A PlainTalk™ guide to swing pricing

A transparent pricing method that treats all investors fairly and seeks to aid the interests of long term investors in Vanguards funds

When investors buy or sell units or shares in a fund, their activity creates a cost for the fund. If the fund provider does nothing to mitigate this cost, it can affect existing investors in the fund.

At Vanguard, we believe this is unfair so we have always taken measures to ensure long-term investors don't bear the cost of others entering or leaving our funds.

Historically, we have achieved this by applying additional dilution levies to large deals. However, after listening to client feedback and observing industry trends, we have now decided to adopt a swing pricing policy on our funds. The introduction of swing pricing will replace the current provisions permitting the application of ADLs and PDLs to manage the effects of dilution.

Inside, we explain swing pricing in more detail, provide an illustration of how it works and define some of the key terms that you might hear when discussing this method of protecting investors.

Swing pricing: key benefits

The swing pricing policy brings a number of benefits to investors which we believe will help them achieve better long-term results:

1. Like the previous dilution levy method, it insulates existing investors from the costs associated with clients transacting in the fund;
2. It provides consistent treatment of all investor transactions on any dealing day;
3. It is aligned with investor demand and should encourage further investment into the company, thereby reducing total expense ratios for existing investors.
4. We expect it to increase investor access to Vanguard funds, because our previous dilution levy method proved difficult for some platforms to implement.

How does swing pricing work?

Swing pricing works by adjusting the price for all deals on a given day up or down according to net cash flows in a given fund.

1 We calculate the net asset value of the fund, which is the value of all the investments held in the portfolio.

2 Dividing this by the number of shares in issue gives the underlying share price.

3 Next, we assess cash flows in the fund. If there are more purchases than sales, the fund is in net inflow and we swing the underlying price upwards by a pre-determined swing factor.

4 If there are more sales than purchases, the fund is in net outflow and we swing the price downwards by the same swing factor.

It's important to note that **all** investors pay the same price on a given day, whether they are buying or selling. This price will either be the underlying share price (if there are no net flows), or a price that's been swung up (if the fund has net inflows) or down (if the fund has net outflows).

One price for greater clarity

We will only publish the swung price, and we'll also use the swung price to calculate fund performance and tracking error.

Because of the way that swing pricing works, we expect the reported tracking error of our funds to increase as a result of our adopting this method.

Swing pricing: some key terms

Dilution – industry jargon for the situation where existing investors bear the costs associated with others buying or selling shares in the fund.

Swing factor – the amount, in basis points, by which a fund's price swings up or down. These are pre-determined in advance and consistently applied. See pages 4–6 for 'Vanguard funds swing factors' for the factors we're applying to our fund range. Please note these numbers are indicative.

Full swing pricing – there are two forms of swing pricing: full and partial. Full swing pricing is where the manager swings the price whenever there are any net flows into or out of a fund. We have adopted full swing pricing in our funds.

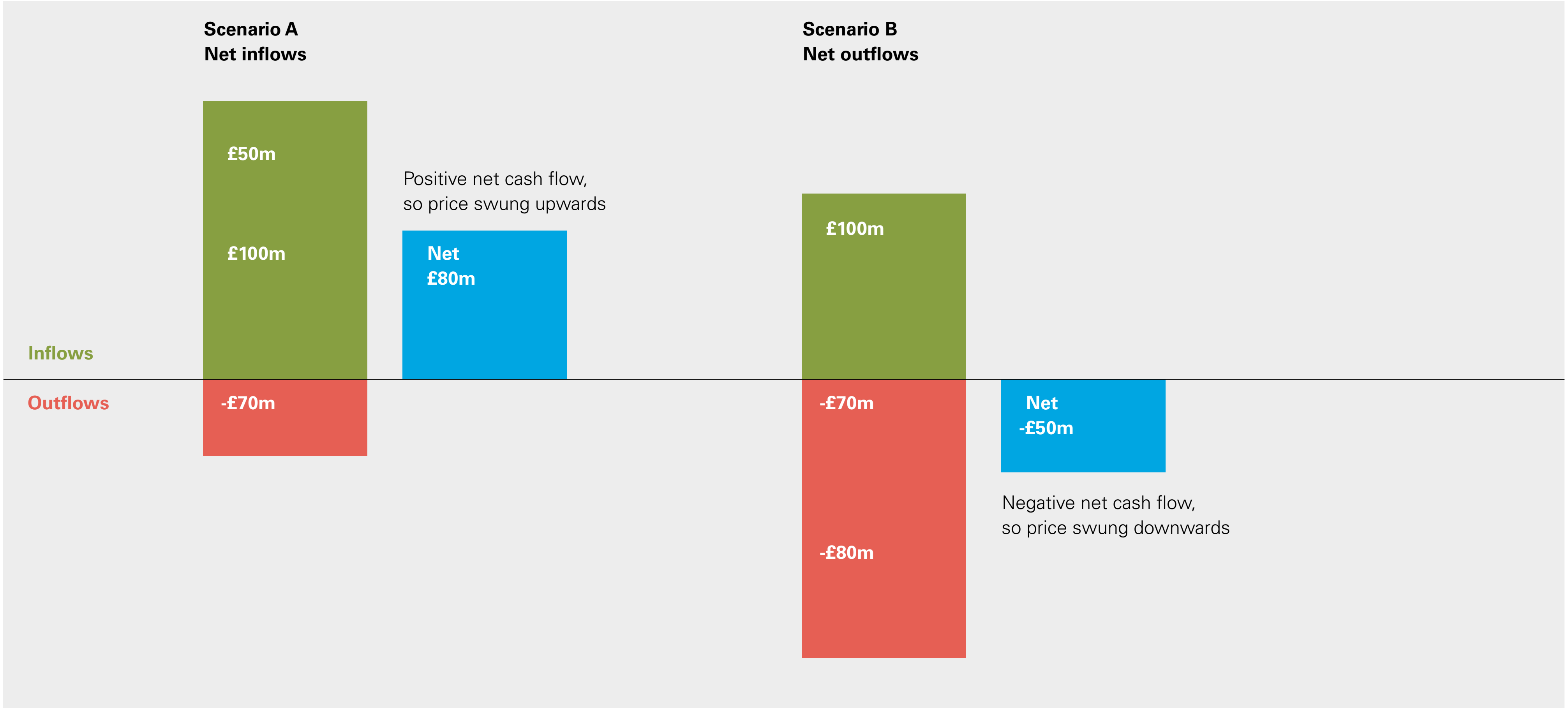
Partial swing pricing – with this method, the manager only swings the price when net flows exceed a pre-agreed threshold.

Net cash flow, net inflows, net outflows – the cash flows into a fund minus the cash flows out of the same fund on a given day. This is the key metric that determines which way we swing the price.

Swing pricing: an illustration

We've provided a simple illustration below to help you understand how swing pricing works. There are two scenarios, each with three separate deals in a given fund on a given day. In scenario A, the fund has inflows totalling £150m and outflows totalling £70m, so it has a positive net cash flow of £80m. In this scenario, we would swing the fund's price upwards by the pre-determined swing factor.

In scenario B, the fund has inflows of £100m and outflows of £150m, resulting in a net outflow of £50m. In this scenario we would swing the fund's price down by the same pre-determined swing factor. We monitor cash flows on all of our funds every day and will automatically apply the appropriate swing factor to each fund.



Vanguard Equity Funds swing factors – The numbers below are indicative only.

Data below is as at 2 October 2017

Ireland domiciled	Buy	Sell
Vanguard European Stock Index Fund	20	2
Vanguard SRI European Stock Fund	20	1
Vanguard Eurozone Stock Index Fund	13	2
Vanguard Emerging Markets Stock Index Fund	13	47
Vanguard Global Enhanced Equity Fund	7	1
Vanguard Pacific ex-Japan Stock Index Fund	6	6
Vanguard SRI FTSE Developed World II Common Contractual Fund[1]	5	1
Vanguard Global Stock Index Fund	5	1
Vanguard SRI Global Stock Fund	5	1
Vanguard Global Small-Cap Index Fund	5	1
Vanguard FTSE Developed World II Common Contractual Fund[1]	5	1
Vanguard Japan Stock Index Fund	2	2
Vanguard U.S. Opportunities Fund*	0	0
Vanguard U.S. 500 Stock Index Fund	0	0
Vanguard U.S. Fundamental Value Fund	0	0

1 World II CCF, SRI World II CCF are only available for Netherlands Institutional investors.

*Effective 3 March 2014, Vanguard U.S. Opportunities is closed to all new accounts; existing shareholders can still make additional share purchases.

Source: Vanguard as at 2 October 2017.

Vanguard Fixed Income Funds swing factors – The numbers below are indicative only.

Ireland domiciled[1]	Buy	Sell
Vanguard U.K. Investment Grade Bond Index Fund	56	0
Vanguard U.S. Investment Grade Credit Index Fund	36	0
Vanguard SRI Euro Investment Grade Bond Index Fund	26	0
Vanguard Euro Investment Grade Bond Index Fund	26	0
Vanguard U.K. Short-Term Investment Grade Bond Index Fund	24	0
Vanguard Global Bond Index Fund	16	0
Vanguard Japan Government Bond Index Fund	11	0
Vanguard 20+ Year Euro Treasury Index Fund	16	0
Vanguard Global Short-Term Bond Index Fund	9	0
Vanguard U.K. Government Bond Index Fund	8	0
Vanguard Eurozone Inflation-Linked Bond Index Fund	12	0
Vanguard Euro Government Bond Index Fund	10	0
Vanguard U.S. Government Bond Index Fund	3	0
Vanguard U.S. Ultra-Short-Term Bond Fund	0	0
Vanguard Global Credit Bond Fund	38	0

1 Irish domiciled Fixed Income funds are priced at bid

Source: Vanguard as at 2 October 2017.

Need to know more?

We want to make investing as fair and straightforward as possible. We have moved to swing pricing because we believe it gives investors a better chance of long-term success by making our funds available more widely.

If you need more information about swing pricing or any of our funds, please contact us.

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The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Some funds invest in emerging markets which can be more volatile than more established markets. As a result the value of your investment may rise or fall.

Funds investing in fixed interest securities carry the risk of default on repayment and erosion of the capital value of your investment and the level of income may fluctuate. Movements in interest rates are likely to affect the capital value of fixed interest securities. Corporate bonds may provide higher yields but as such may carry greater credit risk increasing the risk of default on repayment and erosion of the capital value of your investment. The level of income may fluctuate and movements in interest rates are likely to affect the capital value of bonds.

The fund(s) may invest in financial derivative instruments that could increase or reduce exposure to underlying assets and result in greater fluctuations of the fund's Net Asset Value. Some derivatives give rise to increased potential for loss where the fund's counterparty defaults in meeting its payment obligations.

Vanguard Investment Series plc has been authorised by the Central Bank of Ireland as a UCITS and has been registered for public distribution in certain EU countries. Prospective investors are referred to the Funds' prospectus for further information. Prospective investors are also urged to consult their own professional advisers on the implications of making an investment in, and holding or disposing shares of the Funds and the receipt of distributions with respect to such shares under the law of the countries in which they are liable to taxation.

The Manager of Vanguard Investment Series plc is Vanguard Group (Ireland) Limited. Vanguard Asset Management, Limited is a distributor of Vanguard Investment Series plc.

Vanguard Investments II Common Contractual Fund have been authorised by the Central Bank of Ireland as a UCITS and has been registered for distribution in the Netherlands. Prospective investors are referred to the Fund's prospectus for further information. Prospective investors are also urged to consult their own professional advisers on the implications of making an investment in, and holding or disposing units of, and the receipt of distributions from a CCF or any other investment.

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For further information on the fund's investment policy, please refer to the Key Investor Information Document ("KIID"). The KIID and the Prospectus for these funds are available in local languages from Vanguard via our website https://global.vanguard.com/.

The Central Bank of Ireland has granted authorisation for the Vanguard Eurozone Inflation Linked Bond Index Fund, Vanguard Japan Government Bond Index Fund, Vanguard UK Government Bond Index Fund, Vanguard U.S. Government Bond Index Fund to invest up to 100% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EU Member State, its local authorities, non-EU Member States or public international bodies of which one or more EU Member States are members. As at 30 June 2017, the Vanguard Eurozone Inflation Linked Bond Index Fund invests more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by France. The Vanguard Japan Government Bond Index Fund invests more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by Japan. The Vanguard UK Government Bond Index Fund invests more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by the UK. The Vanguard U.S. Government Bond Index Fund invests more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by the US.

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