



Annual Management Report of Fund Performance | December 31, 2018

Vanguard FTSE Canadian Capped REIT Index ETF

Management Discussion of Fund Performance

Investment Objective and Strategies

The investment objective of Vanguard FTSE Canadian Capped REIT Index ETF (the “ETF”) is to track, to the extent reasonably possible and before fees and expenses, the performance of the FTSE Canada All Cap Real Estate Capped 25% Index (the “Index”). The Index is a market capitalization-weighted index that aims to capture the performance of the publicly traded Canadian real estate sector. It is composed of securities of Canadian real estate sector issuers selected from the FTSE Canada All Cap Index, and each constituent issuer’s weight in the Index is capped at 25%.

To achieve its investment objective, the ETF employs a “passive management,” or “indexing,” investment approach designed to track the performance of the Index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index. In the alternative, the ETF may use a sampling methodology to invest in a broadly diversified collection of securities that, in the aggregate, approximates the full Index in terms of key characteristics.

Risk

The risks associated with an investment in the ETF remain as discussed in the ETF’s most recent prospectus. During the period that began January 1, 2018, and ended December 31, 2018, there were no changes to the ETF that materially affected the overall risk level associated with an investment in the ETF.

Results of Operations

For the 12 months ended December 31, 2018, Vanguard FTSE Canadian Capped REIT Index ETF returned 1.65%, compared with the 2.28% return of its benchmark, the FTSE Canada All Cap Real Estate Capped 25% Index. The ETF’s management fees and other operating expenses reduced performance relative to the Index by 0.39 percentage point. Other miscellaneous factors accounted for the remainder of the difference.

Recent Developments

There are no recent developments to report.

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the ETF. You can obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-877-410-7275, by writing to us at 22 Adelaide Street West, Suite 2500, Toronto, ON M5H 4E3 or by visiting our website at vanguardcanada.ca or SEDAR at sedar.com. You may also contact us using one of these methods to request a copy of the ETF’s proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

Related Party Transactions

Vanguard Investments Canada Inc. (the “Manager”) is the manager, trustee, portfolio manager and promoter of the ETF, and is entitled to receive a management fee for its services that is paid by the ETF to the Manager (see “Management Fees” below).

From time to time, the Manager may, on behalf of the ETF, enter into transactions or arrangements with or involving certain persons or companies that are related to the Manager when, in the discretion of the Manager, it would be in the best interests of the ETF to do so. The purpose of this section is to provide a brief description of any transaction or arrangement with or involving the ETF and a related party.

Sub-Advisor

The Vanguard Group, Inc. (“VGI”), the indirect parent of the Manager, has been retained by the Manager to act as sub-advisor to the Manager in connection with the ETF. As sub-advisor, VGI manages the investment portfolio of the ETF, provides analysis and makes investment decisions, subject to continuing oversight by the Manager. VGI is a registered investment advisor in the United States with offices based in Valley Forge, Pennsylvania. As compensation for its services as sub-advisor, VGI is entitled to receive a portion of the management fee that is paid by the ETF to the Manager.

With respect to the continuing oversight of VGI by the Manager, the Manager has relied on a positive recommendation and standing instruction that it has received from the ETF’s Independent Review Committee (“IRC”). The standing instruction requires the Manager to comply with its current policy and procedures on monitoring services provided by the sub-advisor of the ETF and to report periodically to the IRC, describing each instance in which the Manager relied on the standing instruction and its compliance with the policy and procedures.

Management Fees

As set out under Related Party Transactions, the Manager is the manager, trustee, portfolio manager and promoter of the ETF. As compensation for its services, the Manager is entitled to receive a maximum annual management fee of 0.35%, payable monthly, calculated based on the daily net asset value of the ETF.

The major services paid for out of the management fee include fees payable to the custodian, registrar and transfer agent, as well as fees payable to other service providers, including the index providers, retained by the Manager.

Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help readers understand the ETF's financial performance for the period indicated.

The ETF's Net Assets Per Unit¹

	Financial Years Ended December 31,				
	2018	2017	2016	2015	2014
Net assets, beginning of period	\$30.86	\$29.06	\$26.42	\$26.80	\$24.69
Increase (decrease) from operations					
Total investment income	0.69	0.78	0.93	0.69	0.73
Total expenses	(0.12)	(0.12)	(0.11)	(0.11)	(0.10)
Realized gains (losses) for the period	0.54	0.60	0.49	0.25	0.55
Unrealized gains (losses) for the period	(0.69)	1.58	2.24	(0.88)	1.22
Total increase (decrease) from operations²	0.42	2.84	3.55	(0.05)	2.40
Distributions					
From income (excluding dividends)	(0.45)	(0.55)	(0.53)	(0.36)	(0.51)
From dividends	(0.11)	(0.07)	(0.30)	(0.17)	(0.09)
From capital gains	(0.43)	(0.51)	(0.46)	(0.18)	(0.45)
Return of capital	(0.17)	(0.48)	—	—	—
Total annual distributions ³	(1.16)	(1.61)	(1.29)	(0.71)	(1.05)
Net assets at end of period	\$30.23	\$30.86	\$29.06	\$26.42	\$26.80

1 The financial highlights are derived from the financial statements prepared in accordance with IFRS. IFRS allows net assets to be calculated based on the last traded market price for financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. There may be differences between the net assets calculated for the purpose of processing unitholder transactions and the net assets attributable to holders of redeemable units used for financial statement reporting purposes as at December 31, 2018, December 31, 2017, December 31, 2016, December 31, 2015, and December 31, 2014.

2 Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

3 Distributions were paid in cash or certain distributions were reinvested in additional units of the ETF. Immediately following such reinvestment, the number of units outstanding was consolidated so that the net asset value per unit following the distribution and reinvestment is the same as it would have been if the distribution had not been paid. Actual distributions may vary slightly owing to rounding.

Ratios and Supplemental Data

	Financial Years Ended December 31,				
	2018	2017	2016	2015	2014
Total net asset value (000's) ¹	\$178,386	\$162,026	\$120,581	\$88,518	\$60,297
Number of units outstanding (000's) ¹	5,900	5,250	4,150	3,350	2,250
Management expense ratio ²	0.39%	0.39%	0.38%	0.39%	0.39%
Management expense ratio before waivers or absorptions	0.39%	0.39%	0.38%	0.39%	0.40%
Portfolio turnover rate ³	19.33%	12.04%	18.52%	6.42%	12.59%
Trading expense ratio ⁴	0.01%	0.00%	0.00%	0.00%	0.00%
Net asset value per unit ¹	\$30.23	\$30.86	\$29.06	\$26.42	\$26.80
Closing market price	\$30.23	\$30.85	\$29.04	\$26.45	\$26.85

1 This information is provided as at December 31 of the year shown.

2 Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as a percentage of daily average net asset value during the period.

3 The ETF's portfolio turnover rate indicates how actively the ETF's sub-advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio's turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the ETF.

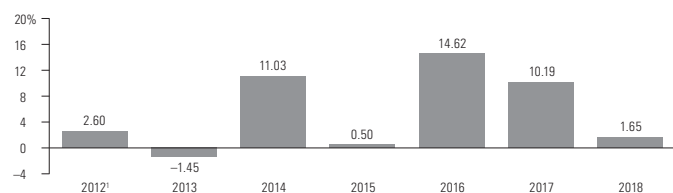
4 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net assets during the period. If, during the period, the ETF charged a fee to designated broker/dealers to offset the impact of certain transaction costs associated with a purchase or redemption of units of the ETF, the transaction costs used in the trading expense ratio would have been reduced by those fees.

Past Performance

The ETF's performance information assumes that all distributions made by the ETF in the periods shown were reinvested in additional units of the ETF. The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. How the ETF has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The following bar chart shows in percentage terms how much an investment made on the first day of each period would have increased or decreased by the last day of the period.



¹ Return from November 2, 2012 (the ETF's commencement date), to December 31, 2012.

Annual Compound Returns

The following table compares the historical annual compound returns of the ETF with those of its benchmark.

The relative performance of the ETF compared with that of its benchmark is discussed in the Results of Operations section of this report. The benchmark is described in the Investment Objective and Strategies section.

Annual Compound Returns

Periods Ended December 31, 2018

	One Year	Three Years	Five Years	Since Inception ¹
Vanguard FTSE Canadian Capped REIT Index ETF	1.65%	8.68%	7.45%	6.20%
FTSE Canada All Cap Real Estate Capped 25% Index	2.28	9.23	7.96	6.66

¹ November 2, 2012.

Summary of Investment Portfolio

Sector Allocation

As at December 31, 2018

	% of Net Asset Value
Industrial & Office REITs	32.4%
Residential REITs	22.1
Retail REITs	20.9
Real Estate Services	10.2
Diversified REITs	8.7
Real Estate Holding & Development	5.4
Other assets and liabilities (net)	0.3
Total	100.0

Top 25 Holdings

As at December 31, 2018

	% of Net Asset Value
RioCan Real Estate Investment Trust	13.6%
Canadian Apartment Properties REIT	11.9
H&R Real Estate Investment Trust	11.0
Allied Properties Real Estate Investment Trust	8.3
Smart Real Estate Investment Trust	6.8
First Capital Realty Inc.	5.4
Chartwell Retirement Residences	5.4
FirstService Corporation, Sub. Voting	5.4
Choice Properties Real Estate Investment Trust	4.9
Colliers International Group Inc.	4.8
Granite Real Estate Investment Trust	4.6
Dream Global Real Estate Investment Trust	4.0
Cominar Real Estate Investment Trust	3.8
Boardwalk Real Estate Investment Trust	2.7
Artis Real Estate Investment Trust	2.4
Northview Apartment REIT	2.1
Dream Office Real Estate Investment Trust	2.1
Morguard Real Estate Investment Trust	0.5
Cash	0.3
Top holdings as a percentage of net asset value	100.0
Total net asset value	\$178,385,573

The Summary of Investment Portfolio may change because of the ETF's ongoing portfolio transactions. Updates are available quarterly.



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