Vanguard

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Investor Protection for UK based investors

The below information aims to explain the investor protection afforded to UK based clients investing into:

1. Vanguard UK domiciled mutual fund
2. Vanguard Irish domiciled mutual fund
3. Vanguard ETFs (Irish domiciled)

Vanguard UK domiciled mutual fund

When I invest with Vanguard how is my money protected?

When making a direct investment into a UK fund managed by Vanguard Investments UK, Limited ("VIUK"), money transferred to VIUK to pay for the investments is held for you in bank accounts called client money bank accounts. These are segregated bank accounts set up under the FCA's Client Money and Assets ("CASS") rules. The money in these accounts is held under trust for VIUK's clients and does not form part of VIUK's own balance sheet. Therefore money held pending payment for your investments can be identified and paid back to you should VIUK become insolvent. This also applies to money that is due to be paid back to you when you sell an investment.

How are my investments protected in a Vanguard fund?

When investing directly with Vanguard, once units or shares in the fund have been paid for, you own the shares and your name will appear on the unit or shareholder register. If your name appears directly on the unit register, in the event of the insolvency of VIUK as fund provider, you will retain the value of the units that you own.

All investments that are made within the fund (using the money that you have contributed) are kept separate from any assets that belong to VIUK. A separate institution called a depositary or trustee safeguards those fund assets and looks out for your interests.

The depositary also oversees the actions that VIUK takes as operator of the fund to ensure that those are in line with regulatory safeguards. VIUK's funds have been authorised as Undertakings for Collective Investment in Transferable Securities (UCITS) and it is therefore a regulatory requirement that the depositary is a separate entity from VIUK. This ensures that the oversight of the fund management company is fully independent.

What is the Financial Services Compensation Scheme (FSCS)?

The FSCS is the statutory fund of last resort that can pay compensation to consumers if a financial services firm is unable, or likely to be unable, to pay claims against it. The FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA). The scheme covers financial institutions that are domiciled in the UK, such as VIUK.

The current level of compensation available for investments is £85,000 per eligible person per firm. More information can be found on the FSCS at their website www.fscs.org.uk

When would I be eligible for compensation under the FSCS?

Any in-flight money pending payment of units or shares or pending payment to you, will be held in VIUK client money bank accounts. Should VIUK become insolvent when money in these accounts is owed to and VIUK is unable to return the full amount to you, you may be able to make a claim through the FSCS.

Should our banking partner, HSBC Bank Plc ("HSBC"), become insolvent at the time we hold a balance for you in the client money bank accounts then you would be able to claim for up to £85,000 of the balance of any money held with them. It should be noted that if you hold other personal accounts with HSBC then the amount of £85,000 will include all balances with them as the FSCS is available per individual client, rather than per account type.

Is there any difference with the protection of my money or investments if I hold a Vanguard fund through another firm?

Instead of holding a fund with VIUK directly you may have invested through a platform or pension provider. You should check that firm's Terms and Conditions to find out what arrangements are in place to protect your investments should they firm become insolvent.

For example, some firms may hold the assets of their clients in a pooled nominee structure in line with the CASS rules. Depending on the type of account a Bare Trust arrangement may be used which ringfences assets outside of CASS. Some pension providers may use a Master Trust arrangement as a way to ringfence the assets held in a pension scheme. There are regulatory and legal obligations that firms must follow in setting up these types of arrangements to ensure the safeguarding of assets and money held by the firm.

Can administration costs charged by an Insolvency Practitioner be taken from my investments?

When a firm becomes insolvent an insolvency practitioner will be appointed to administer the affairs of the firm as it is wound down. The costs associated with returning client money or assets charged by an insolvency practitioner may be taken from any client money held in client money bank accounts or from assets held in a nominee structure.

Where you hold money or Vanguard investments through another UK authorised firm, these costs may be taken from both client money bank accounts and your Vanguard investments held through a nominee structure.

You may be entitled to compensation from the FSCS up to the prescribed limits in the event that there is a shortfall in either your assets or your client money resulting from these charges. You must therefore check with the firm through which you have bought the Vanguard fund as to whether these type of costs would apply.

Vanguard Irish domiciled mutual fund

When I invest with Vanguard how is my money protected?

When making a direct investment into an Irish registered mutual fund managed by Vanguard Group (Ireland) Limited (VGIL), your money is received into a bank account in the name of the fund. This money is "in-flight" until you have paid for the shares in the mutual fund. This bank account has no links to any Vanguard company. This also applies to money that is paid back to you from the fund bank account when you sell part or all of your holding in a fund.

How are my investments protected in a Vanguard fund?

When investing directly with Vanguard, you own the shares in the fund once you have paid for them and your name will appear on the shareholder register. These investments are kept separate from the assets belonging to VGIL. A separate institution called a depositary safeguards Vanguard fund assets and looks out for your interests.

The depositary also oversees the fund provider and makes sure Vanguard fund assets operate properly and in line with regulatory safeguards. For funds that have been authorised as Undertakings for Collective Investment in Transferable Securities (UCITS), the depositary must be a separate entity from VGIL, which ensures that the oversight of the fund management company is fully independent. As your name appears directly on the shareholder register, in the event of insolvency of VGIL, you will retain the value of the shares that you own.

Would I be eligible for compensation under the Financial Services Compensation Scheme (FSCS)?

The FSCS is the statutory fund of last resort that can pay compensation to consumers if a financial services firm domiciled in the United Kingdom is unable, or likely to be unable, to pay claims against it. The FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA). However, funds domiciled in Ireland are not covered by this scheme and there is no Irish equivalent compensation scheme. More information can be found on the FSCS at their website www.fscs.org.uk

Is there any difference with the protection of my money or investments if I hold a Vanguard fund through another firm?

Instead of holding a fund with Vanguard directly you may have transferred money and invested with another UK authorised firm, for example, a platform or pension provider. You must check that firm's Terms and Conditions to find out what arrangements are in place to protect your investments should that firm become insolvent.

For example, some firms may hold the assets of their clients' in a pooled nominee structure in line with FCA Client Money and Asset rules (CASS). Depending on the type of account a Bare Trust arrangement may be used which ringfences assets outside of CASS. Some pension providers may use a Master Trust arrangement as a way to ringfence the assets held in a pension scheme. There are regulatory and legal obligations that firms must follow in setting up these types of arrangements to ensure the safeguarding of assets and money held by the firm.

Can administration costs charged by an Insolvency Practitioner be taken from my investments when I invest through another firm?

When a firm becomes insolvent an Insolvency Practitioner will be appointed to administer the affairs of the firm as it is wound down. The costs charged by an Insolvency Practitioner can be taken from any client money held in client money bank accounts or from assets held in a nominee structure. You must therefore check with the firm through which you have bought the Vanguard fund as to whether these type of costs would apply.

Vanguard ETFs (Irish domiciled)

How are my investments protected in a Vanguard ETF?

When you invest in a Vanguard Exchange Traded Fund (ETF) you will buy it through a third party for example, a broker or investment platform.

The assets within the ETF are kept separate from those assets belonging to Vanguard. A separate institution called a Custodian safeguards Vanguard ETF assets and looks out for your interests.

The Custodian also oversees the fund provider and makes sure Vanguard fund assets operate properly and in line with regulatory safeguards. For funds authorised as Undertakings for Collective Investment in Transferable Securities (UCITS), the Custodian is required to be a separate entity from Vanguard, which ensures that oversight is fully independent. The ETF has an account at the Custodian where the underlying assets are held. Where your name appears directly on the shareholder register, in the event of insolvency of VGIL, you will retain the value of the shares that you own.

How is my Vanguard ETF investment protected through my stockbroker, or other third party provider?

Prior to holding the ETF shares you will have "in-flight" money until the shares have settled and you become the owner. You will either own the shares directly with your name appearing on the shareholder register or you will own them via the third party through which you purchased them and the shares could be held in a pooled nominee or pension arrangement. You must check the third party firm's Terms and Conditions to find out what contractual arrangements are in place to protect your investments should that firm become insolvent.

Your in-flight money could be held in a bank account called a client money bank account. This is a segregated bank account set up under the FCA Client Money and Asset (CASS) rules. This means that money in these accounts is held under a trust status and cannot form part of the firm's own balance sheet. Therefore monies held in-flight pending payment for your investments can be identified and paid back to you should something happen to the firm you are investing with. This also applies to money that is paid back to you from a client money bank account when you sell an investment.

Some firms may hold the assets of their clients in a pooled nominee structure in line with FCA Client Money and Asset rules (CASS). Depending on the type of account, a Bare Trust arrangement may be used which ringfences assets outside of CASS. Some pension providers may use a Master Trust arrangement as a way to ringfence the assets held in a pension scheme. There are regulatory and legal obligations that firms must follow in setting up these types of arrangements to ensure the safeguarding of assets and money held by the firm.

You must check the firm's Terms and Conditions to find out what contractual arrangements are in place to protect your investments in the event the firm you are contracting with becomes insolvent.

When would I be eligible for compensation under the Financial Services Compensation Scheme (FSCS)?

The FSCS is the statutory fund of last resort that can pay compensation to consumers if a financial services firm domiciled in the United Kingdom is unable, or likely to be unable, to pay claims against it. The FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA). However, funds or ETFs that are domiciled in Ireland are not covered by this scheme and there is no Irish equivalent compensation scheme. More information can be found on the FSCS at their website www.fscs.org.uk

Can administration costs charged by an Insolvency Practitioner be taken from my investments?

When a firm becomes insolvent an Insolvency Practitioner will be appointed to administer the affairs of the firm as it is wound down. The costs charged by an Insolvency Practitioner can be taken from any client money held in client money bank accounts or from assets held in a nominee structure. You must therefore check with the firm through which you have bought the Vanguard ETF as to whether these type of costs would apply.

Please be aware that Vanguard Asset Management, Limited only gives information on our products. We cannot give advice based on individual circumstances. This is where the advice of a qualified financial adviser can be crucial. If you have any questions related to your investment decision or the suitability or appropriateness for you of the products or services described in this brochure, please contact your financial adviser.

Important information

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