

## VANGUARD GLOBAL BALANCED FUND QUARTERLY UPDATE

LOW-COST ACTIVE  
MULTI-ASSET

**Vanguard Global Balanced Fund is an actively managed multi-asset solution that invests in a balance of equities and bonds. The fund is managed by Wellington Management Company LLP and employs a conservative approach, using broad diversification to moderate risk in order to pursue three investment goals: conservation of capital, reasonable current income and profits without undue risk.**

### Highlights

- Equity markets moved higher.
- Developed markets outperformed emerging markets.
- Growth took back the leadership from value.
- Global bonds finished the period in positive territory.
- The Vanguard Global Balanced Fund underperformed its benchmark.

### Market overview

Despite fresh outbreaks of Covid-19, the global economy continued to rebound sharply, if unevenly. Equities rallied, with countries that have been more successful at containing the virus tending to fare best. Developed markets outperformed emerging markets. The technology sector was strong and some cyclical sectors, led by energy stocks, also continued to do well. Growth stocks moved back into favour versus value stocks.

Global fixed income assets generated positive returns over the quarter. Sovereign yield curves generally flattened as central banks signalled a shift towards tighter monetary policy stances following recent high inflation data, leading market participants to perceive a reduced risk of policymakers falling behind the inflation curve. Most corporate credit sectors outperformed as vaccination rates increased, economic data further recovered and credit fundamentals continued to improve.

### Performance

The Vanguard Global Balanced Fund returned 4.26% (net of fees) over the quarter and underperformed its benchmark composite index (in GBP), which returned 5.47%<sup>1</sup>.

The equity portfolio lagged while the fixed income portfolio outperformed.

The equity portfolio's underperformance was largely driven by its underweight to technology. From a regional perspective, an underweight to the US was the largest detractor. In terms of individual stocks, United Parcel Service (UPS) was the top contributor while Deere & Company was the top detractor among stocks held by the portfolio.

The share price of UPS rose as the market refocused on the company's competitive strengths and improving return potential. Following the arrival of a new CEO in 2020, UPS's strategy is changing, positively in Wellington's view, and the company is better leveraging its competitive position to earn an improved return on capital. It is also making a more significant commitment to sustainability measures<sup>2</sup>.

<sup>1</sup> Source: Bloomberg and Vanguard, as at 30 June 2021. See page 3 for more performance information.

<sup>2</sup> Source: UPS Releases 1Q 2021 Earnings, as at 27 April 2021.

Shares of Deere & Company, an American manufacturer of agricultural, construction and forestry machinery, fell despite it reporting strong fiscal second-quarter profits and revenue well above market expectations, due to the market's rotation in favour of growth stocks. Deere's higher earnings were the result of operational improvements and a long-term investment in precision agriculture<sup>3</sup>.

The fixed income portfolio's outperformance was mostly driven by security selection in investment-grade corporate bonds. Specifically, security selection within industrials, financials and utilities and an overweight to financials contributed to outperformance.

Performance was also helped by security selection and an underweight to government-related debt, as well as security selection within, and an underweight to, mortgage-backed securities. Duration and yield curve positioning detracted from performance.

## Activity

In the equity portfolio, a position was initiated in Nokia. The Finnish multinational telecommunication equipment and services provider has sizable scale in the area of consolidated network infrastructure and Wellington believes it should benefit from the improving 5G upgrade cycle. Nokia's management team is reported by Wellington to be focused and delivering early signs of operational improvements with an uplift in returns.

Wellington sold its position in diversified industrials company Legrand on share-price strength as the stock had reached Wellington's target peak valuation, meaning its risk/reward was no longer attractive.

The fixed income portfolio's exposure to supranational and corporate bond issuers was increased, while exposure to government bonds was decreased. The portfolio nevertheless remains overweight government bonds as they continue to be a good source of liquidity. Within

corporate bonds, the weighting to utilities was increased.

## Outlook

With stronger economic activity, higher wages and rising commodity prices, expectations for higher inflation and interest rates are taking hold. It is likely that the era of ultra-low interest rates that depressed earnings in balance sheet-intensive financials, such as banks and insurance, is coming to an end. The equity team is still finding attractive opportunities in banking, however, especially in European and Japanese holdings that are trading at a greater discount. Such banks also offer the prospect of an increasing allocation to dividends.

The technology sector is the equity portfolio's largest underweight, due to stretched valuations, rising regulatory and geopolitical risks and an influx of capital into public and private technology companies. Wellington expects that this will eventually depress returns.

Against a backdrop of rising global political tensions, financial stimulus that will eventually be withdrawn and the prospect of higher taxes in the US, market volatility is considered a possibility, especially following a period of increased market appetite for risk assets. Therefore, Wellington is mindful of opportunities that are emerging in defensive sectors, keeping an eye towards risk management and downside protection.

From a fixed income viewpoint, credit fundamentals should improve with the economy through the course of 2021 and into 2022. While corporate fundamentals are strong, cheap financing conditions raise the risk of aggressive merger and acquisition activity and shareholder-friendly behaviour. While valuations are tight in comparison to historical ranges, the technical environment for credit products remains robust.

Within corporate bonds, the fixed income team continue to prefer less cyclical sectors like communications and certain global banks, as they feel that valuations in cyclical sectors appear rich and that much potential good news is already priced in.

<sup>3</sup> Source: John Deere News Release, as at 21 May 2021.

## Key fund facts (as at 30 June 2021)

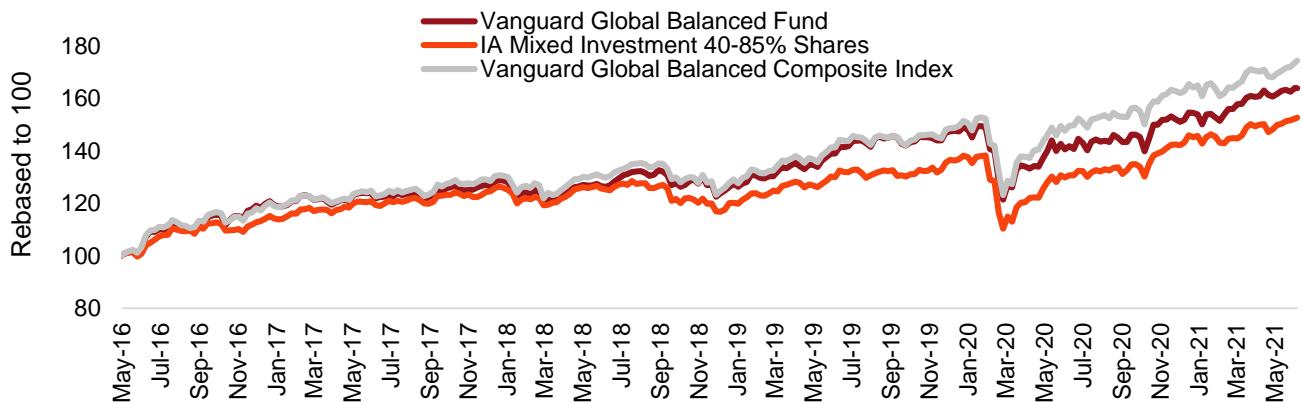
**Investment manager:** Wellington Management Company LLP  
**Target weighting:** Equities 65%; Bonds 35%  
**Domicile:** United Kingdom  
**Benchmark:** Vanguard Global Balanced Composite Index

**Inception date:** 25 May 2016  
**Ongoing charges figure<sup>1</sup>:** 0.48%  
**Fund AUM:** GBP 192m  
**ISIN:** GB00BZ830054

## Top 10 fund holdings (% exposure, as at 30 June 2021)

Company	%
AstraZeneca plc	1.9
Microsoft Corp.	1.9
Johnson & Johnson	1.8
United Parcel Service Inc.	1.7
Bank of America Corp.	1.6
Cisco Systems Inc.	1.6
Taiwan Semiconductor Manufacturing Co. Ltd.	1.4
Comcast Corp.	1.4
Novartis AG	1.4
Northrop Grumman Corp.	1.3

## Fund performance (as at 30 June 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	7.98	4.26	15.63	9.07	9.03	10.17
Peer Group	6.22	4.66	16.94	6.36	7.94	8.36
Benchmark	7.16	5.47	16.53	10.51	10.38	11.61
Year on year (%)	1 Jul 2016 - 30 Jun 2017	1 Jul 2017 - 30 Jun 2018	1 Jul 2018 - 30 Jun 2019	1 Jul 2019 - 30 Jun 2020	1 Jul 2020 - 30 Jun 2021	
Fund	14.64	3.57	9.99	2.02	15.63	
Peer Group	16.63	4.58	3.38	-0.20	16.94	
Benchmark	14.53	5.99	9.13	6.13	16.53	

Past performance is not a reliable indicator of future results.

Peer group is Investment Association Mixed Investment 40-85% Shares. Performance figures include the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares. Basis of fund performance is NAV to NAV. Basis of index performance is total return. All performance is calculated in GBP, net of fees.

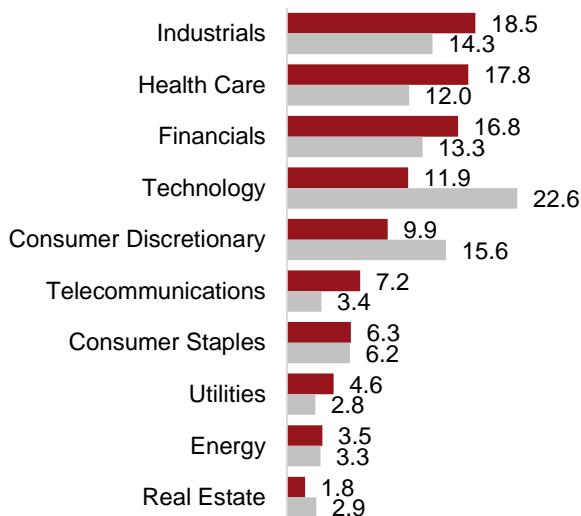
Source: Vanguard and Morningstar, as at 30 June 2021.

<sup>1</sup>The Ongoing Charges Figure (OCF) covers the fund manager's costs of managing the fund. It does not include dealing costs or additional costs such as audit fees.

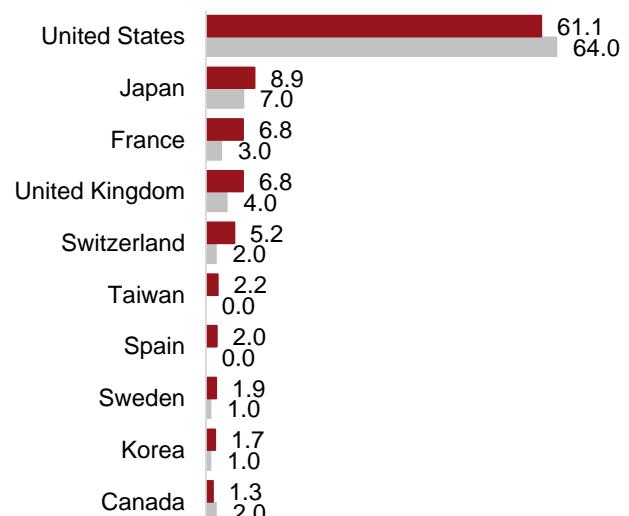
## Equity portfolio (as at 30 June 2021)

Characteristics	Fund	Benchmark
Number of stocks	88	2,177
Median market cap	£80.9B	£67.7B
PE ratio	20.8X	23.7X
Equity yield (dividend)	2.2%	1.6%

### Sector exposure (%)



### Region exposure (%)



■ Fund ■ Benchmark

## Fixed income portfolio (as at 30 June 2021)

Average coupon: 2.2%

Average maturity: 8.5 years

Average quality: A

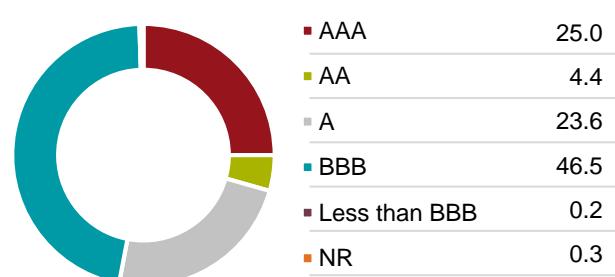
Average duration: 6.6 years

Turnover rate: 115.4%

### Distribution by issuer (% of bonds)

Characteristics	Fund %
Industrial	32.4
Financial Institutions	25.3
Treasury	19.9
Mortgage Backed Security Pass-through	5.6
Utility	5.3
Sovereign	3.9
Supranational	2.9
Local Authority	2.1
Agency	1.5
Asset Backed Security	0.6
Other	0.5
Commercial Mortgage Backed Security	0.2

### Distribution by credit quality (% of bonds)



Credit quality ratings for each issue are obtained from Barclays using ratings derived from Moody's Investors Service, Fitch Ratings, and Standard & Poor's. When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Source: Vanguard, as at 30 June 2021.

Quarterly update

/ 4

## Equity performance analysis

### Top contributors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
United Parcel Service Inc.	2.5	0.3	22.8	0.30
AstraZeneca PLC	2.8	0.0	20.3	0.30
Eli Lilly and Company	1.6	0.3	23.2	0.20
Isuzu Motors Limited	1.0	0.0	22.7	0.10
American Express Company	1.6	0.2	16.7	0.10

### Top detractors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
NVIDIA Corporation	0.0	0.8	49.7	(0.20)
Alphabet Inc.	0.7	2.4	18.2	(0.20)
Apple Inc.	0.0	3.6	12.1	(0.20)
Prudential plc	0.7	0.1	-10.8	(0.20)
Deere & Company	1.3	0.2	-5.6	(0.10)

### Top contributors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Taiwan Semiconductor Manufacturing Co., Ltd.	2.3	0.0	83.4	1.1
General Motors Company	1.3	0.1	109.2	0.7
Bank of America Corporation	2.2	0.5	58.8	0.5
Eli Lilly and Company	0.7	0.3	38.3	0.4
American Express Company	1.4	0.2	57.6	0.4

### Top detractors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Novartis AG	2.0	0.3	-2.6	(0.60)
Tesla Inc.	0.0	0.9	181.5	(0.60)
Cisco Systems Inc.	2.3	0.4	5.0	(0.50)
Apple Inc.	0.0	3.6	35.0	(0.40)
Alphabet Inc.	0.7	2.4	54.0	(0.40)

#### Past performance is not a reliable indicator of future results.

The portfolio attribution data shown above is provided by FactSet based on information provided by Vanguard about the fund's daily portfolio holdings as of the market close. Because the fund buys and sells stocks throughout the trading day and not necessarily at the market close, the attribution data shown above is an estimate and may not precisely reflect actual attribution information.

Source: FactSet, as at 30 June 2021. FactSet is a holdings-based attribution tool. Portfolio transactions are valued at closing price, which may cause some slight deviations with the fund return (based on NAV).



## Investment Risk Information

**The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.**

Past performance is not a reliable indicator of future results.

Some funds invest in emerging markets which can be more volatile than more established markets. As a result the value of your investment may rise or fall.

Investments in smaller companies may be more volatile than investments in well-established blue chip companies.

Funds investing in fixed interest securities carry the risk of default on repayment and erosion of the capital value of your investment and the level of income may fluctuate. Movements in interest rates are likely to affect the capital value of fixed interest securities. Corporate bonds may provide higher yields but as such may carry greater credit risk increasing the risk of default on repayment and erosion of the capital value of your investment. The level of income may fluctuate and movements in interest rates are likely to affect the capital value of bonds.

The Funds may use derivatives in order to reduce risk or cost and/or generate extra income or growth. The use of derivatives could increase or reduce exposure to underlying assets and result in greater fluctuations of the Fund's net asset value. A derivative is a financial contract whose value is based on the value of a financial asset (such as a share, bond, or currency) or a market index.

Some funds invest in securities which are denominated in different currencies. Movements in currency exchange rates can affect the return of investments.

For further information on risks please see the "Risk Factors" section of the prospectus on our website at <https://global.vanguard.com>.

## Important Information

**This document is directed at professional investors and should not be distributed to, or relied upon by retail investors.**

This document is designed for use by, and is directed only at persons resident in the UK.

The information contained in this document is not to be regarded as an offer to buy or sell or the solicitation of any offer to buy or sell securities in any jurisdiction where such an offer or solicitation is against the law, or to anyone to whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so. The information in this document is general in nature and does not constitute legal, tax, or investment advice. Potential investors are urged to consult their professional advisers on the implications of making an investment in, holding or disposing of shares and /or units of, and the receipt of distribution from any investment.

The Authorised Corporate Director for Vanguard Investments Funds ICVC is Vanguard Investments UK, Limited. Vanguard Asset Management, Limited is a distributor of Vanguard Investments Funds ICVC.

For further information on the fund's investment policy, please refer to the Key Investor Information Document ("KIID"). The KIID and the Prospectus for the fund(s) is available from Vanguard via our website <https://global.vanguard.com/>

Issued by Vanguard Asset Management Limited, which is authorised and regulated in the UK by the Financial Conduct Authority.

© 2021 Vanguard Asset Management Limited. All rights reserved.