

# Vanguard Brokerage Services Annual Notice

April 2017

Read this document carefully and keep it with your account records.

## Practices, policies, and other important information

Various federal laws and regulations require that Vanguard Brokerage Services® (Vanguard Brokerage), a division of Vanguard Marketing Corporation (VMC), member FINRA and SIPC, disclose the following information to you:

### Your Vanguard Brokerage Account

All orders and transactions shall be solely for your account and shall be subject to: (1) the constitution, rules, regulations, customs, usages, rulings, and interpretations of the exchange, market, and clearing facility, if any, where the transactions are executed and/or settled; (2) the regulations of FINRA, if applicable; and (3) all applicable laws and regulations.

### VMC's financial condition

Pursuant to the Securities Exchange Act of 1934, Vanguard Brokerage must provide individual investors with certain financial information on a semiannual basis.

On December 31, 2016, VMC's net capital of \$282,325,327 was 66.0% of aggregate debit balances and exceeded the minimum requirement by \$273,765,410.

A copy of the December 31, 2016, Statement of Financial Condition is available on [vanguard.com](http://vanguard.com). You may also request free, printed copies by contacting us.

### How your accounts are protected

- Securities in your brokerage account are held in custody by Vanguard Brokerage, a division of VMC. VMC is a member of the Securities Investor Protection Corporation (SIPC), which protects securities customers of its members up to \$500,000 (including \$250,000 for claims for cash). An explanatory brochure is available upon request or at [sipc.org](http://sipc.org).
- VMC has secured additional coverage for your account, which applies in excess of SIPC, through certain insurers at Lloyd's of London and London Company Insurers for eligible customers with an aggregate limit of \$250 million, incorporating a customer limit of \$49.5 million for securities and \$1.75 million for cash.  
**Note:** Coverage provided by SIPC and certain Lloyd's of London and London Company Insurers does not protect against loss of market value of securities.
- Positions held away from Vanguard Brokerage are not in the custody or control of Vanguard Brokerage, nor are they covered by Vanguard Brokerage's SIPC coverage or the additional insurance secured by VMC.
- If your Vanguard mutual funds, including your settlement fund, are held in custody by Vanguard Brokerage, which is the case with Vanguard Brokerage Option accounts through an employer-sponsored retirement plan, the funds are covered by Vanguard Brokerage's SIPC and excess SIPC coverage. Vanguard mutual funds, including settlement funds, held through The Vanguard Group, Inc., are not protected by SIPC. To determine if your Vanguard funds are held by Vanguard Brokerage, refer to your account statement.

### Information on "free credit balances"

You may receive interest on positive account balances, referred to as "free credit balances," provided the funds are awaiting reinvestment and subject to certain minimum balances and time requirements. Vanguard Brokerage may receive compensation based on the amount of free credit balances in Vanguard Brokerage accounts. If you currently maintain free credit balances in your account solely for the purpose of receiving credit interest and have no intention to invest the funds in the future, you must contact Vanguard Brokerage to discuss your investment options.

**Note:** Compensation received by Vanguard Brokerage for free credit balances applies only to accounts that currently have a balance awaiting reinvestment and that receive credit interest.

### Information about callable securities

To review Vanguard Brokerage's procedures for the client allocation of securities to be redeemed or selected as called in the event of a partial redemption or call, visit [vanguard.com/bondallocation](http://vanguard.com/bondallocation). To request a free, printed copy of Vanguard Brokerage's allocation procedures, please contact us.

### Best execution and payment for order-flow practices

Vanguard Brokerage routes equity and options orders to various markets. We use a top-down approach in selecting market centers with which we will establish a relationship. This approach includes a review of system availability, quality of service, and financial and regulatory standing. The designated market participant centers to which orders are routed are selected based on the consistent high quality of their executions in one or more market segments. In analyzing quality of executions, Vanguard Brokerage considers factors such as liquidity enhancement, price improvement, execution speed, and overall effective price compared with the national best bid and offer. We regularly conduct analysis and review reports for quality of execution purposes.

Vanguard Brokerage is required to make publicly available quarterly reports that disclose the venues to which orders were routed as well as the nature of our routing relationships, including any payment for order-flow arrangements. You can access this information at [vrs.vista-one-solutions.com/sec606rule.aspx?clientid=VANG](http://vrs.vista-one-solutions.com/sec606rule.aspx?clientid=VANG) or by visiting [vanguard.com](http://vanguard.com).

In addition to the publicly available reports, Vanguard Brokerage, upon written request, will provide information related to your orders that were routed for execution in the past six months. This information will include the venue to which your order(s) was (were) routed, whether the order(s) was (were) directed or nondirected, the time of the transactions, and the source and remuneration received, if any, in connection with your order.

Vanguard Brokerage does not receive compensation for directing order flow in equity securities. Vanguard Brokerage receives compensation for directing certain options securities to our execution partners.

### FINRA's public disclosure

FINRA sponsors a program called BrokerCheck that is designed to give investors convenient access to information about the professional background, business practices, and conduct of FINRA member firms and brokers with whom they invest. The hotline number for this program is 800-289-9999. An investor brochure that describes the public disclosure program may be obtained from FINRA by telephone or through its website ([finra.org](http://finra.org)).

### Municipal securities customer education and protection disclosure

Vanguard Marketing Corporation is a broker-dealer registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board (MSRB). An investor brochure that describes the protections that may be provided by the MSRB rules and how to file a complaint with an appropriate regulatory authority can be obtained from the MSRB through its website ([msrb.org](http://msrb.org)).

### General information about the purchase of load funds through Vanguard Brokerage

This section will give you general background information about the purchase of non-Vanguard mutual funds made available through the Vanguard Brokerage FundAccess® program, including information pertaining to share classes and possible discounts (breakpoint discounts, rights of accumulation, and letters of intent) made available by third-party mutual fund families. However, share classes and associated sales charges, expenses, management fees, and discounts vary from fund to fund. Therefore, you should review each fund's prospectus and statement of additional information (available at [vanguard.com/fundaccess](http://vanguard.com/fundaccess)) to obtain specific information.

### Mutual fund share classes

When considering whether to purchase a mutual fund, you should consider first whether the fund's investment strategy is compatible with your objectives. You also should be aware that many funds offer different share classes and consider which is best for you. Although each share class represents a similar interest in a fund's portfolio, the fund will charge you different fees and expenses depending upon which share class you choose. In other circumstances, a mutual fund company may decide to grant waivers from sales charges to investors who satisfy its established criteria. The specific terms of each method are described in each fund's prospectus and/or statement of additional information.

As a general rule, Class A shares carry a front-end sales charge or load that is deducted from your investment at the time you buy the fund shares and is a percentage of your total purchase. Also, many funds offer volume discounts—known as breakpoint discounts—to the front-end sales charge assessed on Class A shares if your purchases meet certain predetermined levels.

The other standard share classes—B and C—usually do not carry any front-end sales charges or offer any volume discounts. Instead, investors who purchase them pay asset-based sales charges, which may be higher or lower than the charges associated with Class A shares. They may also be required to pay a

contingent deferred sales charge when they sell their shares, depending upon the rules of the particular mutual fund. This is known as a back-end sales charge or load. Please note that Class B shares are not available for new purchases through FundAccess; such shares may be transferred to your Vanguard Brokerage Account, and existing shareholders can add to current positions.

## What you should know about mutual fund discounts

### *Mutual fund breakpoint discounts*

Most load funds offer investors a variety of ways to qualify for breakpoint discounts on the sales charge associated with the purchase of Class A shares. In general, most provide breakpoint discounts to investors who make large purchases at one time. The extent of the discount depends upon the size of the purchase. Generally, as the amount of the purchase increases, the percentage used to determine the sales load decreases. The entire sales charge may be waived for investors who make very large purchases. Mutual fund prospectuses contain tables that illustrate the available breakpoint discounts and the investment levels at which they apply. Therefore, you should review a fund's prospectus and statement of additional information to determine its specific discount terms.

### *Rights of accumulation*

Many load funds allow investors to count the value of previous purchases of the same fund or another fund within the same fund family with the value of the current purchase to qualify for breakpoint discounts known as rights of accumulation (ROA). Moreover, load funds may allow investors to count existing holdings in multiple accounts such as individual retirement accounts (IRAs) or accounts at other financial organizations to qualify for breakpoint discounts. To make sure you qualify for any volume discounts when you purchase Class A shares through Vanguard Brokerage, inform a brokerage associate of your accounts at other firms or those held by relatives. Also, be ready to provide documentation attesting to these holdings.

### *Letters of intent*

Most load funds allow investors to qualify for breakpoint discounts by signing a letter of intent (LOI) that commits the investor to purchase a specified amount of Class A shares within a defined period of time, usually 13 months.

For instance, if an investor plans to purchase \$50,000 worth of Class A shares over a period of 13 months, but each individual purchase would not qualify for a breakpoint discount, the investor could sign an LOI at the time of the first purchase and receive the breakpoint discount associated with a \$50,000 investment on the first and all subsequent purchases.

Additionally, some funds offer retroactive LOIs that allow investors to rely upon purchases in the recent past to qualify for a breakpoint discount. However, if an investor fails to invest the amount required by the LOI, the fund is entitled to retroactively deduct the correct sales charges based upon the amount that the investor actually invested. If you intend to make several purchases within a 13-month period, you should consult the mutual fund prospectus and statement of additional information to determine if it would be beneficial for you to sign an LOI.

### *For more information*

Understanding the availability of discounts is important because it may allow you to purchase non-Vanguard fund shares at a lower price. The availability of discounts may save you money and may also affect your decision regarding the appropriate share class in which to invest. Load funds follow different rules to determine the value of existing holdings under their discount policies. Some use the current net asset value (NAV) of existing investments. However, a small number use the historical cost, which is the cost of the initial purchase. If the fund uses historical cost, you may need to provide account records, such as confirmation statements or monthly statements, to qualify for a discount based on previous purchases. Therefore, you should carefully review the mutual fund prospectus and its statement of additional information when choosing among the share classes offered by a mutual fund and to determine whether discounts are made available by a particular fund family.

Vanguard Brokerage investment professionals can also explain the investment options available to investors. Please contact Vanguard Brokerage. You can also research mutual funds from other fund companies at [vanguard.com/fundaccess](http://vanguard.com/fundaccess).

If you wish to learn more about mutual fund share classes or breakpoints, you can also review the investor alerts that are on FINRA's website at [finra.org](http://finra.org).

**Note:** If you believe that you should have received a discount on any load fund transaction with Vanguard Brokerage, please contact us.

## FundAccess fees

### FundAccess shareholder servicing fees

Vanguard Brokerage may receive fees for the provisioning of various shareholder

services in connection with the participation of certain mutual funds in the FundAccess program. These fees may be considered revenue sharing and represent a significant source of revenue. Determined in accordance with an asset-based formula, these payments may equal up to 0.40% of a mutual fund's assets under management at Vanguard Brokerage on an annual basis.

### FundAccess networking fees

Vanguard Brokerage may also receive operational payments from mutual funds in the form of networking or per-position processing fees of up to \$20 for each customer position in a mutual fund on an annual basis. These fees are reimbursed to Vanguard Brokerage for the work it performs on behalf of the funds, which may include but is not limited to subaccounting services, dividend calculation and posting, accounting, reconciliation, client confirmation and statement preparation and mailing, and tax statement preparation and mailing.

### 12b-1 fees

Vanguard Brokerage receives 12b-1 payments from certain mutual funds, which may equal up to 1% of a mutual fund's assets under management at Vanguard Brokerage on an annual basis.

## Important tax and foreign transaction information

### Federal and state tax withholding for retirement accounts

Subject to changes in prevailing rules—or changes in your circumstances—you may change the federal tax withholding election, as well as the election for certain states, for IRA distributions by contacting Vanguard Brokerage.

**Note:** You may be subject to tax penalties under the estimated tax payment rules if your estimated tax payments and withholding, if any, are not adequate.

### Foreign transactions

Vanguard Brokerage provides brokerage services for investments in foreign securities for its clients, with J.P. Morgan (JPM) facilitating clearance and settlement. Clients' foreign securities will be held at JPM through an account established for our clients and may be custodied through JPM or a foreign-jurisdiction local subcustodian.

**Withholding:** Payments from a foreign security may be subject to withholding tax under the laws of the jurisdiction of the issuer of the security. Withholding is not handled directly by Vanguard Brokerage. Tax is withheld "at source" by a "facilitating vendor," with the net payment delivered to Vanguard Brokerage and credited to a client's account on the date Vanguard Brokerage receives payment.

**Reductions or exemptions from withholding:** Clients may be entitled to an exemption or reduced rate of withholding based on an income tax treaty between the United States and the jurisdiction of the securities issuer. In certain cases, at-source exemption will be based on broker representations regarding the beneficial owner's residence, with the broker required to provide proof of residency at a later date through documentation, including a Form 6166-Certification of U.S. Tax Residency (Form 6166). In these cases, Vanguard Brokerage will make elections for clients that have previously certified their residency on U.S. tax forms and will expect such clients to provide any certifications subsequently requested, including a Form 6166. Clients may also obtain exemptions or reduced withholding through reclaims filed with the issuer's jurisdiction, which may require documentary proof, including a Form 6166.

### *Currency of transaction settlement/conversion of foreign currency to U.S.*

**dollar:** Foreign security trades entered into through Vanguard Brokerage will be settled in U.S. dollars, and proceeds from foreign securities transactions, including trades, transfers, dividends, and corporate actions, may be automatically converted to or from U.S. dollars.

### Special note for non-U.S. accounts

You should understand that income with respect to assets custodied by Vanguard Brokerage may be subject to U.S. withholding tax imposed on nonresident investors as well as tax in your home jurisdiction. Please consult your tax advisor for the appropriate tax treatment of your securities transactions.

### Special note for IRAs

Distributions from your IRAs are subject to federal income tax withholding unless you elect to not have withholding apply. You may make this election by contacting Vanguard Brokerage. Your election of no tax withholding will remain in effect until you revoke it, which you can do at any time by contacting Vanguard Brokerage. State tax withholding may also apply. Please note that you may be subject to federal or state tax penalties under the estimated tax payment rules if your estimated tax payments and withholding, if any, are inadequate.

## Questions?

If you have questions, call Vanguard Brokerage at 800-662-2739.