

Updated - Changes to the index methodology

for the Vanguard's Ethically Conscious ETFs

20 January 2022

Vanguard Investments Australia Ltd announces the following changes effective from the first-quarter 2022 index rebalances scheduled in March 2022:

ETF	ASX CODE	Index provider	ANNOUNCEMENT
Vanguard Ethically Conscious International Shares Index ETF	VESG	FTSE Russell	Changes to the index methodology
Vanguard Ethically Conscious Australian Shares ETF	VETH	FTSE Russell	Changes to the index methodology
Vanguard Ethically Conscious Global Aggregate Bond Index (Hedged) ETF	VEFI	Bloomberg	Changes to the index methodology

What's changing?

FTSE Russell (FTSE) and Bloomberg have announced upcoming changes to the index exclusion methodology used to construct the respective indexes tracked by Vanguard's range of Ethically Conscious exchange-traded funds (ETFs).

These changes will deliver greater consistency of index methodology across the exclusionary ESG funds and ETFs offered by Vanguard across the world. This closer alignment of methodology across asset classes will enable investors to construct broadly diversified ESG portfolios that follow consistent approaches to screening.

The new screening methodologies will be implemented as part of the first-quarter 2022 index rebalances, which are scheduled for 21 March for the equity indexes and 31 March for the bond indexes. While these changes will promote consistency across Vanguard's Ethically Conscious line-up, no material changes to the affected funds' investment characteristics, diversification, portfolio turnover, or tax-efficiency are expected.

The new index methodologies will screen companies based on their involvement in primary activities (such as producing and manufacturing) and, in some cases, secondary activities in the excluded categories. The changes will also result in consistent revenue thresholds on primary and secondary activities being applied across the equity and fixed interest exclusion methodologies, reflecting three different levels of restriction as presented in the table below.

	Categories	Revenue threshold	
		Primary involvement	Secondary involvement
Least restrictive	Adult Entertainment, Alcohol and Gambling	5%	10%
Moderately restrictive	Tobacco/Cannabis and Conventional (Military) Weapons	0%	5%
Most restrictive	Controversial Weapons, Civilian Firearms, Nuclear Power and Fossil Fuels	0%	0%

Prior to the methodology changes, there were differences in the revenue thresholds applied across the equity and fixed income exclusion methodologies. In addition, the equity indexes screened mainly on primary involvement, with limited secondary exclusions. Given the broad range of ESG investment approaches that can be employed, this transparent index methodology reflects Vanguard's commitment to ensure investors have clarity about their investments.

Since its founding in 1975, Vanguard has employed a rigorous, disciplined process for vetting investment strategies to ensure that they meet the enduring needs of investors. Vanguard is dedicated to the research and development of a low-cost, high-quality global line-up of ESG products. Vanguard has offered ESG investments for more than 20 years and continues to evaluate options in this category that help investors reach their financial goals while limiting exposure to certain ESG risks, or aligning investments with their values.

Further Information

If you have any queries on Vanguard Active ETFs, please visit vanguard.com.au

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