORATE ACTION" means any subscription right, bonus issue, stock

repurchase plan, redemption, exchange, tender offer, or similar matter with respect to a Financial Asset in the Securities Account that requires discretionary action by the holder, but does not include proxy voting.

"COUNTRY RISK" means the risk of investing or holding assets in a particular country or market, including, but not limited to, risks arising from: nationalization, expropriation or other governmental actions; the country's financial infrastructure, including prevailing custody and settlement practices; laws applicable to the safekeeping and recovery of Financial Assets and cash held in custody; the regulation of the banking and securities industries, including changes in market rules; currency restrictions, devaluations or fluctuations; and market conditions affecting the orderly execution of securities transactions or the value of assets.

"CUSTOMER" means individually each Trust and their respective Funds as listed on Exhibit 1 hereto.

"ENTITLEMENT HOLDER" means the person named on the records of a Securities Intermediary as the person having a Securities Entitlement against the Securities Intermediary.

"FINANCIAL ASSET" means, as the context requires, either the asset itself or the means by which a person's claim to it is evidenced, including a Security, a security certificate, or a Securities Entitlement. "Financial Asset" includes any Global Assets but does not include cash.

"FUND" means each portfolio of each Trust and listed on Exhibit 1 hereto.

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"GLOBAL ASSET" means any "Financial Asset" (a) for which the principal trading market is located outside of the United States; (b) for which presentment for payment is to be made outside of the United States; or (c) which is acquired outside of the United States.

"INSTRUCTIONS" has the meaning set forth in Section 3.1 of this Agreement.

"LIABILITIES" means any liabilities, losses, claims, costs, damages, penalties, fines, obligations, or expenses of any kind whatsoever (including, without limitation, reasonable attorneys', accountants', consultants' or experts' fees and disbursements).

"SECURITIES" means stocks, bonds, rights, warrants and other negotiable and non-negotiable instruments, whether issued in certificated or uncertificated form, that are commonly traded or dealt in on securities exchanges or financial markets. "Securities" also means other obligations of an issuer, or shares, participations and interests in an issuer recognized in the country in which it is issued or dealt in as a medium for investment and any other property as may be acceptable to Bank for the Securities Account.

"SECURITIES ACCOUNT" means each Securities custody account on Bank's records to which Financial Assets are or may be credited pursuant hereto.

"SECURITIES DEPOSITORY" has the meaning set forth in Section 5.1 of this Agreement.

"SECURITIES ENTITLEMENT" means the rights and property interest of an Entitlement Holder with respect to a Financial Asset as set forth in Part 5 of Article 8 of the Uniform Commercial Code of the State of New York, as the same may be amended from time to time.

"SECURITIES INTERMEDIARY" means Bank, a Subcustodian, a Securities Depository, and any other financial institution which in the ordinary course of business maintains custody accounts for others and acts in that capacity.

"SUBCUSTODIAN" has the meaning set forth in Section 5.1 and includes Affiliated Subcustodians.

"TRUST" means each open-end investment company organized as a Delaware business trust and listed on Exhibit 1 hereto.

(b) All terms in the singular shall have the same meaning in the plural unless the context otherwise provides and visa versa.

2. WHAT BANK IS REQUIRED TO DO

2.1 Set Up Accounts.

- (a) Bank shall establish and maintain the following accounts ("Accounts"):
 - (i) a Securities Account in the name of Customer on behalf of each Fund for Financial Assets, which may be received by Bank or its Subcustodian for the account of Customer, including as an Entitlement Holder; and
 - (ii) an account in the name of Customer ("Cash Account") for any and all cash in any currency received by Bank or its Subcustodian for the account of Customer.

Notwithstanding paragraph (ii), cash held in respect of those markets where Customer is required to have a cash account in its own name held directly with the relevant Subcustodian shall be held in that manner and shall not be part of the Cash Account. Bank shall notify Customer prior to the establishment of such an account.

(b) At the request of Customer, additional Accounts may be opened in the future, which shall be subject to the terms of this Agreement.

2.2 Cash Account.

Except as otherwise provided in Instructions acceptable to Bank, all cash held in the Cash Account shall be deposited during the period it is credited to the Account in one or more deposit accounts at Bank or at Bank's London Branch. Any cash so deposited with Bank's London Branch shall be payable exclusively by Bank's London Branch in the applicable currency, subject to compliance with any Applicable Law, including, without limitation, any restrictions on transactions in the applicable currency imposed by the country of the applicable currency.

2.3 Segregation of Assets; Nominee Name.

(a) Bank shall identify in its records that Financial Assets credited to Customer's Securities Account belong to Customer on behalf of the relevant Fund (except as otherwise may be agreed by Bank and Customer).

(b) To the extent permitted by Applicable Law or market practice, Bank shall require each Subcustodian to identify in its own records that Financial Assets credited to Customer's Securities Account belong to customers of Bank, such that it is readily apparent that the Financial Assets do not belong to Bank or the Subcustodian.

(c) Bank is authorized, in its discretion, to hold in bearer form, such Financial

Assets as are customarily held in bearer form or are delivered to Bank or its Subcustodian in bearer form; and to register in the name of the Customer, Bank, a Subcustodian, a Securities Depository, or their respective nominees, such Financial Assets as are customarily held in registered form. Customer authorizes Bank or its Subcustodian to hold Financial Assets in omnibus accounts and shall accept delivery of Financial Assets of the same class and denomination as those deposited with Bank or its Subcustodian.

2.4 Settlement of Trades.

When Bank receives an Instruction directing settlement of a trade in Financial Assets that includes all information required by Bank, Bank shall use reasonable care to effect such settlement as instructed. Settlement of purchases and sales of Financial Assets shall be conducted in accordance with prevailing standards of the market in which the transaction occurs. The risk of loss shall be Customer's whenever Bank delivers Financial Assets or payment in accordance with applicable market practice in advance of receipt or settlement of the expected consideration. In the case of the failure of Customer's counterparty to deliver the expected consideration as agreed, Bank shall contact the counterparty to seek settlement and, if the settlement is not received, notify Customer, but Bank shall not be obligated to institute legal proceedings, file proof of claim in any insolvency proceeding, or take any similar action.

2.5 Contractual Settlement Date Accounting.

(a) Bank shall effect book entries on a "contractual settlement date accounting" basis as described below with respect to the settlement of trades in those markets where Bank generally offers contractual settlement day accounting and shall notify Customer of these markets from time to time.

- (i) Sales: On the settlement date for a sale, Bank shall credit the Cash Account with the sale proceeds of the sale and transfer the relevant Financial Assets to an account pending settlement of the trade if not already delivered.
- (ii) Purchases: On the settlement date for the purchase (or earlier, if market practice requires delivery of the purchase price before the settlement date), Bank shall debit the Cash Account with the settlement monies and credit a separate account. Bank then shall post the Securities Account as awaiting receipt of the expected Financial Assets. Customer shall not be entitled to the delivery of Financial Assets that are awaiting receipt until Bank or a Subcustodian actually receives them.

Bank reserves the right to restrict in good faith the availability of contractual day settlement accounting for credit reasons. Bank, whenever reasonably possible, will notify Customer prior to imposing such restrictions.

(b) Bank may (in its discretion) upon at least 48 hours prior oral or written notification to Customer, reverse any debit or credit made pursuant to Section 2.5(a) prior to a transaction's actual settlement, and Customer shall be responsible for any costs or liabilities resulting from such reversal. Customer acknowledges that the procedures described in this sub-section are of an administrative nature, and Bank does not undertake to make loans and/or Financial Assets available to Customer.

2.6 Actual Settlement Date Accounting.

With respect to any sale or purchase transaction that is not posted to the Account on the contractual settlement date as referred to in Section 2.5, Bank shall post the transaction on the date on which the cash or Financial Assets received as consideration for the transaction is actually received by Bank.

2.7 Income Collection; Autocredit.

(a) Bank shall credit the Cash Account with income and redemption proceeds on Financial Assets in accordance with the times notified by Bank from time to time on or after the anticipated payment date, net of any taxes that are withheld by Bank or any third party. Where no time is specified for a particular market, income and redemption proceeds from Financial Assets shall be credited only after actual receipt and reconciliation. Bank may reverse such credits upon at least 48 hours prior oral or written notification to Customer when Bank believes that the corresponding payment shall not be received by Bank within a reasonable period or such credit was incorrect.

(b) Bank shall make reasonable endeavors in its discretion to contact appropriate parties to collect unpaid interest, dividends or redemption proceeds, but neither Bank nor its Subcustodians shall be obliged to file any formal notice of default, institute legal proceedings, file proof of claim in any insolvency proceeding, or take any similar action.

2.8 Fractions/ Redemptions by Lot.

Bank may sell fractional interests in Financial Assets and credit the Cash Account with the proceeds of the sale. If some, but not all, of an outstanding class of Financial Asset is called for redemption, Bank may allot the amount redeemed among the respective beneficial holders of such class of Financial Asset in any manner Bank deems to be fair and equitable.

2.9 Presentation of Coupons; Certain Other Ministerial Acts.

Until Bank receives Instructions to the contrary, Bank shall:

- (a) present all Financial Assets for which Bank has received notice of a call for redemption or that have otherwise matured, and all income and interest coupons and other income items that call for payment upon

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presentation;

- (b) execute in the name of Customer such certificates as may be required to obtain payment in respect of Financial Assets; and
- (c) exchange interim or temporary documents of title held in the Securities Account for definitive documents of title.

2.10 Corporate Actions.

(a) Bank shall follow Corporate Actions and advise Customer of those Corporate Actions of which Bank's central corporate actions department receives notice from the issuer or from the Securities Depository in which such Financial Assets are maintained or notice published in publications and reported in reporting services routinely used by Bank for this purpose.

(b) If an Authorized Person fails to provide Bank with timely Instructions with respect to any Corporate Action, neither Bank nor its Subcustodians or their respective nominees shall take any action in relation to that Corporate Action, except as otherwise agreed in writing by Bank and Customer or as may be set forth by Bank as a default action in the advice it provides under Section 2.10 (a) with respect to that Corporate Action.

2.11 Proxy Voting.

(a) Subject to and upon the terms of this sub-section, Bank shall provide Customer with information which it receives on matters to be voted upon at meetings of holders of Financial Assets ("Notifications"), and Bank shall act in accordance with Customer's Instructions in relation to such Notifications ("the active proxy voting service").

(b) The following provisions relate to proxy voting services with respect to Global Assets:

- (i) If information is received by Bank at its proxy voting department too late to permit timely voting by Customer, Bank's only obligation shall be to provide to Customer, so far as reasonably practicable, a Notification (or summary information concerning a Notification) on an "information

only" basis.

- (ii) The active proxy voting service is available only in certain markets, details of which are available from Bank on request. Provision of the active proxy voting service is conditional upon receipt by Bank of a duly completed enrollment form as well as additional documentation that may be required for certain markets.
- (iii) Bank reserves the right to provide Notifications or parts thereof in the language received. Bank shall attempt in good faith to provide accurate and complete

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Notifications, whether or not translated.

- (iv) Customer acknowledges that Notifications and other information furnished pursuant to the active proxy voting service ("information") are proprietary to Bank and that Bank owns all intellectual property rights, including copyrights and patents, embodied therein. Accordingly, Customer shall not make any use of such information except in connection with the active proxy voting service.
- (v) In markets where the active proxy voting service is not available or where Bank has not received a duly completed enrollment form or other relevant documentation, Bank shall not provide Notifications to Customer but shall endeavor to act upon Instructions to vote on matters before meetings of holders of Financial Assets where it is reasonably practicable for Bank (or its Subcustodians or nominees as the case may be) to do so and where such Instructions are received in time for Bank to take timely action (the "passive proxy voting service").

(c) Bank shall act upon Instructions to vote on matters referred to in a Notification, provided Instructions are received by Bank at its proxy voting department by the deadline referred to in the relevant Notification. If Instructions are not received in a timely manner, Bank shall not be obligated to vote on the matter, but shall notify Customer accordingly.

(d) Customer acknowledges that the provision of proxy voting services (whether active or passive) may be precluded or restricted under a variety of circumstances. These circumstances include, but are not limited to: (i) the Financial Assets being on loan or out for registration, (ii) the pendency of conversion or another corporate action, or (iii) Financial Assets being held at Customer's request in a name not subject to the control of Bank or its Subcustodian, in a margin or collateral account at Bank or another bank or broker, or otherwise in a manner which affects voting, local market regulations or practices, or restrictions by the issuer. Additionally, in some cases Bank may be required to vote all shares held for a particular issue for all of Bank's customers in the same way. Where this is the case Bank, in the Notification, shall inform Customer.

(e) Notwithstanding the fact that Bank may act in a fiduciary capacity with respect to Customer under other agreements or otherwise hereunder, in performing active or passive voting proxy services Bank shall be acting solely as the agent of Customer, and shall not exercise any discretion with regard to such proxy services or vote any proxy except when directed by an Authorized Person.

2.12 Statements and Information Available On-Line.

(a) Bank will send, or make available on-line, to Customer, at times mutually agreed, a statement of account in Bank's standard format for each Account maintained by Customer with Bank, identifying the Financial Assets and cash held in each Account. Bank also will provide to Customer, upon request, the capability to reformat the information contained in each statement of account. In addition, Bank will send, or make available on-line, to Customer an advice or notification of any transfers of cash or

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Financial Assets with respect to each Account. Bank will not be liable with respect to any matter set forth in those portions of any such statement of account or advice (or reasonably implied therefrom) to which Customer has not given Bank a written exception or objection within sixty (60) days of receipt of such statement, provided such matter is not the result of Bank's willful misconduct or bad faith.

(b) Prices and other information obtained from third parties which may be contained in any statement sent to Customer have been obtained from sources Bank believes to be reliable. Bank does not, however, make any representation as to the accuracy of such information or that the prices specified necessarily reflect the proceeds that would be received on a disposal of the relevant Financial Assets.

(c) Customer understands that records and reports, other than statements of account, that are available to it on-line on a real-time basis may not be accurate due to mis-postings, delays in updating Account records, and other causes. Bank will not be liable for any loss or damage arising out of the inaccuracy of any such records or reports that are accessed on-line on a real-time basis.

2.13 Access to Bank's Records.

(a) Bank shall allow Customer and Customer's independent public accountants such reasonable access to the records of Bank relating to Financial Assets as is required in connection with their examination of books and records pertaining to Customer's affairs. Subject to restrictions under Applicable Law, Bank also shall obtain an undertaking to permit Customer's independent public accountants reasonable access to the records of any Subcustodian of Securities held in the Securities Account as may be required in connection with such examination.

(b) Upon reasonable request of Customer, Bank shall provide Customer with a copy of Bank's report prepared in compliance with the requirements of Statement of Auditing Standards No. 70 issued by the American Institute of Certified Public Accountants, as it may be amended from time to time.

2.14 Maintenance of Financial Assets at Bank and at Subcustodian Locations.

(a) Unless Instructions require another location acceptable to Bank, Global Assets shall be held in the country or jurisdiction in which their principal trading market is located, where such Global Assets may be presented for payment, where such Financial Assets were acquired, or where such Financial Assets are held. Bank reserves the right to refuse to accept delivery of Global Assets or cash in countries and jurisdictions other than those referred to in Schedule 1 to this Agreement, as in effect from time to time.

(b) Bank shall not be obliged to follow an Instruction to hold Financial Assets with, or have them registered or recorded in the name of, any person not chosen by Bank.

However, if Customer does instruct Bank to hold Securities with or register or record Securities in the name of a person not chosen by Bank, the consequences of doing so are at Customer's own risk and Bank shall not be liable therefor.

2.15 Tax Reclaims.

Bank shall provide tax reclamation services as provided in Section 8.2.

2.16 Foreign Exchange Transactions.

To facilitate the administration of Customer's trading and investment activity, Bank may, but shall not be obliged to, enter into spot or forward foreign exchange contracts with Customer, or an Authorized Person, and may also provide foreign exchange contracts and facilities through its Affiliates or

Subcustodians. Instructions, including standing instructions, may be issued with respect to such contracts, but Bank may establish rules or limitations concerning any foreign exchange facility made available. In all cases where Bank, its Affiliates or Subcustodians enter into a master foreign exchange contract that covers foreign exchange transactions for the Accounts, the terms and conditions of that foreign exchange contract and, to the extent not inconsistent, this Agreement, shall apply to such transactions.

3. INSTRUCTIONS

3.1 Acting on Instructions; Unclear Instructions.

(a) Bank is authorized to act under this Agreement (or to refrain from taking action) in accordance with the instructions received by Bank, via telephone, telex, facsimile transmission, or other teleprocess or electronic instruction or trade information system acceptable to Bank ("Instructions"). Bank shall have no responsibility for the authenticity or propriety of any Instructions that Bank believes in good faith to have been given by Authorized Persons or which are transmitted with proper testing or authentication pursuant to terms and conditions that Bank may specify. Customer authorizes Bank to accept and act upon any Instructions received by it without inquiry. Customer shall indemnify the Bank Indemnitees against, and hold each of them harmless from, any Liabilities that may be imposed on, incurred by, or asserted against the Bank Indemnitees as a result of any action or omission taken in accordance with any Instructions or other directions upon which Bank is authorized to rely under the terms of this Agreement.

(b) Unless otherwise expressly provided, all Instructions shall continue in full force and effect until canceled or superseded.

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(c) Bank may (in its sole discretion and without affecting any part of this Section 3.1) seek clarification or confirmation of an Instruction from an Authorized Person and may decline to act upon an Instruction if it does not receive clarification or confirmation satisfactory to it. Bank shall not be liable for any loss arising from any delay while it seeks such clarification or confirmation.

(d) In executing or paying a payment order Bank may rely upon the identifying number (e.g. Fedwire routing number or account) of any party as instructed in the payment order. Customer assumes full responsibility for any inconsistency within an Instruction between the name and identifying number of any party in payment orders issued to Bank in Customer's name.

3.2 Confirmation of Oral Instructions/ Security Devices.

Any Instructions delivered to Bank by telephone shall promptly thereafter be confirmed in writing by an Authorized Person. Each confirmation is to be clearly marked "Confirmation." Bank shall not be liable for having followed such Instructions notwithstanding the failure of an Authorized Person to send such confirmation in writing or the failure of such confirmation to conform to the telephone Instructions received. Bank shall notify Customer as soon as reasonably practicable if Bank does not receive a written confirmation or if such written confirmation fails to conform to the telephone Instructions received. Either party may record any of their telephonic communications. Customer shall comply with any security procedures reasonably required by Bank from time to time with respect to verification of Instructions. Customer shall be responsible for safeguarding any test keys, identification codes or other security devices that Bank shall make available to Customer or any Authorized Person.

3.3 Instructions; Contrary to Law/Market Practice.

Bank need not act upon Instructions which it reasonably believes to be contrary to law, regulation or market practice but shall be under no duty to investigate whether any Instructions comply with Applicable Law or market practice. Bank shall notify Customer as soon as reasonably practicable if it does not act upon Instructions under this Section.

3.4 Cut-off Times.

Bank has established cut-off times for receipt of some categories of Instruction, which shall be made available to Customer. If Bank receives an Instruction after its established cut-off time, it shall attempt to act upon the Instruction on the day requested if Bank deems it practicable to do so or otherwise as soon as practicable on the next business day.

4. FEES, EXPENSES AND OTHER AMOUNTS OWING TO BANK

4.1 Fees and Expenses.

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Customer shall pay Bank for its services hereunder the fees set forth in Schedule 2 hereto or such other amounts as may be agreed upon in writing from time to time.

4.2 Overdrafts.

If a debit to any currency in the Cash Account results in a debit balance in that currency then Bank may, in its discretion, advance an amount equal to the overdraft and such an advance shall be deemed a loan to Customer, payable on demand, bearing interest at the rate agreed by Customer and Bank for the Accounts from time to time, or, in the absence of such an agreement, at the rate charged by Bank from time to time, for overdrafts incurred by customers similar to Customer, from the date of such advance to the date of payment (both after as well as before judgment) and otherwise on the terms on which Bank makes similar advances available from time to time. Bank shall promptly notify Customer of such an advance. No prior action or course of dealing on Bank's part with respect to the settlement of transactions on Customer's behalf shall be asserted by Customer against Bank for Bank's refusal to make advances to the Cash Account or to settle any transaction for which Customer does not have sufficient available funds in the applicable currency in the Account.

4.3 Bank's Right Over Securities; Set-off.

(a) Customer grants Bank a security interest in and a lien on the Financial Assets held in the Securities Account of a particular Fund as shall have a fair market value equal to the aggregate amount of all overdrafts of such Fund, together with accrued interest, as security for any and all amounts which are now or become owing to Bank with respect to that Fund under any provision of this Agreement, whether or not matured or contingent ("Indebtedness"). Such lien and security interest shall be effective only so long as such advance, overdraft, or accrued interest thereon remains outstanding and Bank shall have all the rights and remedies of a secured party under the New York Uniform Commercial Code in respect of the repayment of the advance, overdraft or accrued interest.

(b) Bank shall be further entitled to set any such Indebtedness off against any cash or deposit account of a Fund with Bank or any of its Affiliates of which the Fund is the beneficial owner, regardless of the currency involved. Bank shall notify Customer in advance of any such charge.

5. SUBCUSTODIANS, SECURITIES DEPOSITORIES, AND OTHER AGENTS

5.1 Appointment of Subcustodians; Use of Securities Depositories.

(a) Bank is authorized under this Agreement to act through and hold Customer's Global Assets with subcustodians, being at the date of this Agreement the entities listed in Schedule 1 and/or such other entities as Bank may appoint as subcustodians ("Subcustodians"). Bank shall use reasonable care, prudence and diligence in the selection

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and continued appointment of such Subcustodians. In addition, Bank and each Subcustodian may deposit Global Assets with, and hold Global Assets in, any securities depository, settlement system, dematerialized book entry system or similar system (together a "Securities Depository") on such terms as such systems customarily operate and Customer shall provide Bank with such documentation or acknowledgements that Bank may require to hold the Global Assets in such systems.

(b) Any agreement Bank enters into with a Subcustodian for holding Bank's customers' assets shall provide that: (i) such assets shall not be subject to any right, charge, security interest, lien or claim of any kind in favor of such Subcustodian or its creditors, except a claim of payment for their safe custody or administration or, in the case of cash deposits, except for liens or rights in favor of creditors of the Subcustodian arising under bankruptcy, insolvency or similar laws; (ii) beneficial ownership of such assets shall be freely transferable without the payment of money or value other than for safe custody or administration; (iii) adequate records will be maintained identifying the assets as belonging to Customer or as being held by a third party for the benefit of Customer; (iv) Customer and Customer's independent public accountants will be given reasonable access to those records or confirmation of the contents of those records; and (v) Customer will receive periodic reports with respect to the safekeeping of Customer's assets, including, but not limited to, notification of any transfer to or from Customer's account or a third party account containing assets held for the benefit of Customer. Where a Subcustodian deposits Securities with a Securities Depository, Bank shall cause the Subcustodian to identify on its records as belonging to Bank, as agent, the Securities shown on the Subcustodian's account at such Securities Depository. The foregoing shall not apply to the extent of any special agreement or arrangement made by Customer with any particular Subcustodian.

(c) Bank shall have no responsibility for any act or omission by (or the insolvency of) any Securities Depository. In the event Customer incurs a loss due to the negligence, bad faith, willful misconduct, or insolvency of a Securities Depository, Bank shall make reasonable endeavors to seek recovery from the Securities Depository.

5.2 Liability for Subcustodians.

(a) Subject to Section 7.1(b), Bank shall be liable for direct losses incurred by Customer that result from:

- (i) the failure by the Subcustodian to use reasonable care in the provision of custodial services by it in accordance with the standards prevailing in the relevant market or from the fraud or willful default of such Subcustodian in the provision of custodial services by it; or

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- (ii) the insolvency of any Affiliated Subcustodian.

(b) Subject to Section 7.1(b) and Bank's duty to use reasonable care, prudence and diligence in the monitoring of a Subcustodian's financial condition as reflected in its published financial statements and other publicly available financial information concerning it, Bank shall not be responsible for the insolvency of any Subcustodian which is not a branch or an Affiliated Subcustodian.

(c) Bank reserves the right to add, replace or remove Subcustodians. Bank shall give Customer prompt notice of any such action, which shall be advance notice if practicable. Upon request by Customer, Bank shall identify the name, address and principal place of business of any Subcustodian and the name and address of the governmental agency or other regulatory authority that supervises or regulates such Subcustodian.

5.3 Use of Agents.

(a) Bank may provide certain services under this Agreement through third parties. These third parties may be Affiliates. Except to the extent provided in Section 5.2 with respect to Subcustodians, Bank shall not be responsible for any loss as a result of a failure by any broker or any other third party that it selects and retains using reasonable care to provide ancillary services, such as pricing, proxy voting, and corporate action services, that it does not customarily provide itself. Nevertheless, Bank shall be liable for the performance of any such service provider selected by Bank that is an Affiliate to the same extent as Bank would have been liable if it performed such services itself.

(b) Bank shall execute transactions involving Financial Assets of United States origin through a broker which is an Affiliate (i) in the case of the sale under Section 2.8 of a fractional interest or (ii) if an Authorized Person directs Bank to use the affiliated broker or otherwise requests that Bank select a broker for that transaction, unless, in either case, the Affiliate does not execute similar transactions in such Financial Assets. The affiliated broker may charge its customary commission (or retain its customary spread) with respect to either such transaction.

6. ADDITIONAL PROVISIONS RELATING TO CUSTOMER

6.1 Representations of Customer and Bank.

(a) Customer represents and warrants to Bank that: (i) it has full authority and power, and has obtained all necessary authorizations and consents, to deposit and control the Financial Assets and cash in the Accounts, to use Bank as its custodian in accordance with the terms of this Agreement and to incur indebtedness, pledge Financial Assets as contemplated by Section 4.3, and enter into foreign exchange transactions; and (ii) this Agreement is its legal, valid and binding obligation, enforceable in accordance with its terms and it has full

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power and authority to enter into and has taken all necessary corporate action to authorize the execution of this Agreement. Bank may rely upon the above or the certification of such other facts as may be required to administer Bank's obligations hereunder.

(b) Bank represents and warrants to Customer that this Agreement is its legal, valid and binding obligation, enforceable in accordance with its terms and it has full power and authority to enter into and has taken all necessary corporate action to authorize the execution of this Agreement. Customer may rely upon the above or the certification of such other facts as may be required to administer Customer's obligations hereunder.

6.2 Customer to Provide Certain Information to Bank.

Upon request, Customer shall promptly provide to Bank such information about itself and its financial status as Bank may reasonably request, including Customer's organizational documents and its current audited and unaudited financial statements.

6.3 Customer is Liable to Bank Even if it is Acting for Another Person.

If Customer is acting as an agent for a disclosed or undisclosed principal in respect of any transaction, cash, or Financial Asset, Bank nevertheless shall treat Customer as its principal for all purposes under this Agreement. In this regard, Customer shall be liable to Bank as a principal in respect of any transactions relating to the Account. The foregoing shall not affect any rights Bank might have against Customer's principal.

6.4 Several Obligations of the Funds.

This Agreement is executed on behalf of the Board of Trustees of each Fund

as Trustees and not individually and the obligations of this Agreement are not binding upon any of the Trustees or shareholders individually but are binding only upon the assets and property of the Funds. With respect to the obligations of each Fund arising hereunder, Bank shall look for payment or satisfaction of any such obligation solely to the assets of the Fund to which such obligation relates as though Bank had separately contracted by separate written instrument with respect to each Fund.

7. WHEN BANK IS LIABLE TO CUSTOMER

7.1 Standard of Care; Liability.

(a) Bank shall use reasonable care in performing its obligations under this Agreement. Bank shall not be in violation of this Agreement with respect to any matter as to which it has satisfied its obligation of reasonable care.

(b) Bank shall be liable for Customer's direct damages to the extent they result from Bank's negligence, bad faith or willful misconduct in performing its duties as set out in

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this Agreement and to the extent provided for in Section 5.2(a). Nevertheless, under no circumstances shall Bank be liable for any indirect, incidental, consequential or special damages (including, without limitation, lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the type of action in which such a claim may be brought, with respect to the Accounts or Bank's performance hereunder or its role as custodian.

(c) Customer shall indemnify the Bank Indemnitees against, and hold them harmless from, any Liabilities that may be imposed on, incurred by or asserted against any of the Bank Indemnitees in connection with or arising out of Bank's performance under this Agreement, provided the Bank Indemnitees have not acted with negligence or bad faith or engaged in fraud or willful misconduct in connection with the Liabilities in question. Nevertheless, Customer shall not be obligated to indemnify any Bank Indemnitee under the preceding sentence with respect to any Liability for which Bank is liable under Section 5.2 of this Agreement.

(d) Without limiting Subsections 7.1 (a), (b) or (c), Bank shall have no duty or responsibility to: (i) question Instructions or make any suggestions to Customer or an Authorized Person regarding such Instructions that Bank believes in good faith to have been given by Authorized Persons or which are transmitted with proper testing or authentication pursuant to terms and conditions that Bank may specify; (ii) supervise or make recommendations with respect to investments or the retention of Financial Assets; (iii) advise Customer or an Authorized Person regarding any default in the payment of principal or income of any security other than as provided in Section 2.7(b) of this Agreement; (iv) evaluate or report to Customer or an Authorized Person regarding the financial condition of any broker, agent or other party to which Bank is instructed to deliver Financial Assets or cash; or (v) except for trades settled at DTC where the broker provides DTC trade confirmation and Customer provides for Bank to receive the trade instruction, review or reconcile trade confirmations received from brokers (and Customer or its Authorized Persons issuing Instructions shall bear any responsibility to review such confirmations against Instructions issued to and statements issued by Bank).

7.2 Force Majeure.

Bank shall maintain and update from time to time business continuation and disaster recovery procedures with respect to its global custody business that it determines from time to time meet reasonable commercial standards. Bank shall have no liability, however, for any damage, loss or expense of any nature that Customer may suffer or incur, caused by an act of God, fire, flood, civil or labor disturbance, war, act of any governmental authority or other act or threat of any authority (de jure or de facto), legal constraint, fraud or forgery (except by Bank or Bank Indemnitees), malfunction of equipment or software (except to the extent such malfunction is primarily attributable to Bank's negligence, or willful misconduct in maintaining the equipment or software), failure of or the effect of rules or operations of any external funds transfer system, inability to obtain or interruption of external communications

facilities, or any cause beyond the reasonable control of Bank (including without limitation, the non-availability of appropriate foreign

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exchange). Bank shall endeavor to promptly notify Customer when it becomes aware of any situation outlined above, but shall not be liable for failure to do so.

7.3 Bank May Consult With Counsel.

Bank shall be entitled to rely on, and may act upon the advice of professional advisers in relation to matters of law, regulation or market practice (which may be the professional advisers of Customer), and shall not be liable to Customer for any action reasonably taken or omitted pursuant to such advice.

7.4 Bank Provides Diverse Financial Services and May Generate Profits as

a Result.

Customer acknowledges that Bank or its Affiliates may have a material interest in transactions entered into by Customer with respect to the Account or that circumstances are such that Bank may have a potential conflict of duty or interest. For example, Bank or its Affiliates may act as a market maker in the Financial Assets to which Instructions relate, provide brokerage services to other customers, act as financial adviser to the issuer of such Financial Assets, act in the same transaction as agent for more than one customer, have a material interest in the issue of the Financial Assets, or earn profits from any of these activities. Customer acknowledges that Bank or its Affiliates may be in possession of information tending to show that the Instructions received may not be in the best interests of Customer. Bank is not under any duty to disclose any such information.

8. TAXATION

8.1 Tax Obligations.

(a) Customer confirms that Bank is authorized to deduct from any cash received or credited to the Cash Account any taxes or levies required by any revenue or governmental authority for whatever reason in respect of Customer's Accounts.

(b) If Bank does not receive appropriate declarations, documentation and information then additional United Kingdom taxation shall be deducted from all income received in respect of the Financial Assets issued outside the United Kingdom (which shall for this purpose include United Kingdom Eurobonds) and any applicable United States tax (including, but not limited to, non-resident alien tax) shall be deducted from United States source income. Customer shall provide to Bank such certifications, documentation, and information as it may require in connection with taxation, and warrants that, when given, this information is true and correct in every respect, not misleading in any way, and contains all material information. Customer undertakes to notify Bank immediately if any information requires updating or correcting.

(c) Customer shall be responsible for the payment of all taxes relating to the Financial Assets in the Securities Account, and Customer shall pay, indemnify and hold Bank

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harmless from and against any and all liabilities, penalties, interest or additions to tax with respect to or resulting from, any delay in, or failure by, Bank (1) to pay, withhold or report any U.S. federal, state or local taxes or foreign taxes imposed on, or (2) to report interest, dividend or other income paid or credited to the Cash Account, whether such failure or delay by Bank to pay, withhold or report tax or income is the result of (x) Customer's failure to comply with the terms of this paragraph, or (y) Bank's own acts or omissions; provided however, Customer shall not be liable to Bank for any penalty or additions to tax due as a result of Bank's failure to pay or withhold tax or to

report interest, dividend or other income paid or credited to the Cash Account solely as a result of Bank's negligent acts or omissions.

8.2 Tax Reclaims.

(a) Subject to the provisions of this Section, Bank shall apply for a reduction of withholding tax and any refund of any tax paid or tax credits in respect of income payments on Financial Assets credited to the Securities Account that Bank believes may be available.

(b) The provision of a tax reclamation service by Bank is conditional upon Bank receiving from Customer (i) a declaration of its identity and place of residence and (ii) certain other documentation (pro forma copies of which are available from Bank). If Financial Assets credited to the Account are beneficially owned by someone other than Customer, this information shall be necessary with respect to the beneficial owner. Customer acknowledges that Bank shall be unable to perform tax reclamation services unless it receives this information.

(c) Bank shall perform tax reclamation services only with respect to taxation levied by the revenue authorities of the countries advised to Customer from time to time and Bank may, by notification in writing, in its absolute discretion, supplement or amend the countries in which the tax reclamation services are offered. Other than as expressly provided in this Section 8.2 Bank shall have no responsibility with regard to Customer's tax position or status in any jurisdiction.

(d) Customer confirms that Bank is authorized to disclose any information requested by any revenue authority or any governmental body in relation to the processing of any tax reclaim.

9. TERMINATION

Either party may terminate this Agreement on sixty days' notice in writing to the other party. If Customer gives notice of termination, it must provide full details of the persons to whom Bank must deliver Financial Assets and cash. If Bank gives notice of termination, then Customer must, within sixty days following receipt of the notice, notify Bank of details of its new custodian, failing which Bank may elect (at any time after sixty days following Customer's receipt of the notice) either to retain the Financial Assets and cash until such details are given, continuing to charge fees due (in which case Bank's sole obligation shall be for the safekeeping of the Financial Assets and cash), or deliver the Financial Assets and cash to Customer. Bank shall in any event be entitled to deduct any uncontested amounts owing to it prior to delivery of the Financial Assets and cash (and, accordingly, Bank shall be

entitled to deduct cash from the Cash Account in satisfaction of uncontested amounts owing to it). Customer shall reimburse Bank promptly for all out-of-pocket expenses it incurs in delivering Financial Assets upon termination by Customer. Termination shall not affect any of the liabilities either party owes to the other arising under this Agreement prior to such termination.

10. MISCELLANEOUS

10.1 Notices.

Notices (other than Instructions) shall be served by registered mail or hand delivery to the address of the respective parties as set out on the first page of this Agreement, unless notice of a new address is given to the other party in writing. Notice shall not be deemed to be given unless it has been received.

10.2 Successors and Assigns.

This Agreement shall be binding on each of the parties' successors and

assigns, but the parties agree that neither party can assign its rights and obligations under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld.

10.3 Interpretation.

Headings are for convenience only and are not intended to affect interpretation. References to sections are to sections of this Agreement and references to sub-sections and paragraphs are to sub-sections of the sections and paragraphs of the sub-sections in which they appear.

10.4 Entire Agreement.

(a) The following Rider(s) are incorporated into this Agreement:

- Cash Trade Execution;
- Accounting Services
- Investment Company
- Domestic and Global

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(b) This Agreement, including the Schedules, Exhibits, and Riders (and any separate agreement which Bank and Customer may enter into with respect to any Cash Account), sets out the entire Agreement between the parties in connection with the subject matter, and this Agreement supersedes any other agreement, statement, or representation relating to custody, whether oral or written. Amendments must be in writing and signed by both parties.

10.5 Information Concerning Deposits at Bank.

(a) Bank's London Branch is a member of the United Kingdom Deposit Protection Scheme (the "Scheme") established under Banking Act 1987 (as amended). The Scheme provides that in the event of Bank's insolvency payments may be made to certain customers of Bank's London Branch. Payments under the Scheme are limited to 90% of a depositor's total cash deposits subject to a maximum payment to any one depositor of (pound)18,000 (or 20,000 euros if greater). Most deposits denominated in sterling and other European Economic Area Currencies and euros made with Bank within the United Kingdom are covered. Further details of the Scheme are available on request.

(b) In the event that Bank incurs a loss attributable to Country Risk with respect to any cash balance it maintains on deposit at a Subcustodian or other correspondent bank in regard to its global custody or trust businesses in the country where the Subcustodian or other correspondent bank is located, Bank may set such loss off against Customer's Cash Account to the extent that such loss is directly attributable to Customer's investments in that market.

10.6 Confidentiality.

The parties hereto agree that each shall treat confidentially the terms and conditions of this Agreement and all information provided by each party to the other regarding its business and operations. All confidential information provided by a party shall be used by the other party solely for the purpose of rendering or obtaining services pursuant to this Agreement, and except as may be required in carrying out this Agreement, shall not be disclosed to any third party without the prior consent of such providing party. The foregoing shall not be applicable to any information that is publicly available when provided or thereafter becomes publicly available other than through a breach of this provision, or that is required to be disclosed by or to any regulatory authority, any external or internal accountant, auditor or counsels of the parties, by judicial or administrative process or otherwise by applicable law, or to any disclosure made by a party if such party's counsel has advised that such party could be liable under any applicable law or any judicial or administrative order or process for failure to make such disclosure.

10.7 Insurance.

Bank shall not be required to maintain any insurance coverage for the benefit of Customer.

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10.8 Governing Law and Jurisdiction. Certification of Residency.

This Agreement shall be construed, regulated, and administered under the laws of the United States or State of New York, as applicable, without regard to New York's principles regarding conflict of laws. The United States District Court for the Southern District of New York shall have the sole and exclusive jurisdiction over any lawsuit or other judicial proceeding relating to or arising from this Agreement. If that court lacks federal subject matter jurisdiction, the Supreme Court of the State of New York, New York County shall have sole and exclusive jurisdiction. Either of these courts shall have proper venue for any such lawsuit or judicial proceeding, and the parties waive any objection to venue or their convenience as a forum. The parties agree to submit to the jurisdiction of any of the courts specified and to accept service of process to vest personal jurisdiction over them in any of these courts. The parties further hereby knowingly, voluntarily and intentionally waive, to the fullest extent permitted by applicable law, any right to a trial by jury with respect to any such lawsuit or judicial proceeding arising or relating to this Agreement or the transactions contemplated hereby. Customer certifies that it is a resident of the United States and shall notify Bank of any changes in residency. Bank may rely upon this certification or the certification of such other facts as may be required to administer Bank's obligations hereunder. Customer shall indemnify Bank against all losses, liability, claims or demands arising directly or indirectly from any such certifications.

10.9 Severability and Waiver.

(a) If one or more provisions of this Agreement are held invalid, illegal or unenforceable in any respect on the basis of any particular circumstances or in any jurisdiction, the validity, legality and enforceability of such provision or provisions under other circumstances or in other jurisdictions and of the remaining provisions shall not in any way be affected or impaired.

(b) Except as otherwise provided herein, no failure or delay on the part of either party in exercising any power or right hereunder operates as a waiver, nor does any single or partial exercise of any power or right preclude any other or further exercise, or the exercise of any other power or right. No waiver by a party of any provision of this Agreement, or waiver of any breach or default, is effective unless in writing and signed by the party against whom the waiver is to be enforced.

[Section 10.10 follows on next page]

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10.10 Counterparts.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original and together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

Each of the open-end investment companies listed on Exhibit 1 (each a "Trust")

By: /s/ Robert D. Snowden
Title: Assistant Treasurer
Date: June 25, 2001

THE CHASE MANHATTAN BANK

By: /s/ James E. Cecere, Jr.
Title: Vice President
Date: June 28, 2001

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EXHIBIT 1

EACH VANGUARD REGISTERED INVESTMENT COMPANY (AND THEIR FUNDS) THAT IS ENTERING INTO THE AMENDED AND RESTATED GLOBAL CUSTODY AGREEMENT WITH THE CHASE MANHATTAN BANK AND DATED AS OF JUNE 25, 2001

Vanguard Bond Index Funds

Vanguard Intermediate-Term Bond Index Fund
Vanguard Long-Term Bond Index Fund
Vanguard Short-Term Bond Index Fund
Vanguard Total Bond Market Index Fund

Vanguard Fixed Income Securities Funds

Vanguard GNMA Fund
Vanguard High-Yield Corporate Fund
Vanguard Inflation Protected Securities Fund
Vanguard Long-Term Corporate Fund

Vanguard Index Funds

Vanguard 500 Index Fund
Vanguard Growth Index Fund
Vanguard Small-Cap Index Fund
Vanguard Total Stock Market Index Fund
Vanguard Value Index Fund

Vanguard Specialized Funds

Vanguard Health Care Fund
Vanguard Precious Metals Fund

Vanguard STAR Funds

Vanguard Developed Markets Index Fund
Vanguard Institutional Developed Markets Index Fund
Vanguard LifeStrategy Conservative Growth Fund
Vanguard LifeStrategy Growth Fund
Vanguard LifeStrategy Income Fund
Vanguard LifeStrategy Moderate Growth Fund

Vanguard Tax-Managed Funds

Vanguard Tax-Managed Balanced Fund
Vanguard Tax-Managed Capital Appreciation Fund
Vanguard Tax-Managed Growth and Income Fund
Vanguard Tax-Managed Small-Cap Fund

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Vanguard Wellesley Income Fund

Investment Company Rider to Amended and Restated Global Custody Agreement
Between The Chase Manhattan Bank and
Certain Open-End Management Investment Companies Listed on Exhibit 1
of the Agreement

The following modifications are made to the Agreement. To the extent there are any inconsistencies between the terms in this Investment Company Rider and the terms in the Agreement, the terms in this Investment Company Rider shall govern.

A. Add a new Section 2.17 to the Agreement as follows:

"2.17. Compliance with Securities and Exchange Commission ("SEC") rule 17f-5 ("rule 17f-5").

(a) Customer's board of directors (or equivalent body) (hereinafter 'Board') hereby delegates to Bank, and, except as to the country or countries as to which Bank may, from time to time, advise Customer that it does not accept such delegation, Bank hereby accepts the delegation to it, of the obligation to perform as Customer's 'Foreign Custody Manager' (as that term is defined in rule 17f-5(a)(3) as promulgated under the Investment Company Act of 1940, as amended ("1940 Act")), including for the purposes of: (i) selecting Eligible Foreign Custodians (as that term is defined in SEC rule 17f-5(a)(1), and as the same may be amended from time to time, or that have otherwise been exempted pursuant to an SEC exemptive order) to hold foreign Financial Assets and cash, (ii) evaluating the contractual arrangements with such Eligible Foreign Custodians (as set forth in SEC rule 17f-5(c)(2)), (iii) monitoring such foreign custody arrangements (as set forth in rule 17f-5(c)(3)).

(b) In connection with the foregoing, Bank shall:

(i) provide written reports notifying Customer's Board of the placement of Financial Assets and cash with particular Eligible Foreign Custodians and of any material change in the arrangements with such Eligible Foreign Custodians, with such reports to be provided to Customer's Board at such times as the Board deems reasonable and appropriate based on the circumstances of Customer's foreign custody arrangements (and until further notice from Customer such reports shall be provided not less than annually with respect to the placement of Financial Assets and cash with particular Eligible Foreign Custodians and with reasonable promptness upon the occurrence of any material change in the arrangements with such Eligible Foreign Custodians);

(ii) exercise such reasonable care, prudence and diligence in performing as Customer's Foreign Custody Manager as a person having responsibility for the safekeeping of foreign Financial Assets and cash would exercise;

(iii) in selecting an Eligible Foreign Custodian, first have determined that foreign Financial Assets and cash placed and maintained in the safekeeping of such Eligible Foreign Custodian shall be subject to reasonable care, based on the standards applicable to custodians in the relevant market, after having considered all factors relevant to the

safekeeping of such foreign Financial Assets and cash, including, without limitation, those factors set forth in SEC rule 17f-5(c)(1)(i)-(iv);

- (iv) determine that the written contract with an Eligible Foreign Custodian requires that the Eligible Foreign Custodian shall provide reasonable care for foreign Financial Assets and cash based on the standards applicable to custodians in the relevant market, including, without limitation, those factors set forth in SEC rule 17f-5(c)(1)(i)-(iv).
- (v) have established a system to monitor the continued appropriateness of maintaining foreign Financial Assets and cash with particular Eligible Foreign Custodians and of the governing contractual arrangements; it being understood, however, that in the event that Bank shall have determined that the existing Eligible Foreign Custodian in a given country would no longer afford foreign Financial Assets and cash reasonable care and that no other Eligible Foreign Custodian in that country would afford reasonable care, Bank shall promptly so advise Customer and shall then act in accordance with the Instructions of Customer with respect to the disposition of the affected foreign Financial Assets and cash.

(c) Subject to (b)(i)-(v) above, Bank is hereby authorized to place and maintain foreign Financial Assets and cash on behalf of Customer with Eligible Foreign Custodians pursuant to a written contract deemed appropriate by Bank. Each such contract shall, except as set forth in the last paragraph of this subsection (c), include provisions that provide:

- (i) For indemnification or insurance arrangements (or any combination of the foregoing) that will adequately protect Customer against the risk of loss of Financial Assets and cash held in accordance with such contract;
- (ii) That Customer's Financial Assets will not be subject to any right, charge, security interest, lien or claim of any kind in favor of the Eligible Foreign Custodian or its creditors, except a claim of payment for their safe custody or administration or, in the case of cash, liens or rights in favor of creditors of such Eligible Foreign Custodian arising under bankruptcy, insolvency or similar laws;
- (iii) That beneficial ownership of Customer's Assets will be freely transferable without the payment of money or value other than for safe custody or administration;

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(iv) That adequate records will be maintained identifying Customer's Assets as belonging to Customer or as being held by a third party for the benefit of Customer;

(v) That Customer's independent public accountants will be given access to those records described in (iv) above or confirmation of the contents of those records; and

(vi) That Customer will receive sufficient and timely periodic reports with respect to the safekeeping of Customer's Assets, including, but not limited to, notification of any transfer to or from Customer's account or a third party account containing Assets held for the benefit of Customer.

Such contract may contain, in lieu of any or all of the provisions specified in this subsection (c), such other provisions that Bank determines will provide, in their entirety, the same or a greater level of care and protection for Customer's Assets as the specified provisions, in their entirety.

(d) Except as expressly provided herein, Customer shall be solely responsible to assure that the maintenance of foreign Financial Assets and cash hereunder complies with the rules, regulations, interpretations and exemptive orders as promulgated by or under the authority of the SEC.

(e) Bank represents to Customer that it is a U.S. Bank as defined in Rule 17f-5(a)(7). Customer represents to Bank that: (1) the foreign Financial Assets and cash being placed and maintained in Bank's custody are subject to the 1940 Act, as the same may be amended from time to time; (2) its Board has determined that it is reasonable to rely on Bank to perform as Customer's Foreign Custody Manager; and (3) its Board or its investment adviser shall have determined that Customer may maintain foreign Financial Assets and cash in each country in which Customer's Financial Assets and cash shall be held hereunder and determined to accept Country Risk. Nothing contained herein shall require Bank to make any selection or to engage in any monitoring on behalf of Customer that would entail consideration of Country Risk.

(f) Bank shall provide to Customer such information relating to Country Risk as is specified in Appendix 1 hereto. Customer hereby acknowledges that: (i) such information is solely designed to inform Customer of market conditions and procedures and is not intended as a recommendation to invest or not invest in particular markets; and (ii) Bank has gathered the information from sources it considers reliable, but that Bank shall have no responsibility for inaccuracies or incomplete information, provided that Bank transmits the information using reasonable care.

B. Add a new Section 2.18 to the Agreement as follows:

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2.18. Compliance with SEC rule 17f-7 ("rule 17f-7").

(a) Bank shall, for consideration by Customer, provide an analysis of the custody risks associated with maintaining Customer's Financial Assets with each Eligible Securities Depository used by Bank as of the date hereof (or, in the case of an Eligible Securities Depository not used by Bank as of the date hereof, prior to the initial placement of Customer's Financial Assets at such Depository) and at which any Financial Assets of Customer are held or are expected to be held. The foregoing analysis will be provided to Customer at Bank's Website. In connection with the foregoing, Customer shall notify Bank of any Eligible Securities Depositories at which it does not choose to have its Financial Assets held. Bank shall monitor the custody risks associated with maintaining Customer's Financial Assets at each such Eligible Securities Depository on a continuing basis and shall promptly notify Customer or its investment adviser of any material changes in such risks.

(b) Bank shall exercise reasonable care, prudence and diligence in performing the requirements set forth in Section 2.18(a) above.

(c) Based on the information available to it in the exercise of diligence, Bank shall determine the eligibility under rule 17f-7 of each depository before including it on Schedule 3 hereto and shall promptly advise Customer if any Eligible Securities Depository ceases to be eligible. (Eligible Securities Depositories used by Bank as of the date hereof are set forth in Schedule 3 hereto, and as the same may be amended on notice to Customer from time to time.)

C. Add the following after the first sentence of Section 5.1(a) of the Agreement: "At the request of Customer, Bank may, but need not, add to Schedule 1 an Eligible Foreign Custodian where Bank has not acted as Foreign Custody Manager with respect to the selection thereof. Bank shall notify Customer in the event that it elects to add any such entity."

D. Add the following language as Sections 5.1(d) and (e) of the Agreement:

(d) The term Subcustodian as used herein shall mean the following:

(i) a 'U.S. Bank,' which shall mean a U.S. bank as defined in SEC rule 17f-5(a)(7);

(ii) an 'Eligible Foreign Custodian,' which shall mean: (i) a banking institution or trust company, incorporated or organized under the laws of a country other than the United States, that is regulated as such by that country's government or an agency thereof, and (ii) a majority-owned direct or indirect subsidiary of a U.S. Bank or bank holding

company which subsidiary is incorporated or organized under the laws of a country other than the United States. In addition, an Eligible Foreign Custodian shall also mean any other entity that

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shall have been so qualified by exemptive order, rule or other appropriate action of the SEC.

(iii) For purposes of clarity, it is agreed that as used in Section 5.2(a), the term Subcustodian shall not include any Eligible Foreign Custodian as to which Bank has not acted as Foreign Custody Manager.

(e) The term 'securities depository' as used herein when referring to a securities depository located outside the U.S. shall mean:

an "Eligible Securities Depository" which, in turn, shall have the same meaning as in rule 17f-7(b)(1)(i)-(vi) as the same may be amended from time to time, or that has otherwise been made exempt pursuant to an SEC exemptive order; provided that, prior to the compliance date with rule 17f-7 for a particular securities depository the term "securities depository" shall be as defined in (a)(1)(ii)-(iii) of the 1997 amendments to rule 17f-5.

(f) The term "securities depository" as used herein when referring to a securities depository located in the U.S. shall mean a "securities depository" as defined in SEC rule 17f-4(a).

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Appendix 1

Information Regarding Country Risk

1. To aid Customer in its determinations regarding Country Risk, Bank shall furnish annually and upon the initial placing of Financial Assets and cash into a country the following information (check items applicable):

A Opinions of local counsel concerning:

___ i. Whether applicable foreign law would restrict the access afforded Customer's independent public accountants to books and records kept by an eligible foreign custodian located in that country.

___ ii. Whether applicable foreign law would restrict the Customer's ability to recover its Financial Assets and cash in the event of the bankruptcy of an Eligible Foreign Custodian located in that country.

___ iii. Whether applicable foreign law would restrict the Customer's ability to recover Financial Assets that are lost while under the control of an Eligible Foreign Custodian located in the country.

B. Written information concerning:

___ i. The foreseeability of expropriation, nationalization, freezes, or confiscation of Customer's Financial Assets.

___ ii. Whether difficulties in converting Customer's cash and cash equivalents to U.S. dollars are reasonably foreseeable.

C. A market report with respect to the following topics:

(i) securities regulatory environment, (ii) foreign ownership

restrictions, (iii) foreign exchange, (iv) securities settlement and registration, (v) taxation, and (vi) depositories (including depository evaluation), if any.

2. To aid Customer in monitoring Country Risk, Bank shall furnish Customer the following additional information:

Market flashes, including with respect to changes in the information in market reports.

DOMESTIC AND GLOBAL
SPECIAL TERMS AND CONDITIONS RIDER

Corporate Actions and Proxies through The Depository Trust Company ("DTC")

With respect to Financial Assets held at DTC, the following provisions shall apply rather than the pertinent provisions of Sections 2.10-2.11 of the Agreement:

Bank shall send to Customer or the Authorized Person for a Securities Account, such proxies (signed in blank, if issued in the name of Bank's nominee or the nominee of a central depository) and communications with respect to Financial Assets in the Securities Account as call for voting or relate to legal proceedings within a reasonable time after sufficient copies are received by Bank for forwarding to its customers. In addition, Bank shall follow coupon payments, redemptions, exchanges or similar matters with respect to Financial Assets in the Securities Account and advise Customer or the Authorized Person for such Account of rights issued, tender offers or any other discretionary rights with respect to such Financial Assets, in each case, of which Bank has received notice from the issuer of the Financial Assets, or as to which notice is published in publications routinely utilized by Bank for this purpose.

Correspondent banks are listed for information only.
April 11, 2001

SUB-CUSTODIAN EMPLOYED BY
THE CHASE MANHATTAN BANK, GLOBAL CUSTODY

COUNTRY	SUB-CUSTODIAN	CORRESPONDENT BANK
-----	-----	-----
ARGENTINA	The Chase Manhattan Bank Arenales 707, 5th Floor 1061 Buenos Aires ARGENTINA	Banco Generale de Negocios Buenos Aires
	Citibank, N.A. Bartolome Mitre 530 1036 Buenos Aires ARGENTINA	Banco Generale de Negocios Buenos Aires
AUSTRALIA	The Chase Manhattan Bank Level 37 AAP Center 259, George Street Sydney NSW 2000 AUSTRALIA	Australia and New Zealand Banking Group Ltd. Melbourne
AUSTRIA	Bank Austria AG	Chase Manhattan Bank AG

Julius Tandler Platz - 3
A-1090 Vienna
AUSTRIA Frankfurt

BAHRAIN HSBC Bank Middle East National Bank of Bahrain
PO Box 57 Manama
Manama, 304
BAHRAIN

BANGLADESH Standard Chartered Bank Standard Chartered Bank
18-20 Motijheel C.A. Dhaka
Box 536,
Dhaka-1000
BANGLADESH

BELGIUM Fortis Bank N.V. Chase Manhattan Bank AG
3 Montagne Du Parc Frankfurt
1000 Brussels
BELGIUM

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COUNTRY SUB-CUSTODIAN CORRESPONDENT BANK

Correspondent banks are listed for information only.
April 11, 2001

BERMUDA The Bank of Bermuda Limited The Bank of Bermuda Ltd
6 Front Street Hamilton
Hamilton HMDX
BERMUDA

BOTSWANA Barclays Bank of Botswana Barclays Bank of Botswana Ltd
Limited Gaborone
Barclays House, Khama Crescent
Gaborone
BOTSWANA

BRAZIL Citibank, N.A. Citibank, N.A..
Avenida Paulista, 1111 Sao Paulo
Sao Paulo, SP 01311-920
BRAZIL

BankBoston, N.A. BankBoston, N.A.
Rua Libero Badaro, 425-29 andar Sao Paulo
Sao Paulo - SP 01009-000
BRAZIL

BULGARIA ING Bank N.V. ING Bank N.V.
Sofia Branch Sofia
7 Vassil Levski Street
1000 Sofia
BULGARIA

CANADA Canadian Imperial Bank of Commerce Royal Bank of Canada
Commerce Court West Toronto
Security Level
Toronto, Ontario M5L 1G9
CANADA

Royal Bank of Canada Royal Bank of Canada
200 Bay Street, Suite 1500 Toronto

15th Floor
Royal Bank Plaza, North Tower
Toronto
Ontario M5J 2J5
CANADA

CHILE	Citibank, N.A. Avda. Andres Bello 2687 3rd and 5th Floors Santiago CHILE	Citibank, N.A. Santiago
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COUNTRY -----	SUB-CUSTODIAN -----	CORRESPONDENT BANK -----
CHINA - SHANGHAI	The Hongkong and Shanghai Banking Corporation Limited 34/F, Shanghai Senmao International Building 101 Yin Cheng East Road Pudong Shanghai 200120 THE PEOPLE'S REPUBLIC OF CHINA	Citibank, N.A. New York
CHINA - SHENZHEN	The Hongkong and Shanghai Banking Corporation Limited 1st Floor Century Plaza Hotel No.1 Chun Feng Lu Shenzhen THE PEOPLE'S REPUBLIC OF CHINA	The Chase Manhattan Bank Hong Kong
COLOMBIA	Cititrust Colombia S.A. Fiduciaria Sociedad Fiduciaria Santa Fe de Bogota Carrera 9a No 99-02 First Floor Santa Fe de Bogota, D.C. COLOMBIA	Cititrust Colombia S.A. Sociedad
CROATIA	Privredna banka Zagreb d.d. Savska c.28 10000 Zagreb CROATIA	Privredna banka Zagreb d.d. Zagreb
CYPRUS	The Cyprus Popular Bank Ltd. 154 Limassol Avenue P.O. Box 22032 CY-1598 Nicosia, CYPRUS	Cyprus Popular Bank Nicosia
CZECH REPUBLIC	Ceskoslovenska Obchodni Banka, A.S. Na Prikope 14 115 20 Prague 1 CZECH REPUBLIC	Ceskoslovenska Obchodni Banka, A.S Prague
DENMARK	Danske Bank A/S	Unibank A/S

COUNTRY -----	SUB-CUSTODIAN -----	CORRESPONDENT BANK -----
ECUADOR	Citibank, N.A. Av. Republica de El Salvador y Naciones Unidas (Esquina) Quito ECUADOR	Citibank, N.A. Quito
EGYPT	Citibank, N.A. 4 Ahmed Pasha Street Garden City Cairo EGYPT	Citibank, N.A. Cairo
ESTONIA	Hansabank Liivalaia 8 EE0001 Tallinn ESTONIA	Esti Uhispank Tallinn
FINLAND	Merita Bank Plc 2598 Custody Services Aleksis Kiven Katu 3-5 FIN-00020 MERITA, Helsinki FINLAND	Chase Manhattan Bank AG Frankfurt
FRANCE	BNP PARIBAS S.A. Ref 256 BP 141 3, Rue D'Antin 75078 Paris Cedex 02 FRANCE	Chase Manhattan Bank AG Frankfurt
	Societe Generale 50 Boulevard Haussman 75009 Paris FRANCE	Chase Manhattan Bank AG Frankfurt
	Credit Agricole Indosuez 96 Blvd. Haussmann 75008 Paris FRANCE	Chase Manhattan Bank AG Frankfurt
GERMANY	Dresdner Bank AG Juergen-Ponto-Platz 1 60284 Frankfurt/Main GERMANY	Chase Manhattan Bank AG Frankfurt

COUNTRY -----	SUB-CUSTODIAN -----	CORRESPONDENT BANK -----
GHANA	Barclays Bank of Ghana Limited Barclays House, High Street Accra GHANA	Barclays Bank of Ghana Ltd Accra

GREECE	HSBC Bank plc 1, Kolokotroni Street 105 62 Athens GREECE	Chase Manhattan Bank AG Frankfurt
HONG KONG	The Hongkong and Shanghai Banking Corporation Limited 36th Floor, Sun Hung Kai Centre 30 Harbour Road Wan Chai HONG KONG	The Chase Manhattan Bank Hong Kong
HUNGARY	Citibank Rt. Szabadsag ter 7-9 H-1051 Budapest V HUNGARY	Citibank Rt. Budapest
INDIA	The Hongkong and Shanghai Banking Corporation Limited Sudam Kalu Ahire Marg, Worli Mumbai 400 025 INDIA	The Hongkong and Shanghai Banking Corporation Limited Mumbai
	Deutsche Bank AG Kodak House 222 D.N. Road, Fort Mumbai 400 001 INDIA	Deutsche Bank AG Mumbai
	Standard Chartered Bank Phoenix Centre, Phoenix Mills Compound Senapati Bapat Marg, Lower Parel Mumbai 400 013 INDIA	Standard Chartered Bank Mumbai
INDONESIA	The Hongkong and Shanghai Banking Corporation Limited World Trade Center Jl. Jend Sudirman Kav. 29-31 Jakarta 10023 INDONESIA	Standard Chartered Bank Jakarta

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COUNTRY	SUB-CUSTODIAN	CORRESPONDENT BANK
-----	-----	-----
	Standard Chartered Bank Jl. Jend Sudirman Kav. 33-A Jakarta 10220 INDONESIA	Standard Chartered Bank Jakarta
IRELAND	Bank of Ireland International Financial Services Centre 1 Harbourmaster Place Dublin 1 IRELAND	Chase Manhattan Bank AG Frankfurt
	Allied Irish Banks, p.l.c. P.O. Box 518 International Financial Services	Chase Manhattan Bank AG Frankfurt

Centre
Dublin 1
IRELAND

ISRAEL	Bank Leumi le-Israel B.M. 35, Yehuda Halevi Street 61000 Tel Aviv ISRAEL	Bank Leumi Le-Israel B.M. Tel Aviv
ITALY	BNP PARIBAS S.A. 2 Piazza San Fedele 20121 Milan ITALY	Chase Manhattan Bank AG Frankfurt
IVORY COAST	Societe Generale de Banques en Cote d'Ivoire 5 et 7, Avenue J. Anoma - 01 B.P. 1355 Abidjan 01 IVORY COAST	Societe Generale Paris
JAMAICA	CIBC Trust and Merchant Bank Jamaica Limited 23-27 Knutsford Blvd. Kingston 10 JAMAICA	CIBC Trust and Merchant Bank Jamaica Limited Kingston
JAPAN	The Fuji Bank, Limited 6-7 Nihonbashi-Kabutocho Chuo-Ku Tokyo 103 JAPAN	The Chase Manhattan Bank Tokyo

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COUNTRY -----	SUB-CUSTODIAN -----	CORRESPONDENT BANK -----
	The Bank of Tokyo-Mitsubishi, Limited 3-2 Nihombashi Hongkucho 1-chome Chuo-ku Tokyo 103 JAPAN	The Chase Manhattan Bank Tokyo
JORDAN	Arab Bank Plc P O Box 950544-5 Amman Shmeisani JORDAN	Arab Bank Plc Amman
KAZAKHSTAN	ABN AMRO Bank Kazakhstan 45, Khadzhi Mukana Street 480099 Almaty KAZAKHSTAN	ABN AMRO Bank Kazakhstan Almaty
KENYA	Barclays Bank of Kenya Limited c/o Barclaytrust Investment Services & Limited Mezzanine 3, Barclays Plaza, Loita Street Nairobi KENYA	Barclays Bank of Kenya Ltd Nairobi

LATVIA	A/S Hansabanka Kalku iela 26 Riga, LV 1050 LATVIA	A/S Hansabanka Riga
LEBANON	HSBC Bank Middle East Ras-Beirut Branch P.O. Box 11-1380 Abdel Aziz Ras-Beirut LEBANON	The Chase Manhattan Bank New York
LITHUANIA	Vilniaus Bankas AB Ukmerges str. 41-106 LT 2662 Vilnius LITHUANIA	Vilniaus Bankas AB Vilnius
LUXEMBOURG	Banque Generale du Luxembourg S.A. 50 Avenue J.F. Kennedy L-2951 LUXEMBOURG	Chase Manhattan Bank AG Frankfurt

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COUNTRY	SUB-CUSTODIAN	CORRESPONDENT BANK
-----	-----	-----
MALAYSIA	The Chase Manhattan Bank (M) Berhad Menara Dion, Level 26 Jalan Sultan Ismail 50250, Kuala Lumpur MALAYSIA	The Chase Manhattan Bank (M) Berhad Kuala Lumpur
	HSBC Bank Malaysia Berhad 2 Leboh Ampang 50100 Kuala Lumpur MALAYSIA	HSBC Bank Malaysia Berhad Kuala Lumpur
MAURITIUS	The Hongkong and Shanghai Banking Corporation Limited 5/F Les Cascades Building Edith Cavell Street Port Louis MAURITIUS	The Hongkong and Shanghai Banking Corporation Limited Port Louis
MEXICO	Chase Manhattan Bank Mexico, S.A. Torre Optima Paseo de las Palmas #405 Piso 15 Mexico, D.F Lomas de Chapultepec 11000 Mexico, D. F. MEXICO	Chase Manhattan Bank Mexico, S.A.
	Citibank Mexico, S.A. Paseo de la Reforma 390 06695 Mexico, D.F. MEXICO	Citibank Mexico, S.A. Mexico, D.F
MOROCCO	Banque Commerciale du Maroc S.A. 2 Boulevard Moulay Youssef Casablanca 20000 MOROCCO	Banque Commerciale du Maroc S.A Casablanca
NAMIBIA	Standard Bank Namibia Limited Mutual Platz Cnr. Stroebeel and Post Streets	Standard Corporate & Merchant Bank Johannesburg

P.O.Box 3327
Windhoek
NAMIBIA

NETHERLANDS	ABN AMRO N.V. Kemelstede 2 P. O. Box 3200 4800 De Breda NETHERLANDS	Chase Manhattan Bank AG Frankfurt
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COUNTRY -----	SUB-CUSTODIAN -----	CORRESPONDENT BANK -----
	Fortis Bank (Nederland) N.V. 55 Rokin P.O. Box 243 1000 AE Amsterdam NETHERLANDS	Chase Manhattan Bank AG Frankfurt
NEW ZEALAND	National Nominees Limited Level 2 BNZ Tower 125 Queen Street Auckland NEW ZEALAND	National Bank of New Zealand Wellington
NIGERIA	Stanbic Merchant Bank Nigeria Limited 188 Awolowo Road P.O. Box 54746 Falomo, Ikoyi Lagos NIGERIA	Standard Bank of South Africa Johannesburg

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FOR FURTHER INFORMATION.*

NORWAY	Den norske Bank ASA Stranden 21 PO Box 1171 Sentrum N-0107 Oslo NORWAY	Den norske Bank ASA Oslo
OMAN	HSBC Bank Middle East Bait Al Falaj Main Office Ruwi, Muscat PC 112 OMAN	Oman Arab Bank Muscat
PAKISTAN	Citibank, N.A. AWT Plaza I.I. Chundrigar Road Karachi 74200 PAKISTAN	Citibank, N.A. Karachi
	Deutsche Bank AG Unitowers I.I. Chundrigar Road Karachi 74200 PAKISTAN	Deutsche Bank AG Karachi

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COUNTRY -----	SUB-CUSTODIAN -----	CORRESPONDENT BANK -----
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Standard Chartered Bank
Box 4896
Ismail Ibrahim Chundrigar Road
Karachi 74200
PAKISTAN

Standard Chartered Bank
Karachi

PERU	Citibank, N.A. Camino Real 457 Torre Real - 5th Floor San Isidro, Lima 27 PERU	Banco de Credito del Peru Lima
PHILIPPINES	The Hongkong and Shanghai Banking Corporation Limited 30/F Discovery Suites 25 ADB Avenue Ortigas Center Pasig City, Manila PHILIPPINES	The Hongkong and Shanghai Banking Corporation Limited Manila
POLAND	Bank Handlowy w. Warszawie S.A. ul. Senatorska 16 00-082 Warsaw POLAND	Bank Rozwoju Eksportu S.A. Warsaw
	Bank Polska Kasa Opieki S.A. 11 Lucka street 00-950 Warsaw POLAND	Bank Rozwoju Eksportu S.A. Warsaw
PORTUGAL	Banco Espirito Santo e Comercial de Lisboa, S.A. Rua Mouzinho da Silveira, 36 R/c 1250 Lisbon PORTUGAL	Chase Manhattan Bank AG Frankfurt
	Banco Comercial Portugues, S.A. Rua Augusta, 62174 1100 Lisbon PORTUGAL	Chase Manhattan Bank AG Frankfurt
ROMANIA	ABN AMRO Bank (Romania) S.A. World Trade Centre Building-E, 2nd Floor Bld. Expozitiei Nr. 2 78334 Bucharest 1 ROMANIA	ABN AMRO Bank (Romania) S.A. Bucharest

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COUNTRY	SUB-CUSTODIAN	CORRESPONDENT BANK
-----	-----	-----

ING Bank N.V.
13-15 Kiseleff Blvd
Bucharest 1
ROMANIA

ING Bank N.V.
Bucharest

RUSSIA	Chase Manhattan Bank International 1st Tverskaya - Yamskaya, 23 125047 Moscow RUSSIA	The Chase Manhattan Bank New York A/C The Chase Manhattan London (US\$ NOSTRO Account)
	Credit Suisse First Boston AO Nikitsky Pereulok, 5	The Chase Manhattan Bank New York

103009 Moscow
RUSSIA

A/C The Chase Manhattan
London (US\$ NOSTRO Account)

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FOR FURTHER INFORMATION.*

SINGAPORE	Standard Chartered Bank 3/F, 6 Battery Road 049909 SINGAPORE	Oversea-Chinese Banking Corporation Singapore
SLOVAK REPUBLIC	Ceskoslovenska Obchodni Banka, A.S. Michalska 18 815 63 Bratislava SLOVAK REPUBLIC	Ceskoslovenska Obchodni Banka, A.S. Bratislava
SLOVENIA	Bank Austria Creditanstalt d.d. Ljubljana Kotnikova 5 SL-61104 Ljubljana SLOVENIA	Bank Austria Creditanstalt d.d. Ljubljana
SOUTH AFRICA	The Standard Bank of South Africa Limited Standard Bank Centre 1st Floor 5 Simmonds Street Johannesburg 2001 SOUTH AFRICA	Standard Corporate & Merchant Bank Johannesburg
SOUTH KOREA	The Hongkong and Shanghai Banking Corporation Limited 5/F HSBC Building #25, Bongrae-dong 1-ga Seoul SOUTH KOREA	The Hongkong and Shanghai Banking Corporation Limited Seoul
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COUNTRY	SUB-CUSTODIAN	CORRESPONDENT BANK
-----	-----	-----
	Standard Chartered Bank 22/F, Seoul Finance Centre Building 63, Mukyo-dong, Chung-Ku Seoul SOUTH KOREA	Standard Chartered Bank Seoul
SPAIN	Chase Manhattan Bank CMB, S.A. Paseo de la Castellana, 51 28046 Madrid SPAIN	Chase Manhattan Bank AG Frankfurt
SRI LANKA	The Hongkong and Shanghai Banking Corporation Limited Unit #02-02, West Block Podium World Trade Center Colombo 1 SRI LANKA	The Hongkong and Shanghai Banking Corporation Limited Colombo
SWEDEN	Skandinaviska Enskilda Banken Sergels Torg 2 SE-106 40 Stockholm SWEDEN	Svenska Handelsbanken Stockholm

SWITZERLAND	UBS AG 45 Bahnhofstrasse 8021 Zurich SWITZERLAND	UBS AG Zurich
TAIWAN	The Chase Manhattan Bank 14th Floor 2, Tun Hwa S. Road Sec. 1 Taipei TAIWAN	The Chase Manhattan Bank Taipei
	The Hongkong and Shanghai Banking Corporation Limited International Trade Building 16th Floor, Taipei World Trade Center 333 Keelung Road, Section 1 Taipei 110 TAIWAN	The Hongkong and Shanghai Banking Corporation Limited Taipei

THAILAND	Standard Chartered Bank 14th Floor, Zone B Sathorn Nakorn Tower 100 North Sathorn Road Bangrak, Bangkok 10500 THAILAND	Standard Chartered Bank Bangkok
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COUNTRY	SUB-CUSTODIAN	CORRESPONDENT BANK
-----	-----	-----
TUNISIA	Banque Internationale Arabe de Tunisie, S.A. S.A. 70-72 Avenue Habib Bourguiba P.O. Box 520 1080 Tunis Cedex TUNISIA	Banque Internationale Arabe de Tunis
TURKEY	The Chase Manhattan Bank Emirhan Cad. No: 145 Atakule, A Blok Kat:11 80700-Dikilitas/Besiktas Istanbul TURKEY	The Chase Manhattan Bank Istanbul
UKRAINE	ING Bank Ukraine 28 Kominterna Street 5th Floor Kiev, 252032 UKRAINE	ING Bank Ukraine Kiev

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U.A.E.	HSBC Bank Middle East P.O. Box 66 Dubai UNITED ARAB EMIRATES	The National Bank of Abu Dhabi Abu Dhabi
U.K.	The Chase Manhattan Bank Crosby Court Ground Floor 38 Bishopsgate London EC2N 4AJ UNITED KINGDOM	National Westminster Bank London

URUGUAY	BankBoston, N.A. Zabala 1463 Montevideo URUGUAY	BankBoston, N.A. Montevideo
U.S.A.	The Chase Manhattan Bank 4 New York Plaza New York NY 10004 U.S.A.	The Chase Manhattan Bank New York

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COUNTRY	SUB-CUSTODIAN	CORRESPONDENT BANK
-----	-----	-----
VENEZUELA	Citibank, N.A. Carmelitas a Altagracia Edificio Citibank Caracas 1010 VENEZUELA	Citibank, N.A. Caracas
ZAMBIA	Barclays Bank of Zambia Limited Kafue House, Cairo Road Lusaka ZAMBIA	Barclays Bank of Zambia Ltd Lusaka
ZIMBABWE	Barclays Bank of Zimbabwe Limited 2nd Floor, 3 Anchor House Jason Mayo Avenue Harare	Barclays Bank of Zimbabwe Ltd Harare

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[LOGO]
JP MORGAN
SECURITIES DEPOSITORIES

<TABLE>
<CAPTION>

COUNTRY	DEPOSITORY	INSTRUMENTS
<S> Argentina	<C> CVSA (Caja de Valores S.A.)	<C> Equity, Corporate Debt, Government Debt
Argentina	CRYL (Central de Registration y Liquidacion de Instrumentos de Endeudamiento Publico)	Government Debt
Australia	Austraclear Limited	Corporate Debt, Money Market, Semi-Government Debt
Australia	CHESS (Clearing House Electronic Sub-register System)	Equity
Australia	RITS (Reserve Bank of Australia/Reserve Bank Information and Transfer System)	Government Debt
Austria	OeKB	Equity, Corporate Debt, Government Debt

(Oesterreichische Kontrollbank AG)

Belgium	CIK (Caisse Interprofessionnelle de Depots et de Virements de Titres S.A.)	Equity, Corporate Debt
Belgium	NBB (National Bank of Belgium)	Corporate Debt, Government Debt
Brazil	CBLC (Companhia Brasileira de Liquidacao e Custodia)	Equity
Brazil	CETIP (Central de Custodia e Liquidacao Financiera de Titulos Privados)	Corporate Debt
Brazil	SELIC (Sistema Especial de Liquidacao e Custodia)	Government Debt
Bulgaria	BNB (Bulgaria National Bank)	Government Debt
Bulgaria	CDAD (Central Depository A.D.)	Equity, Corporate Debt
Canada	CDS (The Canadian Depository for Securities Limited)	Equity, Corporate, Government Debt

</TABLE>

This document is for information only and is designed to keep you abreast of market conditions and procedures. This document is intended neither to influence your investment decisions nor to amend or supplement any agreement governing your relations with JP Morgan Chase. JP Morgan Chase has gathered the information from a source it considers reliable, however, it cannot be responsible for inaccuracies, incomplete information or updating of the information furnished hereby.

April 19, 2001

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[LOGO]
JP MORGAN
SECURITIES DEPOSITORIES

<TABLE>
<CAPTION>

COUNTRY	DEPOSITORY	INSTRUMENTS
<S>	<C>	<C>
Chile	DCV (Deposito Central de Valores S.A.)	Equity, Corporate Debt, Government Debt
China, Shanghai	SSCCRC (Shanghai Securities Central Clearing and Registration Corporation)	Equity
China, Shenzhen	SSCC (Shenzhen Securities Clearing Company, Limited)	Equity
Colombia	DCV (Deposito Central de Valores)	Government Debt
Colombia	DECEVAL (Deposito Centralizado de Valores de Colombia S.A.)	Equity, Corporate Debt, Government Debt

Croatia	SDA (Central Depository Agency Inc. - Stredisnja depozitarna agencija d.d.)	Equity, Government Debt
Croatia	Ministry of Finance of the Republic of Croatia	Short-term debt issued by the Ministry of Finance.
Croatia	CNB (Croatian National Bank)	Short-term debt issued by the National Bank of Croatia.
Czech Republic	SCP (Stredisko cennych papiru)	Equity, Corporate Debt, Government Debt
Czech Republic	CNB (Czech National Bank)	Government Debt
Denmark	VP (Vaerdipapircentralen A/S)	Equity, Corporate Debt, Government Debt
Egypt	MCSA (Misr for Clearing, Settlement and Depository, S.A.E.)	Equity, Corporate Debt
Estonia	ECDS (Estonian Central Depository for Securities Limited - Eesti Vaatpaberite Keskdepositoorium)	Equity, Corporate Debt, Government Debt
Euromarket	DCC (The Depository and Clearing Centre)	Euro-CDs
Euromarket	Clearstream (Clearstream Banking, S.A.)	Euro-Debt
Euromarket	Euroclear	Euro-Debt

</TABLE>

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JP MORGAN
SECURITIES DEPOSITORIES

<TABLE>
<CAPTION>

COUNTRY	DEPOSITORY	INSTRUMENTS
<S> Finland	<C> APK (Finnish Central Securities Depository Limited)	<C> Equity, Corporate Debt, Government Debt
France	Euroclear France	Equity, Corporate Debt, Government Debt
Germany	Clearstream (Clearstream Banking AG)	Equity, Corporate Debt, Government Debt
Greece	CSD (Central Securities Depository S.A.)	Equity, Corporate Debt
Greece	BoG (Bank of Greece)	Government Debt

Hong Kong	HKSCC (Hong Kong Securities Clearing Company Limited)	Equity
Hong Kong	CMU (Central Moneymarkets Unit)	Corporate Debt, Government Debt
Hungary	KELER (Central Clearing House and Depository (Budapest) Ltd. - Kozponti Elszámolóház és Ertektár (Budapest) Rt.)	Equity, Corporate Debt, Government Debt
India	NSDL (National Securities Depository Limited)	Equity, Corporate Debt, Government Debt
India	CDSL (Central Depository Services (India) Limited)	Equity
India	RBI (Reserve Bank of India)	Government Debt
Indonesia	KSEI (PT Kustodian Sentral Efek Indonesia)	Equity, Corporate Debt
Ireland	CREST (CRESTCo Limited)	Equity, Corporate Debt
Israel	TASE Clearing House (Tel Aviv Stock Exchange Clearing House)	Equity, Corporate Debt, Government Debt
Italy	Monte Titoli S.p.A.	Equity, Corporate Debt, Government Debt
Italy	Banca d'Italia	Government Debt

</TABLE>

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<TABLE>
<CAPTION>

COUNTRY	DEPOSITORY	INSTRUMENTS
<S>	<C>	<C>
Ivory Coast	DC/BR (Le Depositaire Central / Banque de Reglement)	Equity
Japan	JASDEC (Japan Securities Depository Center)	Equity, Convertible Debt
Japan	BoJ (Bank of Japan)	Registered Government Debt
Kazakhstan	CSD (Central Securities Depository CJSC)	Equity
Kenya	CBCD	Government Debt

(Central Bank Central Depository)

Latvia	LCD (Latvian Central Depository)	Equity, Corporate Debt, Government Debt
Lebanon	Midclear S.A.L. (Custodian and Clearing Center of Financial Instruments for Lebanon and the Middle East S.A.L.)	Equity
Lithuania	CSDL (Central Securities Depository of Lithuania)	Equity, Corporate Debt, Government Debt
Luxembourg	Clearstream (Clearstream Banking S.A.)	Equity
Malaysia	MCD (Malaysian Central Depository Sdn. Bhd.)	Equity, Corporate Debt, Government Debt
Mauritius	CDS (Central Depository and Settlement Company Limited)	Equity, Corporate Debt
Mexico	INDEVAL (S.D. INDEVAL S.A. de C.V.)	Equity, Corporate Debt, Government Debt
Morocco	Maroclear	Equity, Corporate Debt, Government Debt
Netherlands	NECIGEF (Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.)	Equity, Corporate Debt, Government Debt
New Zealand	NZCSD (New Zealand Central Securities Depository)	Equity, Corporate Debt, Government Debt

</TABLE>

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<TABLE>
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COUNTRY	DEPOSITORY	INSTRUMENTS
<S>	<C>	<C>
Nigeria	CSCS (Central Securities Clearing System Limited)	Equity, Corporate Debt, Government Debt
Norway	VPS (Verdipapirsentralen)	Equity, Corporate Debt, Government Debt
Oman	MDSRC (The Muscat Depository and Securities Registration Company, S.A.O.C.)	Equity, Corporate Debt

Pakistan	CDC (Central Depository Company of Pakistan Limited)	Equity, Corporate Debt
Pakistan	SBP (State Bank of Pakistan)	Government Debt
Peru	CAVALI (CAVALI ICLV S.A.)	Equity, Corporate Debt, Government Debt
Philippines	PCD (Philippine Central Depository, Inc.)	Equity
Philippines	ROSS (Bangko Sentral ng Pilipinas / Register of Scripless Securities)	Government Debt
Poland	NDS (National Depository for Securities S.A.)	Equity, Long-Term Government Debt
Poland	CRT (Central Registry of Treasury-Bills)	Short-Term Government Debt
Portugal	CVM (Central de Valores Mobiliarios e Sistema de Liquidacao e Compensacao)	Equity, Corporate Debt, Government Debt
Romania	SNCDD (National Company for Clearing, Settlement and Depository for Securities)	Equity
Romania	BSE (Bucharest Stock Exchange Registry)	Equity
Russia	VTB (Vneshtorgbank)	Equity, Corporate Debt, Government Debt (Ministry of Finance Bonds)

</TABLE>

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<TABLE>
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COUNTRY	DEPOSITORY	INSTRUMENTS
<S>	<C>	<C>
Russia	NDC (National Depository Centre)	Equity, Corporate Debt, Government Debt
Russia	DCC (Depository Clearing Company)	Equity
Singapore	CDP (The Central Depository (Pte) Limited)	Equity, Corporate Debt
Singapore	SGS (Monetary Authority of Singapore / Singapore Government Securities Book-Entry System)	Government Debt

Slovak Republic	SCP (Stredisko cennych papierov SR Bratislava, a.s.)	Equity, Corporate Debt, Government Debt
Slovak Republic	NBS (National Bank of Slovakia)	Government Debt
Slovenia	KDD (Centralna klirinsko depotna druzba d.d.)	Equity, Corporate Debt, Government Debt
South Africa	CDL (Central Depository (Pty) Limited)	Corporate Debt, Government Debt
South Africa	STRATE (Share Transactions Totally Electronic)	Equity
South Korea	KSD (Korea Securities Depository)	Equity, Corporate Debt, Government Debt
Spain	SCLV (Servicio de Compensacion y Liquidacion de Valores, S.A.)	Equity, Corporate Debt
Spain	CBEO (Banco de Espana / Central Book Entry Office)	Government Debt
Sri Lanka	CDS (Central Depository System (Private) Limited)	Equity, Corporate Debt
Sweden	VPC (Vardepapperscentralen AB)	Equity, Corporate Debt, Government Debt

</TABLE>

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<TABLE>
<CAPTION>

COUNTRY	DEPOSITORY	INSTRUMENTS
<S> Switzerland	<C> SIS (SIS SegInterSettle AG)	<C> Equity, Corporate Debt, Government Debt
Taiwan	TSCD (Taiwan Securities Central Depository Co., Ltd.)	Equity, Government Debt
Thailand	TSD (Thailand Securities Depository Company Limited)	Equity, Corporate Debt, Government Debt
Tunisia	STICODEVAM (Societe Tunisienne Interprofessionnelle pour la Compensation et le Depot des Valeurs)	Equity, Corporate Debt, Government Debt

Mobilieres)

Turkey	TAKASBANK (IMKB Takas ve Saklama Bankasi A.S.)	Equity, Corporate Debt, Government Debt
United Kingdom	CREST (CRESTCo Limited)	Equity, Corporate Debt, Government Debt
United Kingdom	CMO (Central Moneymarkets Office)	Sterling & Euro CDs, Commercial Paper
United States	DTC (Depository Trust Company)	Equity, Corporate Debt
United States	PTC (Participants Trust Company)	Mortgage Back Debt
United States	FED (The Federal Reserve Book-Entry System)	Government Debt
Uruguay	BCU (Banco Central del Uruguay)	Corporate Debt, Government Debt
Venezuela	BCV (Banco Central de Venezuela)	Government Debt
Zambia	CSD (LuSE Central Shares Depository Limited)	Equity, Government Debt
Zambia	BoZ (Bank of Zambia)	Government Debt

</TABLE>

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