

VANGUARD GLOBAL CREDIT BOND FUND
QUARTERLY UPDATELOW-COST ACTIVE
FIXED INCOME

The Vanguard Global Credit Bond Fund is an actively managed fixed income solution investing primarily in a diversified portfolio of global investment grade fixed income securities. The fund is managed by Vanguard's Fixed Income Group and aims to generate a diversified, consistent level of return and income over the long-term.

Highlights

- Riskier assets rallied through the second quarter despite increasing inflationary concerns.
- Government bond yields suffered as indications of monetary policy tightening emerged.
- Credit spreads continued to tighten led by emerging market debt and high-yield corporates.
- The Vanguard Global Credit Bond Fund outperformed its index over the quarter.
- Tight valuations and the potential for rising inflation are among reasons for caution.

Market overview

Riskier assets rallied in the second quarter despite increasing concerns about inflation and a less dovish tone from central banks. Potentially earlier-than-expected monetary policy tightening also served to send bond yields lower. A further catalyst for this trend was progress in the global roll-out of vaccinations.

The US Federal Reserve (Fed) signalled a potential tightening of monetary policy after April's month-on-month US inflation reading hit 0.80% its highest monthly level since 1981¹. The Federal Open Market Committee left its benchmark interest rate unchanged but then surprised the market in June with news that its governors had started discussions about winding down its asset purchasing programme. However, the update did not spark a sell-off; instead, the yield on the 10-year US Treasury bond fell below 1.30%² in early July.

The European Central Bank also kept policy rates on hold and confirmed its intention to continue asset purchases through the third quarter to preserve favourable financing conditions. The Bank of England raised its expectations for GDP growth and inflation

while keeping monetary policy unchanged. The revisions were slightly higher than market expectations, owing to the Bank's view that the economic implications of delays to the relaxation of national Covid-19 restrictions would be relatively minor.

US and UK government bond yield curves saw some flattening, driven by longer-maturity bond yields falling, while European bond yields remained relatively unchanged.

In the corporate bonds markets, second-quarter earnings expectations continued to rise following very strong first-quarter results in both the US and Europe. European financials outperformed analysts' expectations, with earnings results for banks ahead of consensus forecasts. Insurers also issued generally good results with capital levels appearing to have mostly recovered from the challenges of the first half of last year.

Supply in the second quarter, in both euro and US dollars, was in line with prior years³, although significantly below the level of the second quarter of 2020. Demand for new issues remained robust with high book coverage ratios and limited new-issue premiums.

¹ Source: Bloomberg and U.S. Bureau of Labor Statistics as at 12 May 2021.

² Source: Bloomberg as at 8 July 2021.

³ Source: Bloomberg as at 30 June 2021.

Fund performance and positioning

The Vanguard Global Credit Bond Fund returned 2.73% over the quarter. This compared with a return of 2.10% for its benchmark, the Bloomberg Barclays Global Aggregate Credit Index Hedged⁴.

Security selection within US investment-grade credit and the emerging markets was a positive contributor to overall performance. Issuer selection within the BBB-rated European investment-grade segment, more specifically the selection of bonds in sectors such as transportation, also added value. Country selection within emerging markets was also positive for performance.

The fund's relative-value positioning in core government bonds was a slight detractor from performance this quarter.

In terms of positioning, the fund's overweight to credit risk was reduced relative to earlier this year, although we remain selectively positioned across those pockets of the market that we believe are likely to benefit from strong investor demand and a steadily improving macroeconomic backdrop.

We have maintained the fund's overweight to BBB-rated issuers, as well as its overweight in European investment-grade bonds. The fund also remained selectively invested in emerging market debt and high-yield corporate bonds.

Outlook

Although still high, valuations have become tighter across the fixed income market. We expect alpha opportunities to be more challenging given those high valuations and the seasonal decline in liquidity over the summer months.

Vaccine roll-outs continue to support a constructive macroeconomic outlook, although our belief is that much of the good news has already been priced in by the market, with the risk of a market overshoot and further tightening persisting.

In the near term, risk sentiment is strong but weakening. Against this background and the vaccine roll-out, a 'risk-on' reflation trade is a possibility. We see few catalysts for significant credit spread tightening, although there is a small possibility of significant spread widening.

We have become gradually more cautious on the market, owing to tightening valuations, the narrative around rising inflation and the Fed's likely pivot towards tighter monetary policy over the coming year.

The fund is positioned to benefit from reflation based on the possibility that the Fed takes a less benign path towards the winding down of its asset purchasing programme and monetary policy.

We continue to look for credits that have already repriced on the back of issuance pressures and are wary of those that have not. In the high-yield segment, technical factors around supply are likely to be very important in the second half of this year, as many investors are still meaningfully overweight in this part of the market.

⁴ Source: Bloomberg Barclays and Vanguard as at 30 June 2021. See page 3 for more information on performance.

Key fund facts (as at 30 June 2021)

Investment manager: Vanguard Group

Inception date: 14 September 2017

Domicile: Ireland

Benchmark: Bloomberg Barclays Global Aggregate Credit Index

Ongoing charges figure¹: 0.35%

Fund AUM: GBP 355m

Number of holdings: 1,275

Average coupon: 2.9%

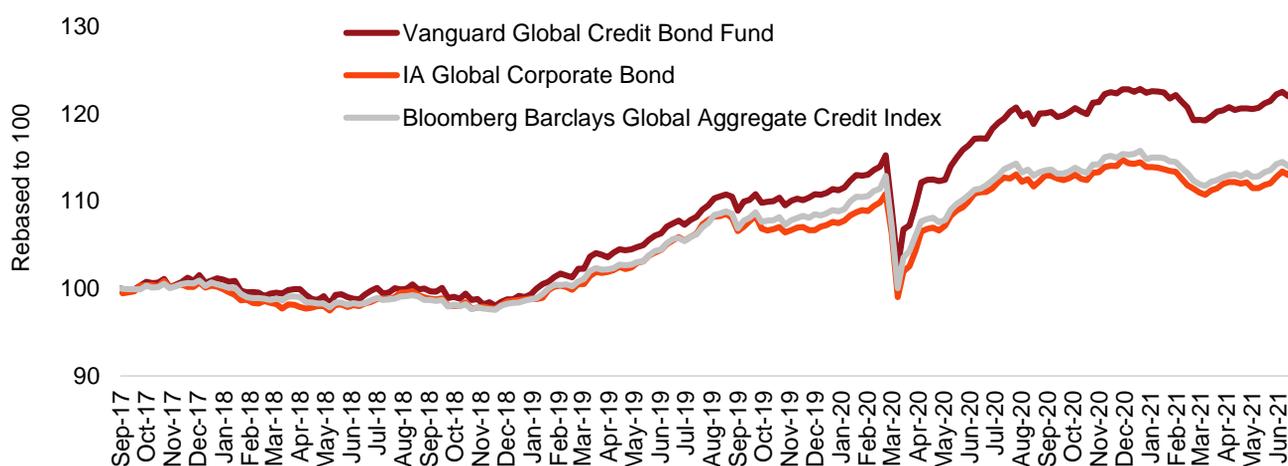
Average maturity: 9.1 years

Average quality: A-

Average duration: 7.0 years

ISIN: IE00BYV1RG46

Fund performance (as at 30 June 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	-0.25	2.73	4.60	7.26	--	5.51
Peer Group	-3.11	2.39	-2.76	4.35	3.26	2.73
Benchmark	-1.09	2.10	2.72	5.20	3.26	3.63

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	--	--	8.23	8.99	4.60
Peer Group	6.39	-2.25	9.94	6.83	-2.76
Benchmark	1.46	-0.63	7.44	5.50	2.72

Past performance is not a reliable indicator of future results.

Source: Vanguard and Morningstar, as at 30 June 2021. Peer group is IA Global Corporate Bond. 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 NAV to NAV. Basis of index performance is total return. All performance is calculated in GBP, net of fees, and the return may increase or decrease as a result of currency fluctuations.

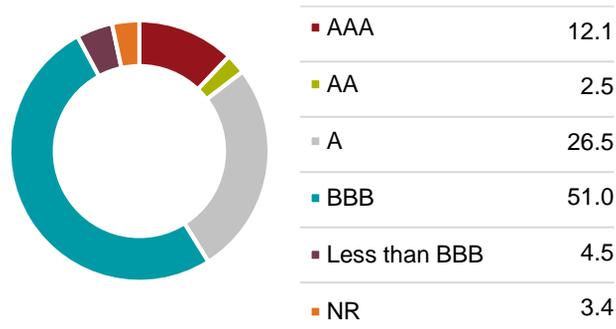
¹The Ongoing Charges Figure (OCF) covers the fund manager's costs of managing the fund. It does not include dealing costs or additional costs such as audit fees.

Fund breakdown (as at 30 June 2021)

Distribution by issuer (% of bonds)

Characteristics	Fund %
Industrials	37.2
Financial Institutions	30.7
Treasury/Federal	12.3
Sovereign	6.8
Utilities	6.3
Cash	3.4
Agencies	2.3
Other	0.6
Asset Backed Security	0.2
Provincials/Municipals	0.2
Commercial Mortgage Backed Security	0.0
Local Authority	0.0
Supranational	0.0

Distribution by issuer (% of bonds)



Credit quality ratings for each issue are obtained from Bloomberg 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.

The allocations are subject to circumstances such as timing differences between trade and settlement dates of underlying securities, that may result in negative weightings. The fund may also employ certain derivative instruments for cash management or risk management purposes that may also result in negative weightings. Allocations are subject to change. Cash includes physical cash on the account, cash like instruments (such as ultra-short term treasury bonds) and derivative instruments.

Source: Vanguard, as at 30 June 2021.

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.

Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only.

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 Vanguard Global Credit Bond Fund may use derivatives, including for investment purposes, in order to reduce risk or cost and/or generate extra income or growth. For all other funds they will be used 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 Funds 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>.

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For Dutch investors only: The fund(s) referred to in this document are listed in the AFM register as defined in section 1:107 Dutch Financial Supervision Act (Wet op het financieel toezicht). For details of the Risk indicator for each fund listed in this document, please see the fact sheet(s) which are available from Vanguard via our website <https://www.vanguard.nl/portal/instl/nl/en/product.html>.

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