**Important**: Investment involves risk, including the loss of principal. Investors should not base investment decisions on this document alone. Investors should refer to the ETF prospectus for further details. The ETFs are traded on the HKEX at market price, which may be different from the net asset value of the ETFs. Past performance is not an indication of future performance.

- The Vanguard S&P 500 Index ETF concentrates its investment in the US securities market which may involve a higher level of risk compared to investing in a more diversified portfolio/strategy and a greater risk of loss than investing in other markets and may result in a higher risk of loss to the ETF. The ETF seeks to track the performance of the S&P 500 Index, before deduction of fees and expenses. It also employs a passively managed, full-replication strategy.
- The Vanguard Total China Index ETF concentrates its investments in Chinese securities, and the PRC market may be more volatile than other markets and may be subject to a higher level of risks compared to investing in a more diversified portfolio/strategy. The ETF seeks to track the performance of FTSE Total China Connect Index, before deduction of fees and expenses. It also employs a passively managed, representative sampling strategy.
- The Vanguard FTSE Developed Europe Index ETF invests in the European securities markets which may involve a greater risk of loss than investing in other markets and may result in a higher risk of loss to the ETF. The ETF seeks to track the performance of the FTSE Developed Europe Index, before deduction of fees and expenses. It also employs a passively managed, representative sampling strategy.
- The Vanguard FTSE Japan Index ETF concentrates its investment in the Japanese securities market which may involve a higher level of risk compared to investing in a more diversified portfolio/strategy and a greater risk of loss than investing in other markets and may result in a higher risk of loss to the ETF. The ETF seeks to track the performance of the FTSE Japan Index, before deduction of fees and expenses. It also employs a passively managed, representative sampling strategy.
- The Vanguard FTSE Asia ex Japan Index ETF invests in securities markets that are considered to be emerging markets which may involve a greater risk of loss than investing in developed markets and may result in a higher risk of loss to the ETF. The ETF seeks to track the performance of the FTSE Asia Pacific ex Japan, Australia and New Zealand Index, before deduction of fees and expenses. It also employs a passively managed, representative sampling strategy.
- The Vanguard FTSE Asia ex Japan High Dividend Yield Index ETF invests in securities markets that are considered to be emerging markets which may involve a greater risk of loss than investing in developed markets. It also invests in high dividend yield securities which may offer a higher rate of dividend yield, but they are subject to risks that the dividend could be reduced or abolished or the risks that the value of the securities could decline or have lower-than-average potential for price appreciation, and there is no guarantee that the constituent securities of the underlying index will declare or pay out dividends. The ETF seeks to track the performance of the FTSE Asia Pacific ex Japan, Australia and New Zealand High Dividend Yield Index, before deduction of fees and expenses. It also employs a passively managed, representative sampling strategy.

# Vanguard ETFs: A low-cost way to build a globally diversified portfolio

Vanguard S&P 500 Index ETF (3140)

Vanguard Total China Index ETF (3169)

Vanguard FTSE Developed Europe Index ETF (3101)

Vanguard FTSE Japan Index ETF (3126)

Vanguard FTSE Asia ex Japan Index ETF (2805)

Vanguard FTSE Asia ex Japan High Dividend Yield Index ETF (3085)

Vanguard®

## A unique client focus

The Vanguard Group, Inc., was founded in the United States in 1975 with a commitment to serving our clients' interests exclusively. Over the years, we have held firm to that commitment and become one of the largest asset managers in the world.

In 1996 we established our first office outside the United States in Australia. We later expanded into Japan, Europe, Canada and Hong Kong, which we established as our regional headquarters in 2011. In 2014 we opened a representative office in Beijing, and in May of 2017 we opened an office in Shanghai.

### What sets us apart

Why have clients from around the world entrusted us with USD 5.6 trillion in assets?[1] The answer lies in our core purpose: To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.

What sets us apart – and enables us to deliver on that promise – is our ownership structure in the United States. Unlike other investment management companies, we do not have public shareholders or private owners expecting dividends. We are owned by our US-domiciled funds, which in turn are owned by their investors. As a result, we have no conflicting loyalties and can stay focused on doing what is best for our clients.

The most tangible benefit to our clients is our low costs. As at 31 December 2018, the ongoing charges for our US-domiciled mutual funds averaged 0.10%, far lower than the industry average of 0.58%.[2]

As we expand our presence in Asia, we continue to provide high-quality, low-cost products to our clients, with the goal of giving them the best chance for investment success.

### Our investment philosophy

Vanguard believes successful investing begins with focusing on what you can control. You cannot control market returns, but you can set clear goals, stay diversified, keep costs low and maintain long-term discipline.

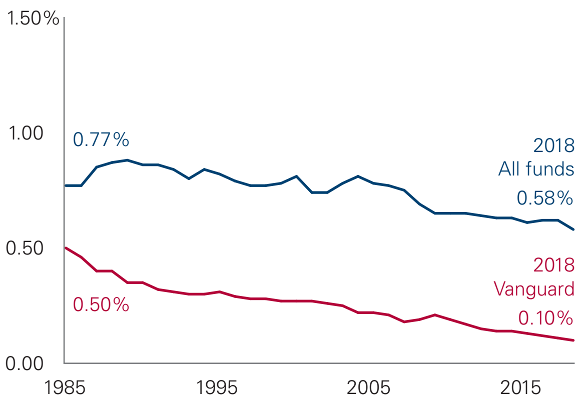
These common sense principles guide the decisions we help our clients make. They also guide the way we manage our funds and ETFs, producing impressive long-term results. For the ten years ending 30 June 2019, 83% of Vanguard US-domiciled funds outperformed their peer group averages.[3]

## An indexing leader

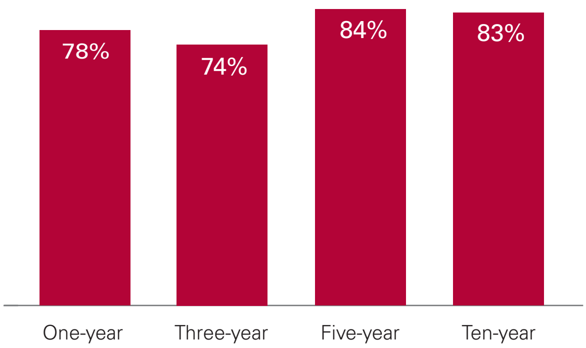
Vanguard is known as a low-cost leader in both passive and actively managed investments. Although we have deep roots in active management, we are best known for introducing the first index fund for individual investors in the United States in 1976, beginning the era of low-cost indexing. Over the last decade, we have extended our indexing expertise to ETFs.

The Vanguard cost advantage

Asset-weighted ongoing charges*




Percentage of all Vanguard funds outperforming the average returns of their peer groups**




* Sources: Vanguard and Morningstar, as at 31 December 2018. Based on US-domiciled funds only. Asset-weighted ongoing charges reflect the average fee that investors pay.

** Source: Lipper, a Thomson Reuters Company. Based on the number of US-domiciled Vanguard funds that outperformed their Lipper peer-group averages for periods ended 30 June 2019.

1 Source: Vanguard, as of 30 June 2019.

2 Sources: Vanguard and Morningstar as at 31 December 2018.

3 Source: Lipper, a Thomson Reuters Company.

### Why indexing?

Index investments provide an easy, low-cost way to capture broad market returns simply through buying all (or a representative sample) of the securities in the market index they seek to track. Index funds typically have low management costs because they don't have to employ highly paid teams to analyse and select securities. They also tend to have low transaction costs, because they hold securities until the index itself changes.

Due mostly to their low costs, index investments have generally outperformed higher-cost investments over time.[4] In addition to low costs and a potential performance edge, index investments offer diversification, holdings transparency, and the ability to gain consistent exposure to specific market segments.

### ETFs: Another way to index

ETFs have become popular for features that traditional index funds don't offer. Like index funds, ETFs offer the benefits of low costs and diversification. But ETFs have the added flexibility of trading on a stock exchange. Like individual stocks, they can be bought and sold through an adviser or a brokerage account at market-determined prices, whenever the exchange is open.

## Vanguard ETFs™ offer low-cost access to global equity markets

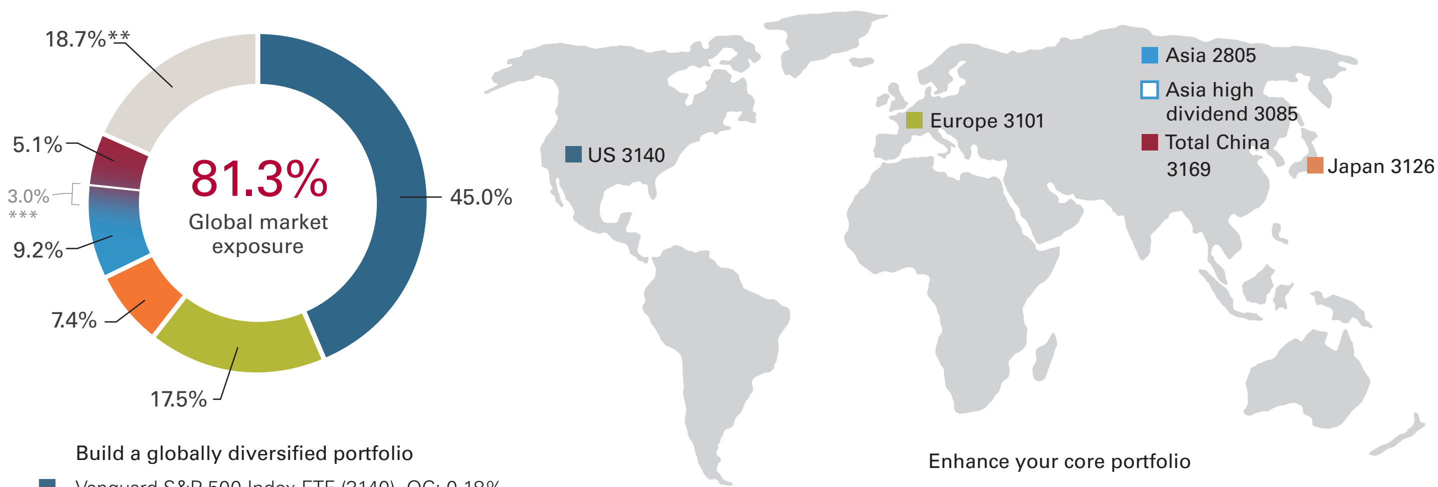
Vanguard low-cost ETFs make ideal building blocks for a well-diversified portfolio, giving you broad access to the world's total equity market capitalisation. And Vanguard's low costs mean you keep more of your returns – a benefit that can compound in your favour over time. All else being equal, lower-cost investments provide greater net returns than higher-cost investments.

With just five Vanguard ETFs, you can assemble a globally diversified portfolio covering broad equity markets in Asia, Europe and the United States. You can also enhance your core portfolio with a dividend-oriented strategy through our Asia ex Japan High Dividend Yield Index ETF.

In addition to offering low-cost access to global equity markets, our Hong Kong-domiciled ETFs are now available in US dollars (USD) and Renminbi (RMB), along with the original trading currency of Hong Kong dollars (HKD). With these three trading counters available, investors can now retain their currency exposure while investing in our portfolio-building ETFs, offering them more trading flexibility.

### Vanguard ETFs: Low-cost access to over 80% of global equity markets

Portion of global market capitalisation covered by Vanguard Hong Kong-domiciled ETFs*




**Build a globally diversified portfolio**

- Vanguard S&P 500 Index ETF (3140) OC: 0.18%
- Vanguard FTSE Developed Europe Index ETF (3101) OC: 0.18%
- Vanguard FTSE Japan Index ETF (3126) OC: 0.18%
- Vanguard FTSE Asia ex Japan Index ETF (2805) OC: 0.20%
- Vanguard Total China Index ETF (3169) OC: 0.40%

**Enhance your core portfolio**

- Vanguard FTSE Asia ex Japan High Dividend Yield Index ETF (3085) OC: 0.35%

*Offers exposure to higher yielding stocks across Asia ex Japan.*

* Source: Vanguard calculations using index data from FTSE and S&P as at 31 December 2018.
**Remainder of global equity markets.
*** Exposure overlap between FTSE Asia ex Japan Index and Total China Connect Index (not included in global market exposure).
Note: OC represents ongoing charges. Stock codes shown are for HKD.

4 Source: *The case for low-cost index-fund investing*, Vanguard, 2019.

# About the S&P 500

Introduced in 1957 by Standard & Poor's (S&P), the S&P 500 has become a widely recognised proxy for the US equity market. Globally, there is over USD 9.9 trillion benchmarked to the S&P 500, with indexed assets comprising approximately USD 3.4 trillion of this total.[5]

## Index methodology

The S&P 500 is float-adjusted and market-cap weighted, which means it only includes shares that are available in the open market and the index constituents are weighted according to market capitalisation. So the influence of each constituent stock on the index performance is proportional to its market value.

To be eligible for inclusion in the index, each constituent should meet the following criteria:

- US-based companies
- Market capitalisation of USD 6.1 billion or greater
- At least 50% of shares outstanding must be available for trading on the open market
- Four consecutive quarters of positive earnings
- Highly tradeable common stocks, with active and deep markets

The index is rebalanced quarterly, after the market close on the third Friday of the quarter-ending month.

## Index characteristics

The S&P 500 includes 500 leading companies in leading industries of the US economy. Focusing on the large-cap segment of the market, the index covers approximately 80% of available US market capitalisation.

- Diversified across 11 sectors, with information technology, the largest sector, accounting for 21.5% of the index.[5]
- Strong stock diversification. The 10 largest stocks represent 21.6% of the index and the largest stock, Microsoft Corp., has a weight of just 4.2%.[5]
- The index members are highly liquid.

**S&P 500 performance in the past 40 years**


Source: FactSet, as of 30 June 2019.

The performance of an index is not an exact representation of any particular investment as you cannot invest directly in the index. The historical performance of the index is for illustrative purposes only. The historical performance of the index is not meant to forecast, imply or guarantee the future performance of the fund. Index performance does not reflect tracking error, charges and expenses associated with the fund, or brokerage commission associated with buying and selling the fund.

5 Source: S&P, as of 30 June 2019.

# About the FTSE indices

FTSE Group ("FTSE") calculates and manages a comprehensive range of equity, fixed income, real estate and investment strategy indices, on both a standard and custom basis. The FTSE Global Equity Index Series forms the foundation of FTSE's global, regional, country and sector indices. It covers around 7,850 securities in 48 different countries, covering every equity and sector relevant to international investors' needs.

## Index methodology

FTSE uses transparent rules in determining inclusion in its indices. Committees periodically review the indices to ensure they remain objective and accurately reflect their target markets. Stocks are screened for liquidity and adjusted for free float, so benchmarks reflect the shares available in the open market.

## Index characteristics

The FTSE indices that our Hong Kong-domiciled ETFs track are primarily market-cap weighted. Below is a closer look at the characteristics of the five FTSE indices.

## Benchmark of 2805 versus 3085

Both FTSE indices provide exposure to the Asia ex Japan equity markets. The key difference is that the 2805 benchmark weights its stocks in proportion to market capitalisation, whereas the 3085 benchmark tilts towards higher dividend yielding stocks, hence complementing the Asia ex Japan exposure with additional dividend income.

## Benchmark of 3169

The FTSE Total China Connect Index provides exposure to all major Chinese share classes, including A-shares, B-shares, H-shares, red chips, P-chips, S-chips and N-shares. An all-in-one Chinese equity portfolio could help minimise return cyclicality and enhance an investor's return relative to the amount of risk they take on. In addition, the index offers more balanced sector exposure compared to other major Chinese equity indices, which are highly concentrated in financials.

**A closer look at five FTSE indices**

| Index name | FTSE Total China Connect Index | FTSE Developed Europe Index | FTSE Japan Index | FTSE Asia Pacific ex Japan, Australia and New Zealand Index | FTSE Asia Pacific ex Japan, Australia and New Zealand High Dividend Yield Index |
|---|---|---|---|---|---|
| Vanguard ETF (stock code) | 3169 | 3101 | 3126 | 2805 | 3085 |
| Index characteristics | | | | | |
| Number of markets | 1 | 16 | 1 | 11 | 11 |
| Number of stocks | 1163 | 585 | 512 | 1614 | 466 |
| Number of sectors | 10 | 10 | 10 | 10 | 10 |
| Median market cap | 241.6 B RMB | 352.9 B HKD | 160.2 B HKD | 223.4 B HKD | 202.5 B HKD |
| Equity yield (dividend) | 2.2.% | 3.5% | 2.5% | 2.6% | 4.3% |

Note: Stock codes shown are for HKD.
Source: FTSE, as of 30 June 2019

# Benchmark selection expertise

## What Vanguard looks for in benchmarks

Index products – and the benchmarks they seek to track – have proliferated over the last few years, posing a challenge to investors seeking to choose appropriate investments.

Over the last 40 years, Vanguard has developed a rigorous process for screening, evaluating and selecting benchmarks for its index funds and ETFs.

Selecting an appropriate benchmark is crucial to providing a best-in-class ETF. We use market-capitalisation-weighted indices from FTSE and S&P because they accurately represent the markets our Hong Kong-domiciled ETFs seek to track.

## Best practices for benchmark construction

Many index providers are adopting benchmark construction best practices that Vanguard has promoted for years, including:

- **Objectivity**. Benchmark construction is transparent and determined objectively.
- **Accurate reflection of the market**. The benchmark is the best representation of the target market or market segment and is free-float adjusted, which means it only includes securities that are available in the open market. Free float is important for efficient asset allocation and for limiting overlap among funds.
- **Market-cap buffer zones**. Market capitalisation divisions overlap, with no hard cutoff points. Buffer zones can reduce turnover, and lower transaction costs.
- **Multi-factor style analysis**. Growth and value stocks are categorised using multiple criteria, offering a better style representation within the index.
- **Timely and efficient construction**. The benchmark's rebalancing approach reflects market changes in an orderly fashion.

## Benefits of appropriate benchmark selection

Using best practices to construct benchmarks can deliver benefits to investors, including:

- Low portfolio turnover, which leads to lower transaction costs
- Better reflection of targeted markets, which can make index funds and ETFs efficient asset allocation tools
- Comparability among index products, allowing investors to choose benchmarks based on preference, cost and accessibility

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