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Q1 2021

VANGUARD GLOBAL CREDIT BOND FUND

QUARTERLY UPDATE

LOW-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 outperformed government bonds as inflation expectations rose.
- Credit spreads tightened broadly across most fixed income sectors.
- Supply reached historically high levels but demand remained robust.
- The Vanguard Global Credit Bond Fund outperformed its index over the quarter.
- While further price appreciation could be limited, we expect continued support for risk assets.

Market overview

The Biden administration increased its financial support for the US economy as its Covid-19 vaccine roll-out continued. This raised expectations that growth could rebound more strongly than previously expected, igniting inflation. This caused government bond yields to rise, notably in the US but also across Europe and the UK. The US Federal Reserve left interest rates unchanged nevertheless, referencing the many challenges that lay ahead of a return to pre-pandemic conditions.

That caution was matched in Europe where the European Central Bank and the Bank of England also kept rates on hold and continued to support the markets with bond purchases.

Against this backdrop, riskier assets such as credit—both investment grade and high yield—outperformed government bonds. Spreads (the difference in yield between a US Treasury bond and another debt security of the same maturity but different credit quality) tightened across the board. The outlier was emerging markets, where specific events caused spreads to widen slightly.

Issuers exposed to the travel sector remained pressured by the slow pace of vaccine roll-out in Europe and the return of more lockdowns. Certain banking-sector bonds also experienced a difficult time due to worries about contagion from solvency problems at two specialist financial services companies. Asian issuers remained relatively immune to these events as economic activity in the region returned close to pre-Covid-19 levels.

Supply reached historically high levels in March[1], especially in US dollars, following some very large new deals to fund specific telecoms projects. Demand remained robust, however, although new-issue premiums did increase as the heavy pipeline of bonds put pressure on spreads. Demand for 'green assets' remained strong.

Fund performance and positioning

The Vanguard Global Credit Bond Fund returned -2.90% over the quarter. This compared with a return of -3.12% for its benchmark, the Bloomberg Barclays Global Aggregate Credit Index Hedged[2].

[1] Source: Barclays and Vanguard, as at 31 March 2021.
[2] Source: Bloomberg and Vanguard, as at 31 March 2021.

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Factors contributing to performance included our modest underweighting of duration (reflecting sensitivity to interest rates) relative to the benchmark, a slight overweight to credit versus the benchmark and favourable security selection within US and European investment-grade bonds.

In both the US and Europe, we had a bias towards BBB-rated issues over A-rated and above. As the spread differential across credit quality compressed, in line with diminishing risk, this contributed to active positive returns.

Meanwhile, broad sector allocation across credit detracted from performance. The fund's emerging-market bonds allocation was also a drag this quarter as a result of volatility in Turkey, following controversial changes to the country's senior central-bank personnel.

In terms of positioning, the fund remains modestly overweight credit risk and selectively positioned across the pockets of the market still likely to benefit from strong investor demand and a steadily improving macroeconomic backdrop.

It is underweight US investment-grade bonds but less so than it had been at the start of the year. The fund retains its overweight in European investment-grade bonds and is selectively invested in emerging market debt and high-yield corporates.

Outlook

Valuations across the bond market have risen and we do not expect further significant price appreciation from a large decline in yields or tightening credit spreads.

While the macro outlook is quite constructive due to vaccine roll-out, we feel much of the good news has already been priced in by the market. Against this background, a 'risk-on' reflation trade is a possibility, though we see few catalysts for significant spread movement in either direction.

Credit markets have completed a round trip from last March's sell-off and spread levels are again near their lowest levels in 10 years. While further price appreciation should be limited, we do expect continued support for risk assets and to see credit continuing to outperform developed-market government bonds over the near term.

Risk sentiment is strong and a continued accommodative central bank backdrop could support further, modest spread tightening. Within this scenario, there is also, however, a risk that markets will overshoot in their tightening.

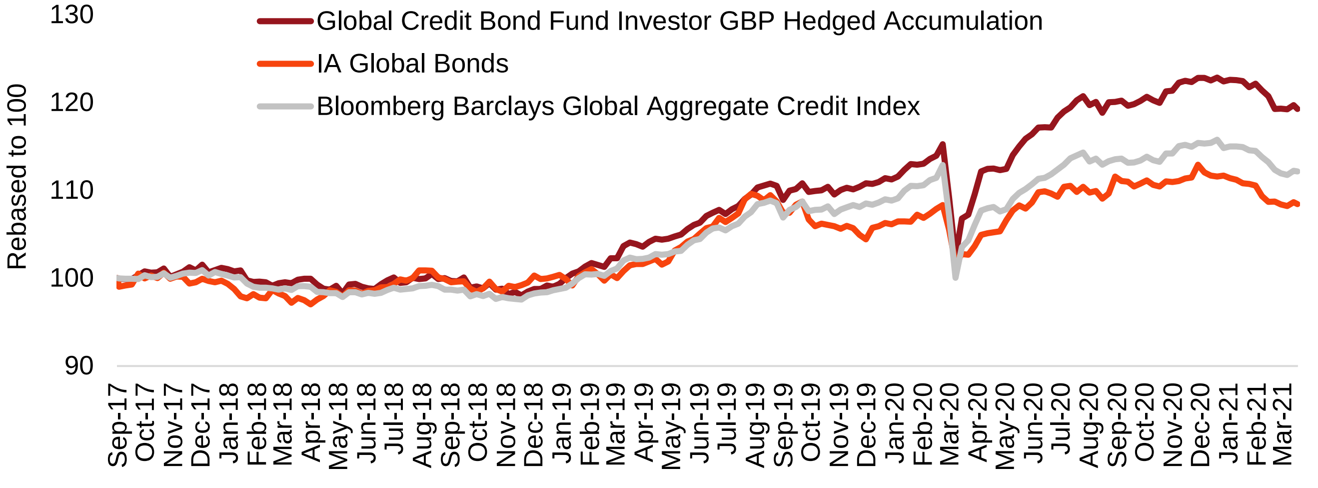
Our investment approach is to remain focused on security selection and relative value across sectors to drive our performance. We believe lower-quality issuers are best positioned for further spread tightening but security selection will dictate our exposures in those segments. We remain cautious around crowded trades benefitting from 'reach for yield' as these could be the most impacted if investors become unwilling to compromise quality over income.

Key fund facts

Investment manager: Vanguard Group
Inception date: 14 September 2017
Domicile: Ireland
Benchmark: Bloomberg Barclays Global Aggregate Credit Index
Ongoing charges figure: 0.35%
Fund AUM: GBP 302m

Number of holdings: 1,188
Average coupon: 2.8%
Average maturity: 8.8 years
Average quality: A-
Average duration: 7.0 years
ISIN: IE00BYV1RG46

Fund performance (as at 31 March 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	-2.90	-2.90	11.03	6.11	--	5.10
Peer Group	-4.05	-4.05	5.17	3.11	4.19	1.59
Benchmark	-3.12	-3.12	7.44	4.21	3.44	3.29

Year on year (%)	1 Apr 2016 - 31 Mar 2017	1 Apr 2017 - 31 Mar 2018	1 Apr 2018 - 31 Mar 2019	1 Apr 2019 - 31 Mar 2020	1 Apr 2020 - 31 Mar 2021
Fund	--	--	4.24	3.24	11.03
Peer Group	16.08	-2.77	4.60	0.43	5.17
Benchmark	3.03	1.55	3.29	1.99	7.44

Past performance is not a reliable indicator of future results.
Peer group is IA Global Bonds.
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.
Source: Vanguard and Morningstar, as at 31 March 2021.

Fund breakdown (as at 31 March 2021)

Distribution by issuer (% of bonds)

Characteristics	Fund %
Industrials	35.6
Financial Institutions	25.3
Treasury/Federal	14.2
Sovereign	8.8
Cash	8.3
Utilities	5.8
Agencies	1.4
Provincials/Municipals	0.2
Asset Backed Security	0.2
Commercial Mortgage Backed Security	0.1
Other	0.1
Local Authority	0.0
Supranational	0.0

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.

Distribution by issuer (% of bonds)

AAA	14.1
AA	2.8
A	22.2
BBB	48.8
Less than BBB	3.7
NR	8.4

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.

Source: Vanguard, as at 31 March 2021.

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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 further information on the fund's investment policies, please refer to the Key Investor Information Document (“KIIDs”). The KIID for this fund is available in local languages, alongside the prospectus via Vanguard’s website 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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