What is fair-value pricing?
It’s important that the underlying securities in an ETF or mutual fund are accurately priced. However, there are times when the price is not readily available or does not reflect the securities’ true value. Fair-value pricing is a strategy used to align the prices of the underlying securities with their true value. This strategy results in more accurate pricing for your ETF or mutual fund.

What prompts fair-value pricing?
Some ETFs and mutual funds will use fair-value pricing if the value of their underlying securities has been materially affected by events occurring before the U.S. market closes, but after the close of the markets or exchanges on which the security is traded. This situation most commonly occurs with foreign securities, which may trade on foreign exchanges that close many hours before the ETF or mutual fund is priced in the U.S. Fair-value pricing addresses the price discrepancies in such scenarios. As a result, a divergence in a fair-value priced asset and the index may be observed temporarily.

Why does Vanguard use fair-value pricing?
Vanguard believes that fair-value pricing helps you receive a fair and accurate price for your ETF or mutual fund. Fair-value pricing can also discourage short-term trading, which can drive up costs and, potentially, have an adverse effect on taxes.

Example of fair-value pricing in action

1. Asian stock markets stop trading at 1 a.m., Eastern time, with ABC Inc. at $50.
2a. News breaks that global demand for PCs will fall, and the shares of several U.S. PC makers suddenly drop 5%.
2b. If Asian markets were open, it’s reasonable to assume shares of ABC would also drop.
3. Vanguard’s process for fair-value pricing would likely price shares of ABC in its international portfolios closer to $47.50.
All investing is subject to risk, including possible loss of principal.

For more information about Vanguard funds or Vanguard ETFs, visit advisors.vanguard.com or call 800-997-2798 to obtain a 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 and 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.

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