

Put ETFs to work for your clients

Vanguard Investments Canada Inc.

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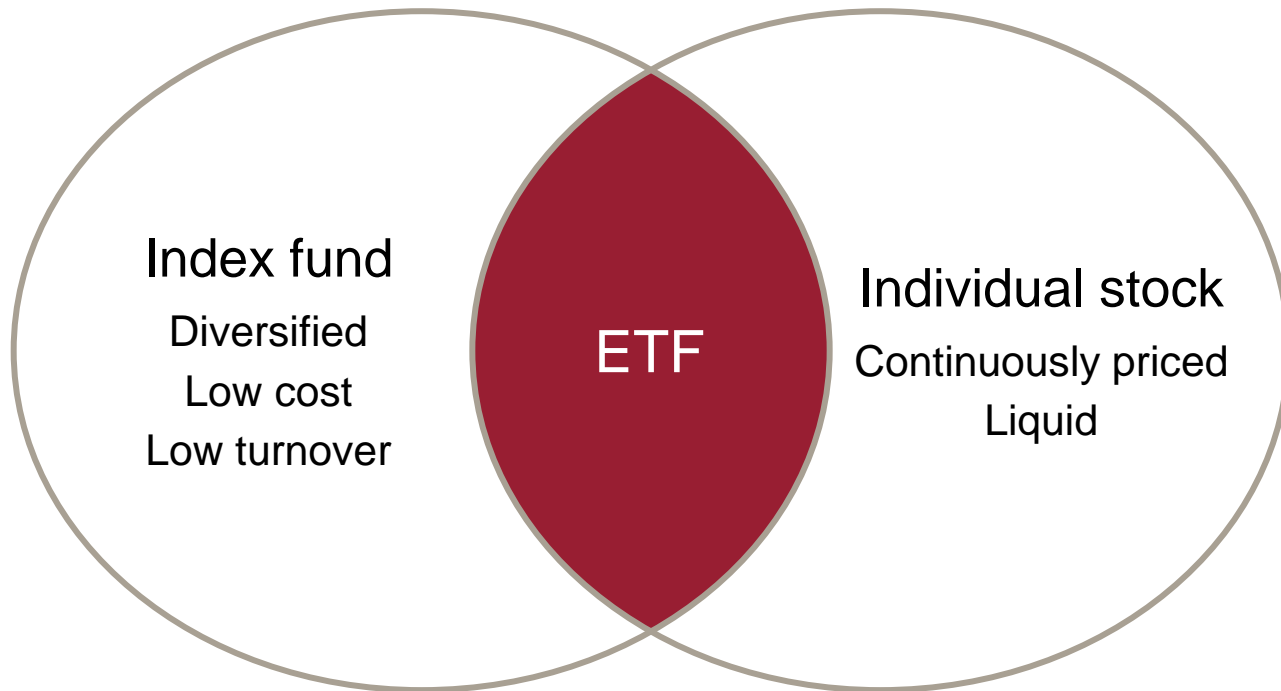


Vanguard[®]

Agenda

- What are ETFs?
- Potential benefits of ETFs
- How ETFs work
- ETFs and indexing

What are ETFs?



What are ETFs?

Most exchange-traded funds...

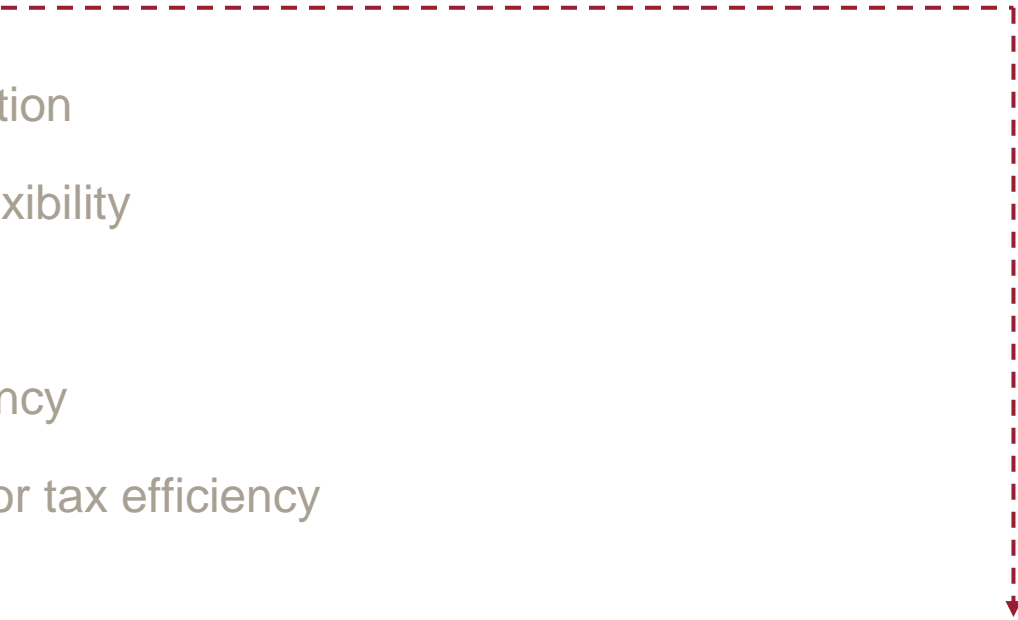


Potential benefits of ETFs

- Low costs
- Diversification
- Trading flexibility
- Liquidity
- Transparency
- Potential for tax efficiency

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**Costs can be less than those
of conventional index funds
and active funds**

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Index funds invest in all or a representative sample of the securities in an index

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**Bought and sold any time the
stock exchange is open**

Potential benefits of ETFs

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**Dealers can create and redeem
ETFs as necessary**

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**Information provided
to the market daily**

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Minimized capital gains distributions

How ETFs work

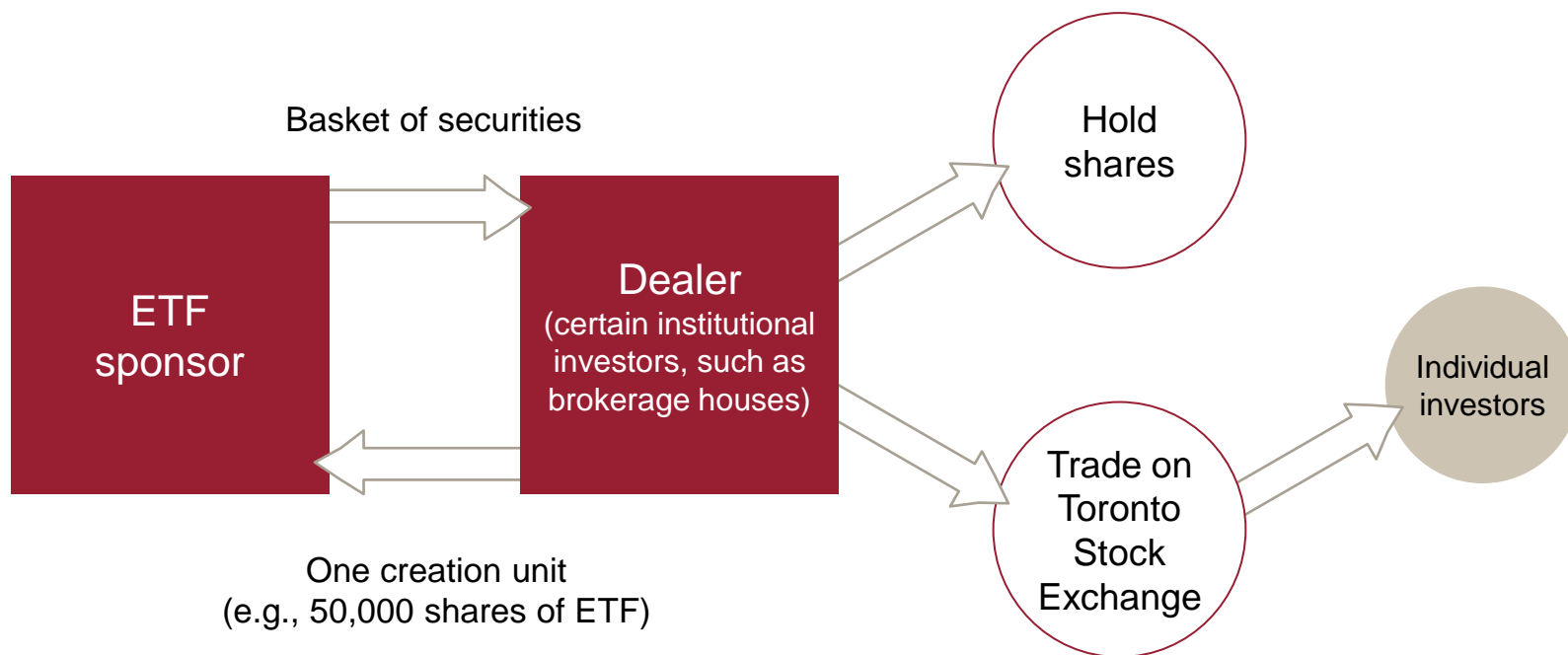
- Creation and redemption
- Secondary-market trading
- Trading options
- Costs
- Excess return and tracking error
- Liquidity and average daily volume

How ETFs work

- **ETF creation / subscription** — delivering a basket of specified securities to the issuer in return for ETF shares
- **ETF redemption** — delivering ETF shares back to the issuer in return for a basket of specified securities
- **PCF (or —the basketII)** — portfolio composition file—the file transmitted daily to authorized participants / Dealers that lists the securities they must deliver to create Vanguard ETFs, or the securities they will receive when redeeming Vanguard ETFs
- **In-kind redemption** — process in which redemptions are paid in shares of the fund's underlying stocks—in-kind redemptions do not trigger a taxable gain or loss, unlike cash redemptions

How ETFs work

Creation and redemption



ETF redemption works in reverse, with the dealer providing ETF shares to the ETF sponsor in return for underlying securities.

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How ETFs work

Lead market maker / Specialist / Designated liquidity provider / Designated Broker

- Exchange registered traders assigned to an ETF
- Obligated to provide liquidity and maintain a fair and orderly market for their ETFs
- Typically provide seed capital

Authorized Participant / Underwriter / Dealer

- An institution that has signed a contract with Vanguard for the ability to create and redeem shares of Vanguard ETFs

Market Maker / Market Maker

- Exchange registered traders who provide additional liquidity through two-sided quotes

How ETFs work

Other traders provide additional sources of liquidity

- Prop desks and institutional traders; high volume and high frequency traders
- Not obligated to make markets and usually provide one-sided quotes

Exchange

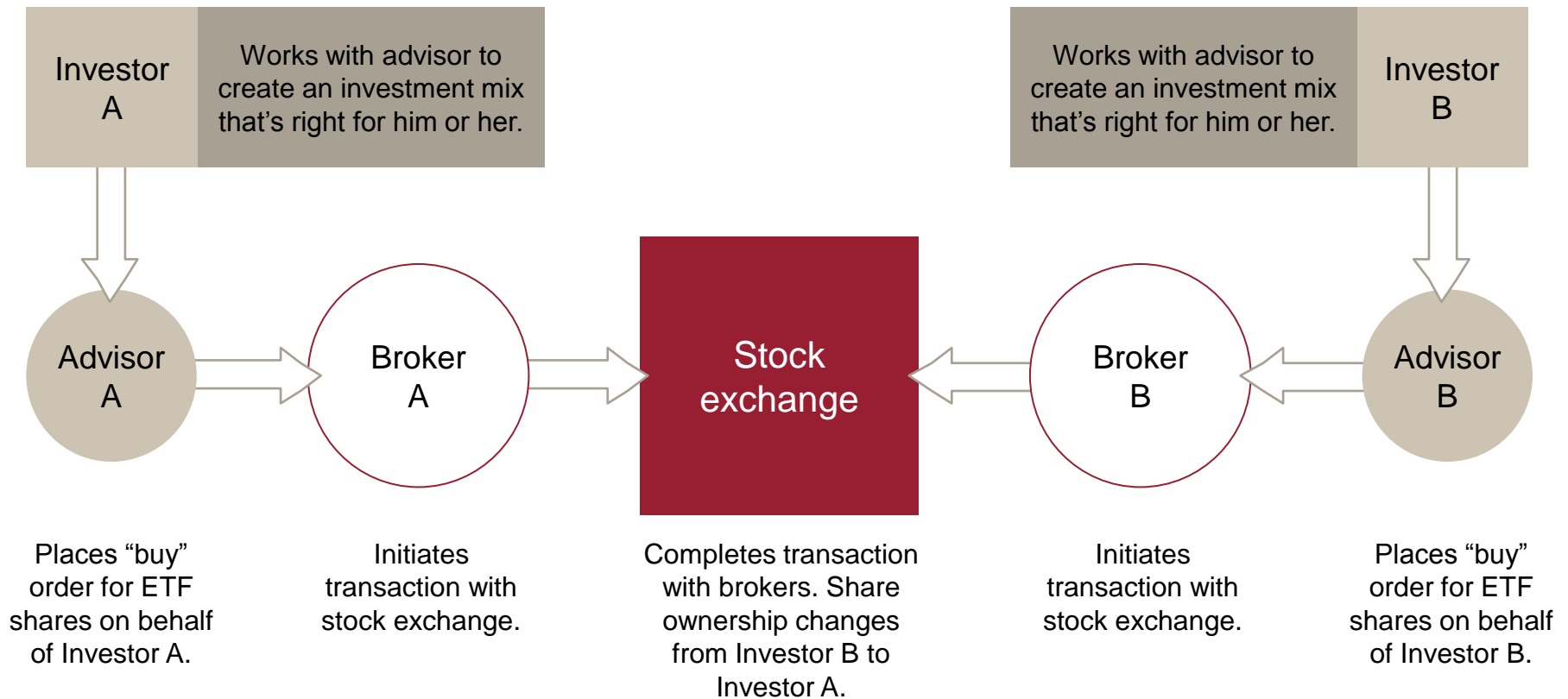
- Provides or maintains the marketplace where ETFs can be traded from one investor to another (e.g. TSX, *Alpha*, NYSE, LSE)

Alternative trading systems (ATS)

- Facilitate high velocity, low-latency trading of listed equities on an exchange (e.g. *Alpha*, BATS, CHI-X)

How ETFs work

Secondary-market trading



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How ETFs work

- Creation and redemption
- Secondary-market trading
- **Trading options**
- Costs
- Excess return and tracking error
- Liquidity and average daily volume



**Greater flexibility than
with mutual funds**

How ETFs work

- All else equal, ETFs will trade with tighter quoted spreads when all of the underlying securities have begun trading
- When trading size, engage a block desk to review options
- Avoid market orders when possible, particularly at market open and close

How ETFs work

- Creation and redemption
- Secondary-market trading
- Trading options
- Costs
- Excess return
- Liquidity and

Market order – Buying or selling immediately, at market price

Stop order – Initiating market order at specified price

Limit order – Buying or selling at specified price

Buying on margin – Borrowing from broker

Short-selling – Betting on decline in price

Greater flexibility than
with mutual funds

How ETFs work

- Creation and redemption
- Secondary-market trading
- Trading options
- **Costs**
- Excess return and tracking error
- Liquidity and average daily volume



**Generally less than index
and active mutual funds**

How ETFs work

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Helping you evaluate ETFs

How ETFs work

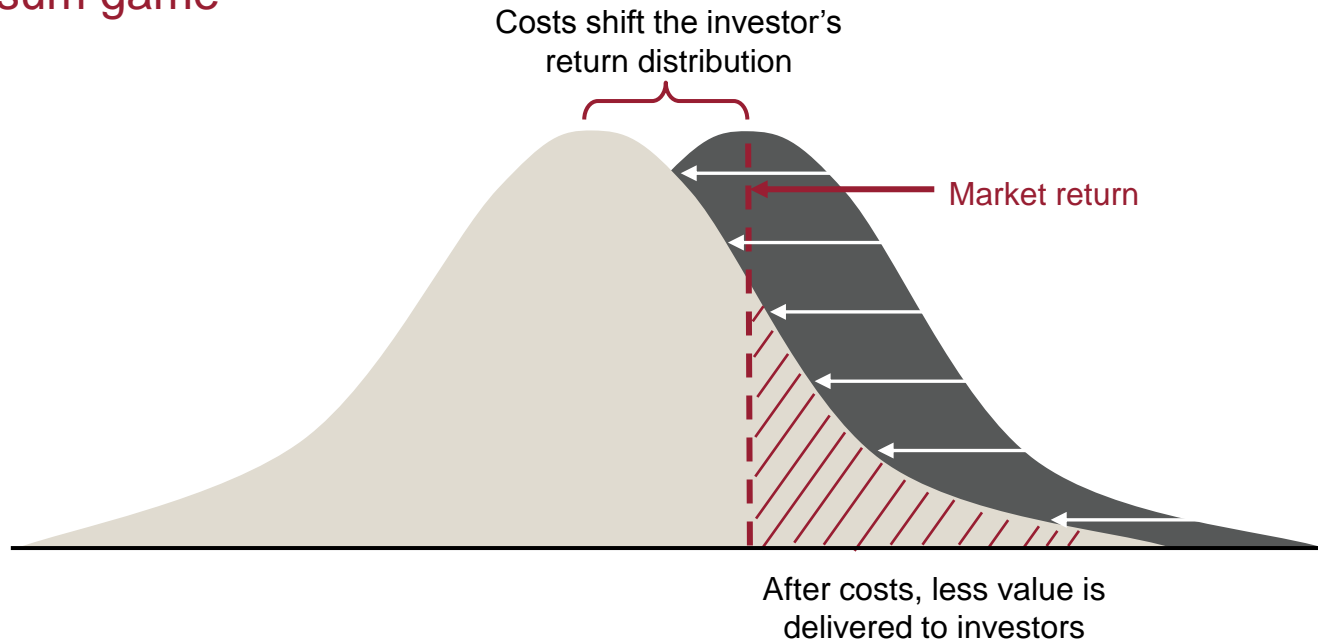
- Creation and redemption
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Underlying securities matter most

ETFs and indexing

The zero-sum game



- The holdings of all investors aggregate to form a market
- Outperformance by one necessarily means underperformance by another
- The key to increasing the likelihood of remaining on the winning side is by lowering costs (but maintaining skill)

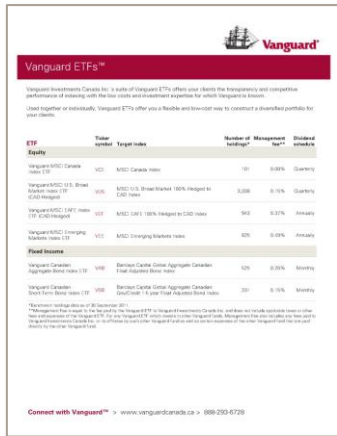
Source: The Vanguard Group, Inc. Investment Strategy Group. For illustrative purposes only. This illustration does not represent the return on any particular investment.
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ETFs and indexing

The Vanguard approach

- Market-capitalization weighting
- Pitfalls of alternative-weighting schemes

Supporting your business



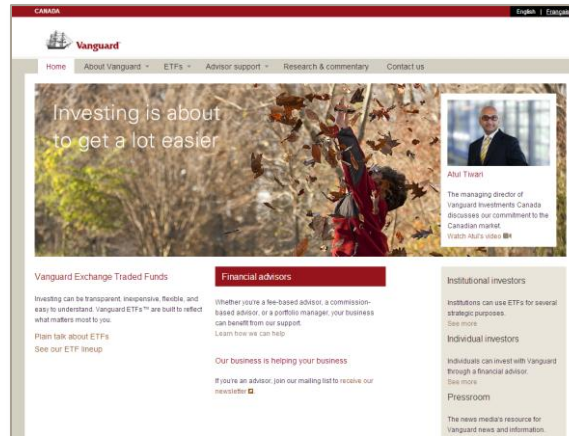
Vanguard ETFs™

Vanguard Investments Canada Inc. is a list of Vanguard ETFs offers your clients the transparency and comparative performance of indexing with flexible costs and investment exposure for which Vanguard is known. Used together or individually, Vanguard ETFs offer you a flexible and low-cost way to construct a diversified portfolio for your clients.

ETF	Ticker symbol	Target index	Number of Holdings	Management fee	Dividend schedule
Equity					
Vanguard MSCI Canada Index (i.e.)	MSCI	MSCI Canada Index	101	0.30%	Quarterly
Vanguard MSCI U.S. Broad Market Index (i.e.)	MSCI	MSCI U.S. Broad Market 100% Hedged to CAD Index	3,038	0.19%	Quarterly
Vanguard MSCI EAFE Index (i.e.)	MSCI	MSCI EAFE 100% Hedged to CAD Index	562	0.21%	Quarterly
Vanguard MSCI Emerging Markets Index (i.e.)	MSCI	MSCI Emerging Markets Index	475	0.45%	Annually
Fixed Income					
Vanguard Canadian Bond Index (i.e.)	Benchmark	Bank of Canada Composite Canadian Bond Index	125	0.25%	Monthly
Vanguard Canadian Bond Index (i.e.)	Benchmark	Bank of Canada Composite Canadian Bond Index	231	0.15%	Monthly

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ETF product card



Investing is about to get a lot easier

Abul Tiwari
The managing director of Vanguard Investments Canada discusses our commitment to the Canadian market.

Vanguard Exchange Traded Funds

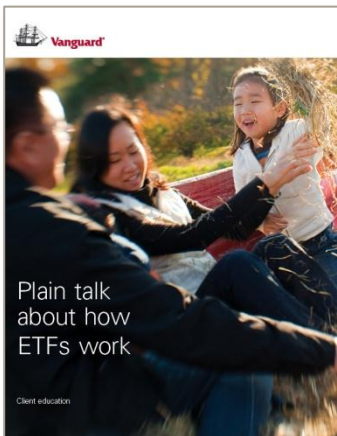
Financial advisors

Institutional investors

Individual investors

Pressroom

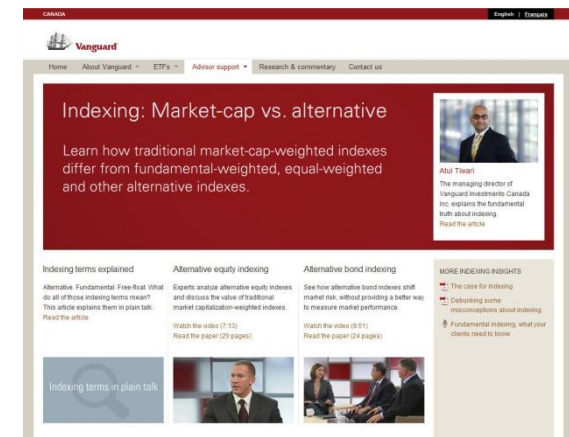
Canada website



Plain talk about how ETFs work

Client education

Plain talk about how ETFs work



Indexing: Market-cap vs. alternative

Learn how traditional market-cap-weighted indexes differ from fundamental-weighted, equal-weighted and other alternative indexes.

Abul Tiwari
The managing director of Vanguard Investments Canada Inc. explains the fundamental truth about indexing. Read the article.

Indexing terms explained

Alternative equity indexing

Alternative bond indexing

MORE INDEXING INSIGHTS

Indexing terms in plain talk

Indexing: Market-cap vs. alternative website

Disclosures

Commissions, management fees and expenses all may be associated with the Vanguard ETFs. This offering is only made by prospectus. Copies are available from Vanguard Investments Canada Inc. at www.vanguardcanada.ca. Please read the prospectus before investing. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

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Notes on risk:

All investments, including those that seek to track indexes, are subject to risk, including the possible loss of principal. Diversification does not ensure a profit or protect against a loss in a declining market. While Vanguard ETFs are designed to be as diversified as the original indexes they seek to track and can provide greater diversification than an individual investor may achieve independently, any given ETF may not be a diversified investment.

Investing in ETFs involves risk, including the risk of error in tracking the underlying index. ETFs are subject to risks similar to those of stocks. Investments that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Stocks of companies in emerging markets are generally more risky than stocks of companies in developed countries. Investments in exchange-traded bond funds are subject to interest rate, credit, and inflation risk. Foreign investing involves additional risks including currency fluctuations and political uncertainty.

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