

# Vanguard® Financials ETF

## Investment Approach

Seeks to track the performance of the MSCI US Investable Market Index (IMI)/Financials 25/50.

Multicapitalization equity in the financials sector.

Passively managed, uses full-replication strategy when possible.

If regulatory constraints prevent full replication, uses sampling strategy to approximate the index's key characteristics.

Fund remains fully invested.

Low expenses minimize net tracking error.

## Quarterly Commentary

Major stock markets continued to advance in the first quarter of 2024, with a number of indexes reaching record highs. In the U.S., inflation readings came in higher than expected, but the labor market stayed on a solid footing, consumer spending remained strong, and the economy showed continued vigor. Given this backdrop, the Federal Reserve left interest rates unchanged.

Global stocks returned just shy of 8% for the quarter, as measured by the FTSE Global All Cap Index. U.S. equities led the way, while those in emerging markets lagged but still finished in positive territory.

With rate cuts looking less imminent, bond yields generally rose and prices declined. The broad U.S. investment-grade bond market returned -0.72% (as measured by the Bloomberg U.S. Aggregate Float Adjusted Index).

The MSCI US Investable Market Financials 25/50 Index returned 11.53% for the quarter ended March 31. The MSCI US Investable Market 2500 Index, which measures the U.S. stock market, returned 9.95% for the period.

JPMorgan Chase (+19%), Berkshire Hathaway (+18%), and Mastercard (+13%) were the top contributors.

New York Community Bancorp (-68%), S&P Global (-3%), MarketAxess Holdings (-25%), and Affirm Holdings (-24%) detracted most from performance.

For the 12 months ended March 31, 2024, the MSCI US Investable Market Financials 25/50 Index returned 34.47%. The largest contributors were JPMorgan Chase (+58%), Berkshire Hathaway (+36%), and Visa (+27%). The top detractors were MarketAxess Holdings (-43%), First Horizon (-9%), First Republic Bank (-75%), and New York Community Bancorp (-62%).

## People and Process

Vanguard Financials ETF seeks to track the investment performance of the MSCI US Investable Market Index (IMI)/Financials 25/50, a benchmark of large-, mid-, and small-cap U.S. stocks in the financials sector, as classified under the Global Industry Classification Standard (GICS). This GICS sector is made up of companies involved in activities such as banking, mortgage finance, consumer finance, specialized finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, and financial investment. Whenever possible, the fund attempts to fully replicate the target index, holding each stock in approximately the same proportion as its weighting in the index. However, the fund will use a sampling strategy if regulatory constraints or other considerations prevent it from replicating the index. Vanguard's Equity Index Group uses proprietary software to implement trading decisions that accommodate cash flows and maintain close correlation with index characteristics. Vanguard's refined indexing process, combined with low management fees and efficient trading, has provided tight tracking net of expenses.

## Vanguard Equity Index Group

Launched in 1975, The Vanguard Group, Malvern, Pennsylvania, is among the world's largest equity and fixed income managers. As chief investment officer, Gregory Davis, CFA, oversees Vanguard's Equity Index, Investment Strategy, Quantitative Equity, and Fixed Income Groups. Rodney Comegys, Principal and global head of Vanguard's Equity Index Group, is responsible for all equity index funds. The Equity Index Group manages indexed equity portfolios covering U.S. and international markets. It has developed sophisticated portfolio construction methodologies and efficient trading strategies that seek to deliver returns that are highly correlated with target portfolio benchmarks. The group has advised Vanguard Financials ETF since 2004.

## Investment Manager Biographies

Kenny Narzikul, CFA, Portfolio manager. Advised the fund since 2023. Worked in investment management since 2016. B.B.A., James Madison University.

Michelle Louie, CFA, Principal. Portfolio manager. Advised the fund since 2017. Worked in investment management since 2011. B.S., The American University. M.B.A., Georgia Institute of Technology.

**Total Returns**

	Expense Ratio	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Financials ETF (1/26/2004)	0.10%						
Net Asset Value	—	11.50%	11.50%	34.33%	9.03%	12.22%	10.77%
Market Price	—	11.44	11.44	34.31	9.01	12.21	10.77
Spliced U.S. Investable Market Financials 25/50 Index	—	11.53	11.53	34.47	9.12	12.31	10.87

**The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance). The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.** Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

Note: Spliced U.S. Investable Market Financials 25/50 Index: MSCI US Investable Market Financials Index through February 26, 2010; MSCI US Investable Market Index (IMI)/Financials 25/50 thereafter.

Market price returns are calculated using the midpoint between the bid and offer price at the time NAV is calculated, typically 4 p.m., Eastern time.

**Quarterly Returns**

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year-End		
					Financials ETF	Spliced US IMI Financials 25/50 Index	Assets (Millions)
2024	11.50%	—	—	—	—	—	\$9,435
2023	-5.32	4.89%	-0.55%	15.49%	14.06%	14.17%	9,227
2022	-2.83	-16.96	-3.02	12.15	-12.24	-12.21	8,566
2021	16.45	7.65	2.97	4.76	35.22	35.37	11,661
2020	-33.12	13.58	2.83	25.32	-2.10	-2.01	7,187
2019	9.29	7.61	1.98	9.74	31.62	31.74	7,966
2018	-0.55	-2.32	3.37	-13.83	-13.46	-13.39	6,152
2017	2.26	3.82	5.02	7.69	20.07	20.17	7,304
2016	-4.04	2.75	4.82	20.66	24.69	24.83	4,871
2015	-0.65	1.22	-6.10	5.41	-0.46	-0.40	3,439
2014	2.73	2.37	0.58	7.74	13.95	14.05	2,597

**Recent Dividends and Distributions**

Ex-Dividend Date	Income	Total Dividend
March 25, 2024	\$0.40	\$0.40
December 20, 2023	0.54	0.54
September 29, 2023	0.51	0.51
June 30, 2023	0.44	0.44
March 27, 2023	0.44	0.44
December 16, 2022	0.62	0.62
September 29, 2022	0.47	0.47
June 24, 2022	0.41	0.41
March 25, 2022	0.41	0.41
December 17, 2021	0.51	0.51
September 30, 2021	0.55	0.55
June 22, 2021	0.37	0.37

**Volatility Measures**

	R-Squared	Beta
Spliced US IMI Financials 25/50	1.00	1.00
MSCI US Investable Market 2500 Idx	0.70	0.97

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.

**Fund Facts**

Fund Number	0957
Ticker	VFH
Intra-day Ticker	VFH.IV
Benchmark Ticker	M5USSFNI
CUSIP Number	92204A405
Assets (millions)	\$9,435
Inception	1/26/2004
Expense Ratio (as of 12/2023)	0.10%

**Equity Characteristics**

	Financials ETF	MSCI US IMI Financials 25/50
Number of stocks	394	394
Median market cap	\$121.1 Billion	\$121.1 Billion
Average market cap	\$244.4 Billion	\$246.5 Billion
Price/earnings ratio	16.3x	16.4x
Price/book ratio	2.0x	2.0x
Return on equity	12.7%	12.7%
Earnings growth rate	10.0%	10.1%
Equity yield (dividend)	1.8%	1.8%
Foreign holdings	0.0%	0.0%
Short-term reserves	0.0%	—
Turnover rate (fiscal year end)	19.9%	—

**Top 10 Largest Holdings**

	% of Total Net Assets
JPMorgan Chase & Co.	8.5%
Berkshire Hathaway Inc.	8.1
Mastercard Inc.	5.9
Visa Inc.	5.7
Bank of America Corp.	4.0
Wells Fargo & Co.	3.1
S&P Global Inc.	2.0
Goldman Sachs Group Inc.	2.0
American Express Co.	2.0
BlackRock Inc.	1.8
<b>Total</b>	<b>43.1%</b>

The holdings listed exclude any temporary cash investments and equity index products.

**Sector Diversification (% of Stocks)**

	Financials ETF	MSCI US IMI Financials 25/50	Overweight/ Underweight
Asset Management & Custody Banks	7.9%	7.8%	0.1
Commercial & Residential Mortgage Financ	0.6	0.5	0.1
Consumer Finance	4.3	4.3	0.0
Diversified Banks	20.5	20.3	0.2
Diversified Financial Services	1.1	1.1	0.0
Financial Exchanges & Data	8.0	7.9	0.1
Insurance Brokers	4.2	4.1	0.1
Investment Banking & Brokerage	7.1	7.0	0.1
Life & Health Insurance	3.1	3.1	0.0
Mortgage REITs	0.8	0.8	0.0
Multi-Sector Holdings	8.3	8.2	0.1
Multi-line Insurance	1.0	1.0	0.0
Property & Casualty Insurance	8.3	8.4	-0.1
Regional Banks	6.6	6.6	0.0
Reinsurance	0.7	0.7	0.0
Transaction & Payment Processing Service	17.5	18.1	-0.6
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

Sector categories are based on the Global Industry Classification Standard ("GICS"), except for the "Other" category (if applicable), which includes securities that have not been provided a GICS classification as of the effective reporting period.





## Important information

**For more information about Vanguard funds or Vanguard ETFs, visit [vanguard.com](http://vanguard.com) or call 800-523-1036 to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.**

**Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy or sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.**

All investing is subject to risk, including the possible loss of the money you invest.

Please remember that all investments involve some risk. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Diversification does not ensure a profit or protect against a loss. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility.

Investments in bond funds and ETFs are subject to interest rate, credit, and inflation risk. Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings.

The Factor Funds are subject to investment style risk, which is the chance that returns from the types of stocks in which a Factor Fund invests will trail returns from U.S. stock markets. The Factor Funds are also subject to manager risk, which is the chance that poor security selection will cause a Factor Fund to underperform its relevant benchmark or other funds with a similar investment objective, and sector risk, which is the chance that significant problems will affect a particular sector in which a Factor Fund invests, or that returns from that sector will trail returns from the overall stock market.

Investments in derivatives may involve risks different from, and possibly greater than, those of investments in the underlying securities or assets.

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