



Vanguard[®]

12 April 2018

Notice to unitholders

Income Distributions For the quarter ended 31 March 2018

As part of opting in to the new Attributed Managed Investment Trust (AMIT) tax regime, Vanguard has amended its distribution policy to attribute income to investors during the period in which it was earned. Previously, income components such as realised capital gains and currency gains were generally distributed at the end of the financial year, however these are now able to be paid out to investors at the end of each distribution period.

For the March 2018 distribution period, the following funds will be paying out capital gains as part of the cash distribution as at 31 March 2018:

Wholesale Funds

Vanguard Australian Shares High Yield Fund
Vanguard International Shares Index Fund (Hedged) – AUD Class
Vanguard International Property Securities Index Fund
Vanguard International Small Companies Index Fund
Vanguard International Small Companies Index Fund (Hedged)
Vanguard Global Value Equity Fund

Retail Funds

Vanguard High Yield Australian Shares Fund

ETFs

Vanguard Australian Shares High Yield ETF
Vanguard FTSE Asia ex Japan ETF

Key distribution attributes

Whilst investors may have noticed changes to their cash distributions, we believe that there are long-term benefits in opting into the new Attributed Managed Investment Trust (AMIT) tax regime. These benefits may be summarised as follows:

- 1) Where applicable, Funds and ETFs will distribute passive income (e.g. dividends, coupon interest, etc), and a portion of other income components (e.g. currency gains) and capital gains that have been earned year to date.
- 2) We believe it is fair and reasonable to allocate to investors *their share* of income that is derived during the time *they are invested* in the Fund/ETF.
- 3) Under AMIT, the distribution profile for investors will likely change from what they have been accustomed to in the past. This will make it difficult for investors to compare income distributions received during this financial year with those of the past.
- 4) Each quarter, investors will be attributed their entitlement of all income components derived for the quarter, which may differ to the cash distribution received.



Frequently asked questions

We have prepared the below commentary to assist investors with questions they may have relating to distributions:

Why are capital gains being paid out as part of cash distribution other than at 30 June?

Historically we have held back from distributing capital gains until the end of the financial year (30 June quarter). However, the new AMIT regime provides Vanguard with the opportunity to allocate to investors their share of the taxable income that is derived during the time they are invested in the fund.

As such, at each distribution period Vanguard will determine the estimated taxable income of the fund and will provisionally allocate the estimated income components (including capital gains) to investors based on their proportional interest in the fund at the distribution date.

Given the aforementioned funds have derived higher amounts of capital gains relative to other income components during the March quarter, Vanguard has made the determination to distribute some of the capital gains to investors in this distribution period.

This is consistent with our disclosure in the PDS which provides that distributions for each period will be based on the taxable income earned by the Fund, including income earned on holding and disposing of the assets of the fund.

What is the reason the funds have derived capital gains?

The main drivers for the derivation of capital gains in this quarter have been the result of strong market performance along with benchmark rebalances and redemption activity from investors that are less than 5% of the fund. Note that capital gains from redemptions of 5% or more by a single investor from a Fund can be allocated to that investor.

It is also worth being aware that capital gains have also been generated in the corresponding periods in previous years, however the proceeds have been retained and paid out at the end of financial year. The difference now going forward is that Vanguard is able to attribute capital gains to investors during the period in which it has occurred as a result of electing into AMIT.

The exception is in relation to the Vanguard Australian Shares High Yield Fund and ETF (VHY), and VAE. These products sustained turnover at the portfolio level, i.e. through benchmark changes that have resulted in the realisation of capital gains to investors.

How will this impact an investor?

For an investor that is in the fund for the whole year, there will be no/minimal impact (as compared to the prior year, or if the Fund attributed capital gains on a yearly basis) to the extent that capital gains are not eroded by capital losses. Effectively, we are smoothing out the distribution of capital gains across all four quarters, rather than distributing the entire gain in the final quarter.

In the event the fund has a realised capital loss position for the full year calculated at 30 June, the capital gains that have been paid out as a distribution may be treated as a return of capital from a tax perspective. It is important to keep in mind that investors in the Fund at the time of the distribution have received and been allocated capital gains, regardless of whether they are still investors at the end of the financial year or not (on the basis that the fund at year end has sufficient capital gains).

So will investors always receive capital gains within their quarterly distributions?

No, not in all cases. In strong equity markets, it may be common to receive capital gains where redemptions and rebalancing occur within the fund. Where the market is not as strong and the fund has derived capital gains that are a relatively small percentage of the overall income of the fund, it is unlikely that the fund will pay these gains out as a cash distribution.



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I understand a distribution was paid in the Fund I/my client is invested in, however I/my client didn't receive that distribution payment. Why has that happened?

Have you or your client provided the Tax File Number (TFN) to Vanguard? If not, then it is likely that the TFN withholding tax calculated based on the provisional allocation to you of the estimated taxable income, is equal to the amount of your distribution. As a result, this has resulted in a nil cash distribution disclosed in your distribution statement.

If you have any questions regarding your distribution, please contact Vanguard Client Services

(8:00 am to 6:00 pm Melbourne time, Monday to Friday):

SMSF & individual investors - 1300 655 101

Financial advisers - 1300 655 205

Institutional investors - 1300 655 102

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