

Advisory Services Disclosure Brochure for Vanguard Advisers, Inc.

Vanguard Strategic Model Portfolios

June 13, 2018

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This brochure describes the qualifications and business practices of Vanguard Advisers, Inc. (VAI). If you have any questions about its contents, please contact us at 800-997-2798. The information presented here has not been approved or verified by the U.S. Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about VAI is available on the SEC's website at www.adviserinfo.sec.gov.

VAI is registered with the SEC as an investment advisor. Registration does not imply a certain level of skill or training.

Material changes

There have been no material changes that impact the service or existing clients utilizing the Strategic Model Portfolios since the last published brochure. There were no material changes to the methodology of the service. VAI will introduce Objective Based Portfolios in April of 2018 as discussed further in the “Methods of analysis, investment strategies, and risk of loss” section.

Contents

Advisory business..... 4

Fees and compensation 4

Performance-based fees and side-by-side management 5

Types of clients 5

Methods of analysis, investment strategies, and risk of loss 5

Disciplinary information..... 8

Other financial industry activities and affiliations 8

Code of Ethics, participation or interest in client transactions, and personal trading 9

Brokerage practices 10

Review of accounts 10

Client referrals and other compensation..... 10

Custody 10

Investment discretion 10

Voting client securities..... 10

Financial information..... 11

Requirements for state-registered advisers 11

Advisory business

Vanguard Advisers, Inc. (“VAI”) is a Pennsylvania corporation that provides investment advisory services to a wide variety of clients. VAI was incorporated and has been in business since 1995. VAI is 100% owned by Goliath, Inc., a Delaware corporation. As such, VAI is an indirect, wholly owned subsidiary of The Vanguard Group, Inc. (“Vanguard”), the sponsor and manager of the family of mutual funds comprising The Vanguard Group of Investment Companies (the “Vanguard Funds”), which VAI typically recommends as investments.

Vanguard Strategic Model Portfolios

Through the Vanguard Strategic Model Portfolios service (the “Service”), VAI produces model portfolios (the “Portfolios”) comprised of Vanguard mutual funds (“Funds”) or exchange traded funds (“ETFs”). The Portfolios are accessed by third party intermediaries through third-party platforms. Advisors from these third party intermediaries use the Portfolios as investment strategies for managing their underlying clients’ accounts. The Portfolios are designed and balanced to help ensure that Portfolio returns are in line with those of the respective benchmarks chosen for the Portfolios.

The Service is delivered to third party platforms, including turn-key asset management programs (TAMPs), by VAI. TAMPs are often sponsored and administered by a registered investment adviser. TAMPs allow financial advisors to outsource the management of their clients’ assets. VAI may act as a sub-advisor to a registered investment adviser sponsoring a TAMP, or as a strategist to other third party platforms through which the Portfolios are made available. VAI does not directly provide advisory services to retail clients or manage client assets through the Service.

VAI administers the Portfolios in accordance with pre-determined allocations that may be adjusted from time to time. VAI does not manage assets on behalf of individual financial advisors or individual clients and does not tailor the Portfolios to meet the needs of individual clients.

VAI’s investment strategies offered under the Service will be limited to allocations in Vanguard’s proprietary Funds and ETFs. The Portfolios can provide a high level of diversification through broad exposure to domestic and international markets.

VAI also may provide the Portfolios to managed account platforms. On such platforms, VAI will provide investment advice to the platform regarding the Portfolios. The administrator of the platform in turn delivers the Portfolios to financial advisors that may include the Portfolios in wrap fee or non-wrap fee managed account programs. A wrap fee program is an arrangement under which financial advisors provide investment advisory and brokerage services for a specified fee or fees not based upon transactions in their accounts. VAI does not serve as the sponsor of wrap fee programs.

The Service currently has \$0 in regulatory assets under management to report.

Fees and compensation

VAI does not currently charge a fee for the Service. The advice provided by VAI through the Service will include Portfolios invested completely in Vanguard Funds or ETFs that are part of The Vanguard Group of Investment Companies®. Use of the Portfolios will result in the payment of fees

to the Vanguard Funds and to Vanguard, an affiliate of VAI. The purchase or sale of Vanguard Funds or ETFs through Vanguard (whether or not suggested by the Service) is not subject to a load, sales charge, or commission. However, each Vanguard Fund incurs advisory, administrative, and custodial fees, as well as other fees and expenses that it pays out of its own assets. The advisory, administrative, custodial, and other costs make up the funds' expense ratios. Please consult the funds' prospectuses for information about a specific fund's expense ratio.

Clients may also purchase Vanguard Funds and ETFs through other broker-dealers or agents that are not affiliated with VAI.

Clients may be charged fees separate from those identified above, such as a bundled platform fee that may include transaction and custodial fees. Portfolios sold through TAMPs may also be subject to additional fees charged by the TAMP. Individual retail clients may be subject to separate fees charged by their financial advisors.

Performance-based fees and side-by-side management

VAI does not receive performance-based fees for advisory services provided to clients through this Service.

Types of clients

VAI offers the Service to third-party platforms, including TAMPs, through which financial advisors invest their clients' assets using the Portfolios.

Methods of analysis, investment strategies, and risk of loss

In constructing Portfolios for the Service, VAI relies on information from a wide variety of sources, both public and private, regarding short-term and long-term economic and financial market characteristics and trends. Importantly, our overall investment approach incorporates our investment philosophies while adhering to our fiduciary role in the advisory relationship.

A top-down approach

VAI's approach starts with broad asset class exposure to U.S. and international equities, and global investment-grade bonds in a strategic, index-centric framework. Portfolio construction reflects a market-cap-weighted approach, with exposure to size and style determined by the benchmark selected for the Portfolios.

The Portfolios maintain a strategic asset allocation and therefore do not typically make tactical allocation adjustments throughout the year. For the equity portion of each Portfolio, the Portfolios' sub-asset allocations employ a fixed 60%/40% ratio of U.S. to international stocks for the stock portion of each Portfolio, as well as a 70%/30% ratio of U.S. to international bonds for the bond portion of each Portfolio, which reflects a deliberate "home bias" relative to global market-cap-weighted benchmarks.

Some of our Portfolios use multiple Funds or ETFs to capture the beta of a single asset class (e.g., U.S. equities as represented by the CRSP US Total Market Index). However, the risk and return characteristics should not meaningfully deviate from those of the asset-class benchmarks.

Risk management of the Portfolios

The Vanguard Investment Strategy Group manages the strategy risk. Risk is primarily determined and managed through the asset allocations, extremely broad diversification, and sole use of investment-grade bonds within the fixed income exposure of the Portfolios. The Service does not use actively managed Funds or ETFs and does not select securities other than passively managed Funds or ETFs for inclusion in the Portfolios.

The Portfolios

Asset Allocation Based Portfolios

Vanguard's Portfolios are offered across the risk-reward spectrum from 100% fixed income up to 100% equity. These Portfolios are static asset allocations delivered via increments of 10% equity (EQ) and fixed income (FI). These asset allocations are offered for all Portfolios including the Core, CRSP, S&P, and Russell Series. Our Core lineup includes exposure to the broad asset classes using CRSP indices, while our expanded Portfolios use multiple Funds or ETFs to construct the different components of the market.

1. Core Series

Vanguard's Core strategic model portfolios provide broad asset class exposure to U.S. and international stocks, and global investment-grade bonds in a strategic, index-centric framework. To ensure broad diversification within each asset class, the model portfolios are comprised of funds that track broad-market indexes. Each index is capitalization-weighted, meaning that its components are weighted according to their market capitalization and reflect the makeup of the market it tracks.

2. Center for Research in Security Prices (CRSP) Series

Vanguard's CRSP strategic model portfolios provide broad asset class exposure to U.S. and international stocks, and global investment-grade bonds in a strategic, index-centric framework. To ensure broad diversification within each asset class, the model portfolios are comprised of funds that track broad-market or market segment indexes. Each index is capitalization-weighted, meaning that its components are weighted according to their market capitalization and reflect the makeup of the market or market segment it tracks. The CRSP series of models are distinguished by their tracking of CRSP benchmarks for the domestic equity allocation.

3. Standard & Poor's (S&P) Series

Vanguard's S&P strategic model portfolios provide broad asset class exposure to U.S. and international stocks, and global investment-grade bonds in a strategic, index-centric framework. To ensure broad diversification within each asset class, the model portfolios are comprised of funds that track broad-market or market segment indexes. Each index is capitalization-weighted, meaning that its components are weighted according to their market capitalization and reflect the makeup of the market or market segment it tracks. The S&P series of models are distinguished by their tracking of S&P benchmarks for the domestic equity allocation.

4. Russell Series

Vanguard's Russell strategic model portfolios provide broad asset class exposure to U.S. and international stocks, and global investment-grade bonds in a strategic, index-centric frameworks. To ensure broad diversification within each asset class, the model portfolios are comprised of funds that track broad-market or market segment indexes. Each index is capitalization-weighted, meaning that its components are weighted according to their market capitalization and reflect the makeup of the

market or market segment it tracks. The Russell series of models are distinguished by their tracking of Russell benchmarks for the domestic equity allocation.

US Equity Allocations: US Equity allocations targeted by the Service are weighted according to target sub-allocations described above and are adjusted to remain on target by making modifications due to prevailing market capitalizations. Applicable Portfolios will have exposure to all segments of the broad U.S. Stock market (large, mid, and small-cap stocks; growth and value stocks) in the exact proportion in which they are represented in the market.

International Equity Allocations: The Service will also diversify a U.S. stock portfolio with international stocks equal to 40% of the total equity allocation. This represents a conscious "home bias" relative to global market-cap weighted benchmarks. Non-US stocks are represented by market-cap-weighted Funds or ETFs that seek to track the performance of a benchmark index that measures the investment return of stocks in developed and emerging markets, excluding the United States.

US Fixed Income Allocations: The Service follows a market-proportional approach, consistent with the target sub-allocations described above, within the U.S. investment-grade bond market to match the market's risk and return characteristics. We focus fixed income allocations on investment-grade bonds to provide diversification to the primary risk of equity exposure.

Hedged International Fixed Income Allocations: The Service follows a market-proportional approach within the investment-grade international bond market. Since currency fluctuations account for a significant portion of the volatility in international bonds, we mitigate this volatility by hedging to the US dollar. This asset class represents 30% of the applicable Portfolios' fixed income exposure, based on the belief that such an exposure can potentially have long-term diversification benefits.

Vanguard Objective Based Portfolios

Vanguard's Objective Based Portfolios are offered across the risk-reward spectrum. These Portfolios are static asset allocations delivered via increments of 10% equity (EQ) and fixed income (FI). Our Objective Based lineup includes exposure to the broad market-cap weighted asset classes using our Asset Allocation Based Models as the foundation.

1. Income Series

Vanguard's Income Series model portfolios provide broad asset class exposure to U.S. and international stocks, and global investment-grade bonds in a strategic, index-centric framework. To ensure broad diversification within each asset class, the model portfolios include an allocation to ETFs that track broad-market indexes. Each index is capitalization-weighted, meaning that its components are weighted according to their market capitalization and reflect the makeup of the market it tracks. In addition, the models will incorporate an allocation to ETFs which invest in common stocks of companies characterized by high dividend yields across the globe and a broadly diversified exposure to the investment-grade U.S. corporate bond market. These models will target a higher yield or income generation than their Asset Allocation Based Portfolio counterparts. The Income Series is delivered via increments of 10% equity and fixed income for a total of eleven asset allocation options.

2. Tax-Efficient Series

Vanguard's Tax-Efficient Series model portfolios provide broad asset class exposure to U.S. and international stocks, and U.S. investment-grade bonds in a strategic, index-centric framework. To ensure broad diversification within each asset class, the model portfolios include an allocation to ETFs that track the broad-market indexes. Each index is capitalization-weighted, meaning that its components are weighted according to their market capitalization and reflect the makeup of the market it tracks. In addition, the entire fixed income allocation of the models will utilize ETFs which invest in broadly diversified exposure to the investment-grade U.S. municipal bond market. These models will target a higher level of tax-efficiency than their Asset Allocation Based Model counterparts. The Tax-Efficient Series is delivered via increments of 10% from 10% equity/90% income to 90% equity/10% income for a total of nine asset allocation options.

VAI may in its sole discretion make changes to the asset allocations of the Portfolios to add new asset classes in order to provide additional diversification benefits.

Under this Service, VAI recommends investments in Vanguard Funds and ETFs. Although VAI will recommend investment strategies designed to be prudent and diversified, please remember that all investments, including ETFs, involve some risk, including possible loss of principal. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of the Portfolios. There is no guarantee that any particular asset allocation or mix of funds will meet stated investment objectives or provide a given level of income. Diversification does not ensure a profit or protect against a loss in a declining market.

There is no assurance that positive investment results will be achieved by using the Service. VAI cannot guarantee the future performance of investments. Please consult a fund's prospectus for more information about fund-specific risks.

Disciplinary information

VAI has no disciplinary information to disclose.

Other financial industry activities and affiliations

The Vanguard Group

Through an intermediary entity, VAI is 100% owned by The Vanguard Group, Inc. (Vanguard). Vanguard, also a registered investment advisor, provides a range of investment advisory and administrative services to the Vanguard family of mutual funds (Vanguard Funds). Vanguard is truly a mutual mutual fund company. It is owned jointly by the funds it services and thus indirectly by the shareholders in those funds. Most other mutual funds are operated by management companies that may be owned by one person, by a private group of individuals, or by public investors who own the management company's stock. The management fees charged by these companies include a profit component over and above the companies' cost of providing these services. By contrast, Vanguard provides services to its member funds on an at-cost basis¹, with no profit component, which helps to keep the funds' expenses low.

When giving advice to clients, VAI will recommend the purchase of Vanguard Funds serviced by VAI's corporate parent, Vanguard. VAI addresses the competing interests that could arise between us

¹ Vanguard provides its services to the Vanguard Funds and ETFs at cost.

and our clients as a result of recommending proprietary funds by relying on our time-tested investment philosophies and beliefs—such as the benefits of low costs, diversification, and indexing—when formulating target allocations for clients. VAI discloses to prospective clients that it recommends Vanguard Funds prior to or at the establishment of the advisory relationship. Although acting in accordance with VAI’s advice to purchase Vanguard’s proprietary funds will result in the payment of fees to the Vanguard Funds and ETFs that are separate from, and in addition to, any fees assessed by VAI, any competing interests that could arise are mitigated by the at-cost nature of Vanguard’s services to the funds.

Vanguard Marketing Corporation

Shares of the Vanguard Funds are marketed and distributed by Vanguard Marketing Corporation (VMC), a registered broker-dealer that is a wholly owned subsidiary of Vanguard and an affiliate of VAI. VMC’s marketing and distribution services are conducted on an at-cost basis in accordance with the terms and conditions of a 1981 exemptive order from the Securities and Exchange Commission, which permits Vanguard Funds to internalize and jointly finance such activities. Each Vanguard Fund (other than a fund of funds) or each share class of a fund (in the case of a fund with multiple share classes) pays its allocated share of VMC’s marketing costs. VMC does not receive transaction-based compensation in connection with the distribution of the Vanguard Funds.

When giving advice to clients, VAI will recommend the purchase of Vanguard Funds distributed by VAI’s affiliate, VMC. Since VMC performs its marketing and distribution services on an at-cost basis and does not receive transaction-based compensation in connection with the distribution of the Vanguard Funds, no competing interests arise from VAI’s affiliation with VMC. Certain members of VAI’s management are registered representatives of or are affiliated with VMC.

Code of Ethics, participation or interest in client transactions, and personal trading

VAI operates under a Code of Ethics that complies with Rule 17j-1 of the Investment Company Act of 1940 and Rule 204A-1 of the Investment Advisers Act of 1940.

The Code sets forth fiduciary standards that apply to all employees, incorporates Vanguard’s insider trading policy, and governs outside employment and receipt of gifts. Additionally, the Code imposes restrictions on the personal securities trading of Vanguard employees, as well as reporting requirements. The trading restrictions and reporting requirements are more involved for employees that have access to information about Vanguard Fund trading activity or Vanguard client trading activity and are designed to ensure that Vanguard employees do not misuse fund and/or client information for their own benefit.

Vanguard will provide a copy of its Code of Ethics to any client or prospective client upon request at no charge.

Please see the section of this Brochure entitled “Other financial industry activities and affiliations” for a discussion of VAI’s affiliations with other Vanguard entities and how those affiliations may affect clients of VAI.

Brokerage practices

Under this Service, VAI does not recommend broker-dealers in connection with investing in the strategies.

Review of accounts

VAI does not review the accounts of retail clients as part of the Service. Financial advisors are responsible for reviewing their clients' portfolios on an individual client basis, given the client's specific circumstances.

On a monthly basis, VAI recalibrates the Portfolios based on market cap weightings. For third-party platforms that do not allow financial advisors to individually rebalance client accounts, VAI will recommend that the third-party platforms rebalance the Portfolios on an annual basis. TAMPs using the Service may impose their own tolerance parameters which could trigger the Portfolios to be rebalanced without a rebalancing recommendation by VAI.

Vanguard Strategic Asset Allocation Committee (“SAA Committee”)

The SAA Committee has overall responsibility for the investment methodology of certain VAI advisory services. The purpose of the SAA Committee is to conduct an ongoing review and analysis of the investment methodology of VAI's advisory solutions with the aim of ensuring that consistent investment methodologies are employed that incorporate market considerations.

The SAA Committee may review and reconcile asset allocation strategies used by VAI's advisory services. Based on any review and reconciliation process, the SAA Committee may also recommend asset allocation changes for the Service.

Client referrals and other compensation

VAI receives no economic benefits from persons who are not clients for providing investment advice or advisory services to its clients.

VAI does not directly or indirectly compensate any person who is not a supervised person for client referrals.

Custody

VAI does not have custody of client assets through the Service.

Investment discretion

VAI does not have any investment discretion over assets held in the Vanguard Funds and ETFs associated with the Portfolios or the Service. VAI sets the allocations of the Vanguard Funds or ETFs underlying the Portfolios as VAI deems advisable. The Portfolios are made available through third-party platforms, including TAMPs.

Voting client securities

VAI will not vote or exercise similar rights for client securities. The exercise of all voting rights associated with any security or other property held in the portfolio shall be the responsibility of the client. Proxies will be delivered to the client by the issuer of the security, the custodian or its agent.

VAI will not advise or act for the client in any legal proceedings, including bankruptcies or class actions, involving securities held or previously held by the portfolio or the issuers of those securities.

Financial information

VAI is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

Requirements for state-registered advisers

VAI is a federally registered investment advisor.