Russian sanctions, index changes, and Vanguard funds

Introduction

As governments around the world impose sanctions on Russian financial institutions, companies, and individuals in response to the country's invasion of Ukraine, our clients naturally have questions about the exposure of Vanguard funds and whether our investment strategies may change.

In brief, Vanguard funds will adhere to sanctions and continue to follow their stated strategies.

Russia's removal from emerging-market indexes

FTSE Russell will remove Russian stocks from its equity indexes effective from the open on March 7, and MSCI Inc. will do the same as of the close on March 9, 2022, the companies said March 2. Other equity index sponsors may follow, and there may be changes to fixed income indexes as well.

The exposure of Vanguard funds to Russian and Ukrainian assets

Overall, the exposure of Vanguard funds to Russian and Ukrainian assets is limited. As of January 31, 2022, our funds that invested in one or both countries had roughly 1% of their assets there, on average.[1]

Of the two countries, Russian stocks and bonds made up most of the modest exposure in Vanguard funds worldwide. A few U.S.-domiciled funds were invested in Ukrainian bonds. No U.S.-domiciled Vanguard fund held Ukrainian stocks at the end of January. In funds offered outside the United States, our small Ukrainian stakes were all in stocks. Ukrainian markets are not the subject of sanctions.

The effects of Russian sanctions and other restrictions on Vanguard funds

Some Russian securities may not be traded because of sanctions restrictions. Actions taken by the Central Bank of Russia have also effectively shut off the Russian securities markets to foreign investors.

Although investment conditions in the region are challenging, Vanguard Chief Investment Officer Greg Davis said the effects on Vanguard funds have been limited thus far.

"Our index funds have been closely tracking the performance of their target indexes, and we will continue to seek to do so," Davis said. Of U.S.-domiciled Vanguard funds, index funds account for about 80% of the exposure to Russia and Ukraine.

[1] Note that the holdings of most Vanguard funds as of the end of any given month are updated on our websites around the middle of the following month. An exception applies to certain of our exchange-traded funds (ETFs), which disclose their holdings daily.

In terms of our actively managed funds, Davis said: "We employ some of the world's most talented money managers. We will comply with all relevant sanctions, but otherwise their investment decision-making will not be restricted. They will decide how best to navigate liquidity challenges and balance investment risks with potential rewards."

How Vanguard prices securities that are not trading actively

Fair-value prices are determined by Vanguard according to procedures adopted by the board of trustees of each fund. When fair-value pricing is employed, the prices of securities used by a fund to calculate its net asset value, or share price, may differ from quoted or published prices for the same securities.

How Vanguard is responding to sanctions on Russia

Vanguard takes a conservative, global approach to sanctions adherence, generally treating a sanction levied in any of our jurisdictions as applicable in all our jurisdictions, said Anne Robinson, general counsel.

An enterprise-wide team tracks, analyzes, and responds to the latest sanctions and government orders affecting Russia, assesses market conditions, and develops solutions to operational challenges, she said. The team also is in regular contact with industry partners.

"The situation is complex and fast-changing," Robinson said, "but we are confident that we have the right people and effective policies and procedures in place to keep our funds in line with their investment objectives and strategies, helping to safeguard our clients' investments."

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