



Annual Management Report of Fund Performance | December 31, 2018

Vanguard U.S. Total Market Index ETF (CAD-hedged)

Management Discussion of Fund Performance

Investment Objective and Strategies

The investment objective of Vanguard U.S. Total Market Index ETF (CAD-hedged) (the “ETF”) is to track, to the extent reasonably possible and before fees and expenses, the performance of the CRSP US Total Market Index (CAD-hedged) (the “Index”). The Index is a market capitalization-weighted index that is designed to represent the returns of large-, mid-, small-, and micro-capitalization stocks in the United States, with the U.S. dollar exposure of the securities included in the CRSP US Total Market Index hedged back to the Canadian dollar.

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 primarily in a U.S.-domiciled fund managed by The Vanguard Group, Inc. (“U.S.-domiciled Vanguard Fund”) that seeks to track the CRSP US Total Market Index. The ETF also uses derivative instruments to seek to hedge the U.S. dollar exposure of the securities included in the CRSP US Total Market Index back to the Canadian dollar. In the alternative or in addition to investing in the U.S.-domiciled Vanguard Fund, the ETF may invest its assets directly in stocks that make up the Index.

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 U.S. Total Market Index ETF (CAD-hedged) returned –6.85%, compared with the –6.47% return of its benchmark, the CRSP US Total Market Index (CAD-hedged). The ETF’s management fees and other operating expenses reduced performance relative to the Index by 0.16 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.

Underlying Fund

To achieve its investment objective, the ETF invests primarily in a U.S.-domiciled fund (“U.S.-domiciled Vanguard Fund”) managed by VGI, the indirect parent of the Manager. VGI is entitled to receive a fee for acting as manager of the U.S.-domiciled Vanguard Fund. To ensure that there is no

duplication of fees chargeable in connection with the ETF and its investment in the U.S.-domiciled Vanguard Fund, the management fee payable by the ETF to the Manager as set out below (under Management Fees) is reduced by the aggregate of the management fee payable by the U.S.-domiciled Vanguard Fund to VGI and certain expenses of the U.S.-domiciled Vanguard Fund that are paid directly by the U.S.-domiciled Vanguard Fund (together, the “U.S.-domiciled Vanguard Fund total expense ratio”). The U.S.-domiciled Vanguard Fund total expense ratio is embedded in the market value of the U.S.-domiciled Vanguard Fund shares in which the ETF invests.

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 0.15%, payable monthly, calculated based on the daily net asset value of the ETF.

As also set out under Related Party Transactions, the ETF invests primarily in a U.S.-domiciled fund (“U.S.-domiciled Vanguard Fund”) managed by VGI, the indirect parent of the Manager, which is entitled to receive a fee for acting as manager of the U.S.-domiciled Vanguard Fund. To ensure that there is no duplication of fees chargeable in connection with the ETF and its investment in the U.S.-domiciled Vanguard Fund, the management fee payable by the ETF to the Manager as set out above is reduced by the aggregate of the management fee payable by the U.S.-domiciled Vanguard Fund to VGI and certain expenses of the U.S.-domiciled Vanguard Fund that are paid directly by the U.S.-domiciled Vanguard Fund (together, the “U.S.-domiciled Vanguard Fund total expense ratio”). The U.S.-domiciled Vanguard Fund total expense ratio is embedded in the market value of the U.S.-domiciled Vanguard Fund shares in which the ETF invests.

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 periods indicated.

The ETF's Net Assets Per Unit¹

| | Financial Years Ended December 31, | | | | |
|--|------------------------------------|----------------|----------------|----------------|----------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Net assets, beginning of period | \$53.01 | \$44.78 | \$40.71 | \$41.58 | \$37.45 |
| Increase (decrease) from operations | | | | | |
| Total investment income | 0.87 | 0.78 | 0.74 | 0.72 | 0.64 |
| Total expenses | (0.07) | (0.06) | (0.05) | (0.05) | (0.04) |
| Realized gains (losses) for the period | 0.04 | 3.21 | 1.64 | (0.37) | (0.91) |
| Unrealized gains (losses) for the period | (5.31) | 4.96 | 2.69 | (0.58) | 5.40 |
| Total increase (decrease) from operations² | (4.47) | 8.89 | 5.02 | (0.28) | 5.09 |
| Distributions | | | | | |
| From income (excluding dividends) | (0.79) | (0.71) | (0.67) | (0.66) | (0.58) |
| From capital gains | — | (1.44) | — | — | — |
| Total annual distributions ³ | (0.79) | (2.15) | (0.67) | (0.66) | (0.58) |
| Net assets at end of period | \$48.66 | \$53.01 | \$44.78 | \$40.71 | \$41.58 |

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 | \$653,869 | \$587,830 | \$391,251 | \$305,664 | \$282,254 |
| Number of units outstanding (000's) ¹ | 13,438 | 11,088 | 8,738 | 7,508 | 6,788 |
| Management expense ratio ² | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| Management expense ratio before waivers or absorptions | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| Portfolio turnover rate ³ | 24.29% | 15.36% | 30.03% | 44.49% | 19.04% |
| Trading expense ratio ⁴ | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Net asset value per unit ¹ | \$48.66 | \$53.01 | \$44.78 | \$40.71 | \$41.58 |
| Closing market price | \$48.41 | \$53.04 | \$44.78 | \$40.75 | \$41.77 |

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.

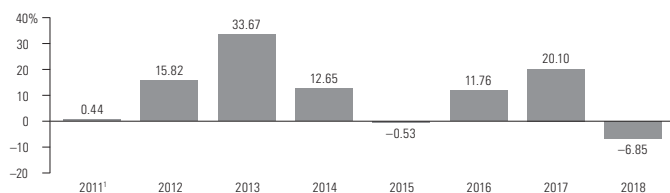
4 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net assets during the period. If, during the period, the ETF charged a fee to designated broker/dealers to offset the impact of certain transaction costs associated 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 30, 2011 (the ETF's commencement date), to December 31, 2011.

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 U.S. Total Market Index ETF (CAD-hedged) | -6.85% | 7.73% | 6.98% | 11.62% |
| Spliced US Total Market Index Hedged to CAD ² | -6.47 | 8.10 | 7.40 | 12.20 |

¹ November 30, 2011.

² MSCI Broad Market 100% Hedged to CAD Index through June 2, 2013; CRSP US Total Market Index (CAD-hedged) thereafter.

Summary of Investment Portfolio

Information displayed is for the U.S.-domiciled Vanguard Total Stock Market ETF in which the ETF primarily invests.

The prospectus and other information about this U.S.-domiciled Vanguard Fund are available on the internet at sec.gov/edgar.shtml.

Sector Allocation

As at December 31, 2018

| | % of Net Asset Value |
|--------------------|----------------------|
| Technology | 19.5% |
| Financials | 19.4 |
| Health Care | 13.9 |
| Consumer Services | 13.6 |
| Industrials | 12.9 |
| Consumer Goods | 7.9 |
| Oil & Gas | 5.0 |
| Utilities | 3.3 |
| Basic Materials | 2.5 |
| Telecommunications | 2.0 |
| Total | 100.0 |

Top 25 Holdings

As at December 31, 2018

| | % of Underlying U.S.-Domiciled Vanguard Fund |
|--|---|
| Microsoft Corp. | 3.1% |
| Apple Inc. | 2.7 |
| Amazon.com Inc. | 2.5 |
| Alphabet Inc. | 2.5 |
| Berkshire Hathaway Inc. | 1.6 |
| Johnson & Johnson | 1.4 |
| JPMorgan Chase & Co. | 1.3 |
| Facebook Inc. | 1.3 |
| Exxon Mobil Corp. | 1.1 |
| Pfizer Inc. | 1.0 |
| UnitedHealth Group Inc. | 1.0 |
| Verizon Communications Inc. | 0.9 |
| Visa Inc. | 0.9 |
| Procter & Gamble Co. | 0.9 |
| Bank of America Corp. | 0.9 |
| Intel Corp. | 0.9 |
| Chevron Corp. | 0.8 |
| AT&T Inc. | 0.8 |
| Merck & Co. Inc. | 0.8 |
| Wells Fargo & Co. | 0.8 |
| Cisco Systems Inc. | 0.8 |
| Home Depot Inc. | 0.8 |
| Coca-Cola Co. | 0.7 |
| Boeing Co. | 0.7 |
| Mastercard Inc. | 0.7 |
| Top holdings as a percentage of net asset value | 30.9 |
| Total net asset value | \$653,868,597 |

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



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