

Vanguard[®]

Keys to improving the odds of success with active investing

During the past four decades of offering actively managed funds, Vanguard has developed and continuously refined a distinct active investment philosophy which has produced a long track record of success for investors.

In fact, we believe our approach has helped us become one of the world's largest active managers, with over \$2 trillion¹ in actively managed assets.

Vanguard's philosophy specifies the three factors which are most critical to improving the odds of outperformance – the key goal of actively managed funds. These factors are: top talent, low costs and patience.



Low Cost



Talent



Patience

Low cost: Why it matters

While high-cost funds that beat the market exist, our research² found that the least expensive active funds had better odds of beating their benchmarks than the

most expensive funds. That's because lower costs allow you to keep a greater portion of your investment's return.

For example; a high-cost active fund that charges 1.6% compared with a lower-cost fund, which charges 0.6%, would need to outperform by 1.0% before it catches up to the lower-cost fund—assuming both funds earn the same returns.

The less you pay for your funds, the more you keep in your pocket – it's that simple.

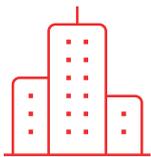
Top talent: Outperformance is challenging

There has been a plethora of academic studies that suggest shortcuts for identifying whether your fund has employed a talented investment manager. Our experience tells us there are four key areas for you to consider before deciding on a manager.

We suggest you discuss these areas with your adviser.

¹ Assets divided between internal and external management as at 31 July 2019.

² Daniel Wallick, Peter Westaway, Giulio Renzi-Ricci, Thomas Paradise, 2017. *Active Management: the importance of cost, talent and patience*. Valley Forge, PA.: The Vanguard Group.



Firm.

Look into its history, stability, ownership structure and culture. Does this information indicate a focus on clients?



People.

Gain an understanding of the team who manage the money. Do they have depth and breadth of experience with a low turnover?



Philosophy.

Read about the firm's investment philosophy. Do you believe in it? Is it easy to understand?



Process.

Ask how the firm makes buying and selling decisions. Does this make sense to you?

It may seem paradoxical that low cost and top talent can coexist (presuming that the best managers command

higher fees). Yet, at Vanguard, we've been adept at delivering top talent at a low cost. It's a reflection of our scale and business model—we're owned by our investors allowing us to focus on our clients' best interests and keep costs low.

Patience: Acknowledge the bumpy road to outperformance

While low costs and a skilled investment manager go a long way to improving your results using active management, those benefits can be eroded significantly if you don't maintain a long-term perspective.

Outperformance is challenging. And, it is impossible to outperform the market every year, even if your fund employs the world's most talented manager.

Be prepared for years of underperformance and keep your eye on the long-term. At Vanguard, we call it 'staying the course'.

If you're focused on shorter-term outcomes, then active investing may not be for you.



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