

VANGUARD GLOBAL EMERGING MARKETS FUND
QUARTERLY UPDATELOW-COST ACTIVE
EQUITY

Vanguard Global Emerging Markets Fund is an actively managed fund. Three traditional, bottom-up active managers, each with a complementary style, are blended together to deliver long-term capital growth in a core emerging markets fund. Pzena is a deep value manager, Oaktree is a core manager and Baillie Gifford is a growth manager.

Highlights

- Emerging equity markets rose but lagged developed markets.
- Cyclical sectors recorded a strong performance.
- Returns from growth and value stocks were more balanced than in developed markets.
- The Vanguard Global Emerging Markets Fund underperformed its index.
- Oaktree and Baillie Gifford outperformed.

Market overview

Despite fresh outbreaks of Covid-19, the global economy continued to rebound sharply, if unevenly. Equities rallied, particularly in countries that have been more successful at containing the virus. Developed markets, where technology stocks led, outperformed emerging markets. The cyclical sectors of energy, materials and industrials performed well across emerging markets. This benefitted more volatile stocks and markets such as Brazil and Russia, which are more exposed to cyclical sectors.

Performance and positioning

The Vanguard Global Emerging Markets Fund returned 4.47% over the quarter but underperformed its benchmark, the FTSE Emerging Net Tax (UK UCITS) Index, which returned 5.05%¹.

The Oaktree and Baillie Gifford portfolios outperformed while Pzena trailed the benchmark.

Pzena's underperformance was driven by security selection in the technology and consumer discretionary sectors. This was partially offset by strong security selection in utilities.

Oaktree's outperformance was driven by security selection, primarily in financials and healthcare. The portfolio also benefitted from an overweight to industrials.

Security selection was also the main driver behind the outperformance of Baillie Gifford's portfolio, led by energy and consumer discretionary stocks. However, the portfolio's overweight to technology detracted from returns over the quarter.

The top contributors held in the portfolio this quarter were Brazilian petroleum company Petrobras and Hong-Kong maritime transport firm Pacific Basin Shipping.

Petrobras's share price rebounded strongly after a period of shorter-term weakness, partly due to the firm's new management team committing to no major change in operating strategy, as well as strong results and a supportive oil price. The new management team announced that the firm would continue to focus on its pre-salt assets (located in ultra-deep waters, below a layer of salt) and non-core divestments, which it had been doing successfully prior to the change in management.

¹ Source: Vanguard, as at 30 June 2021. See page 3 for more performance information.

Shares of Pacific Basin performed well as the company continued to benefit from higher shipping rates on many of its key routes, stemming largely from supply-chain bottlenecks and port congestion.

An underweight position to South African conglomerate Naspers also contributed.

The top detractors held in the portfolio this quarter were Galaxy Entertainment and Ping An Insurance.

Shares of Macau casino operator Galaxy Entertainment were weak on concerns about the potential impact of the Covid-19 Delta variant on the leisure sector.

Two factors seem to be weighing on the share price of Chinese insurance provider Ping An. On 30 April, Ping An announced that it would be taking part in a restructuring. After the deal, Ping An will own 51-70% of the NewCo², whose assets include healthcare, financial, technology and education holdings. The market is also concerned about the rapid development of “HuiMinbao”, a city government-backed medical insurance plan.

Underweight positions to Chinese pharmaceutical software company Wuxi Biologic and electric car-maker NIO also detracted.

Activity

Pzena sold its position in China Resources Power Holdings on the back of the firm’s share-price strength. Pzena initiated a position in Taiwan’s United Integrated Services (UIS) – a cleanroom producer for the foundry industry that counts microchip giant Taiwan Semiconductor Manufacturing Company (TSMC) among its most loyal and important customers. UIS should continue to benefit from TSMC’s strength and capital expenditure, and Pzena believes it trades at an attractive valuation.

Oaktree exited its position in Tencent as the company finds itself under heightened regulatory scrutiny from governments around the world. Oaktree anticipates that Tencent will face headwinds to both corporate activity and

earnings growth. Oaktree participated in the IPO of JD Logistics (JDL), which they view as the “picks and shovels” way to play e-commerce. JDL is an integrated logistics company that Oaktree expects to benefit from its technology platform and scale. The company should continue to see structural growth as the market is fragmented.

Baillie Gifford didn’t have any significant sales in the quarter. They added to their position in Hyundai, which they started buying in the first quarter. The team believe Hyundai is at the start of a robust product cycle driven by its electric vehicle platform.

Outlook

Pzena’s investment process is not based on forward-looking market or macro forecasts and they remain focused on looking for deeply undervalued securities that hold the potential to produce superior long-term returns. The portfolio remains exposed to businesses benefitting from an economic recovery. They have long been underweight China, but as sentiment towards the country continues to sour, the likelihood of finding under-valued companies there increases. They have been comfortable with their relatively low exposure to China for risk purposes but remain open to re-evaluating individual business opportunities.

Oaktree continues to believe that higher rates of inflation will endure, supported by ongoing shortage issues in the supply chain caused by years of under-investment, which has been exacerbated by Covid-19 disruptions. As such, Oaktree remains overweight the cyclical sectors, including energy, materials and financials, and continues to see countries like Brazil and Russia benefitting from high commodity prices.

Baillie Gifford continues to focus on the long-term operational performance of the companies in the portfolio and here they remain optimistic. They no longer see a ‘winner-takes-most’ economy across many end markets, with a growing breadth and depth of high-quality companies in emerging markets leading to a diverse opportunity set for growth investors across the asset class.

² Source: Ping An. See investor relations announcement titled ‘Disclosable Transaction Restructuring Investment Agreement relating to the Founder Group Restructuring’, 30 April 2021.

Key fund facts (as at 30 June 2021)

Investment manager: Baillie Gifford Overseas Ltd.

Oaktree Capital Management, L.P., Pzena Investment Management, LLC

Inception date: 25 May 2016

Domicile: United Kingdom

Benchmark: FTSE Emerging Index

Ongoing charges figure¹: 0.78%

Fund AUM: GBP 309m

Number of holdings: 183

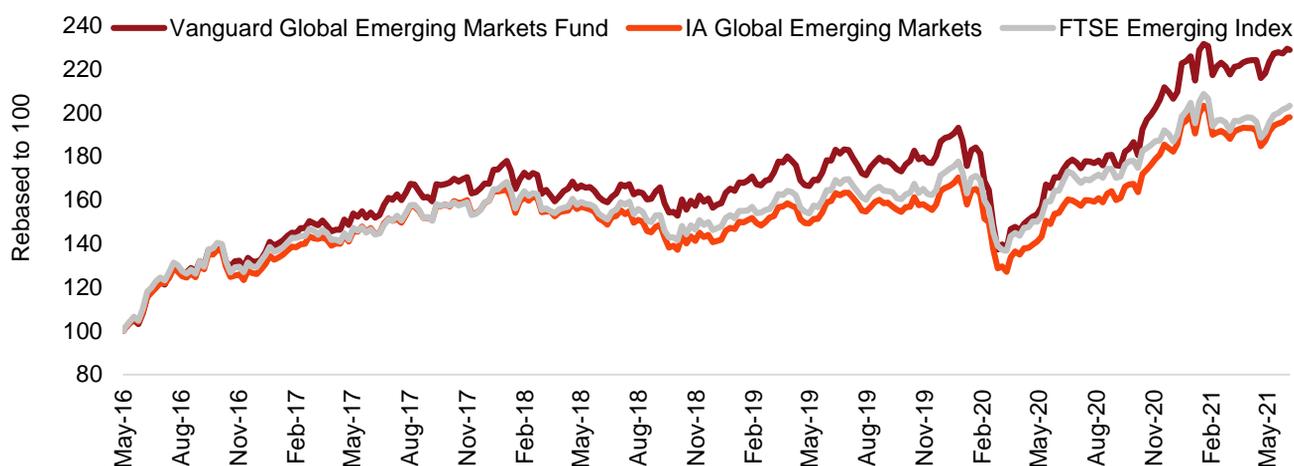
Median market cap: GBP 30.0B

PE ratio: 15.2X

Equity yield (dividend): 2.1%

ISIN: GB00BZ82ZY13

Fund performance (as at 30 June 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	9.27	4.47	34.65	12.72	14.96	17.63
Peer Group	5.95	4.47	28.06	9.75	11.81	14.57
Benchmark	6.99	5.05	24.23	10.08	11.77	14.91

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	33.33	5.14	11.42	-4.53	34.65
Peer Group	27.15	4.17	5.38	-1.64	28.06
Benchmark	23.77	5.64	8.01	-0.59	24.23

Past performance is not a reliable indicator of future results.

Source: Vanguard and Morningstar, as at 30 June 2021. Peer group is IA Global Emerging Markets. 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.

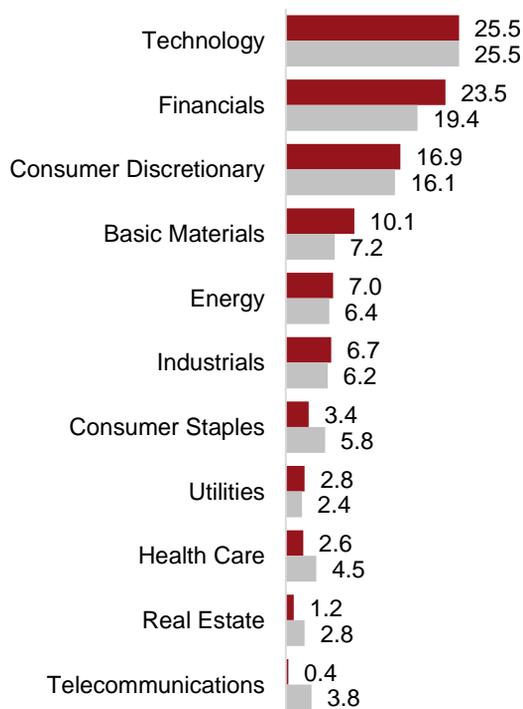
¹The Ongoing Charges Figure (OCF) covers the fund manager's costs of managing the fund. It does not include dealing costs or additional costs such as audit fees.

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

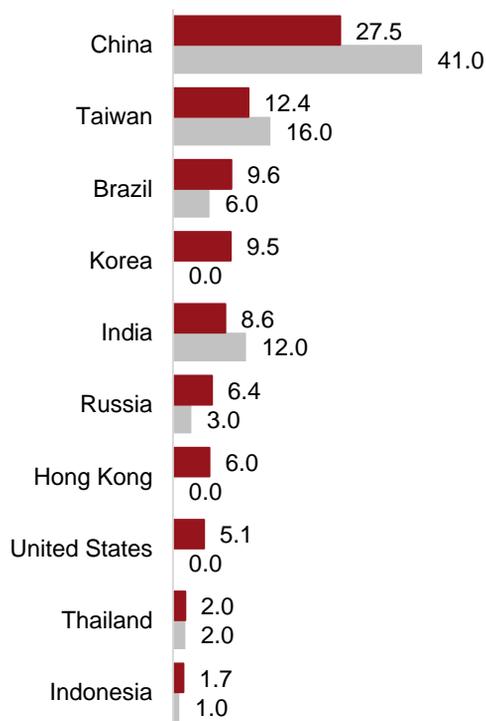
Company	%
Taiwan Semiconductor Manufacturing Co. Ltd.	5.9
Alibaba Group Holding Ltd.	3.1
Samsung Electronics Co. Ltd.	2.6
LUKOIL PJSC	2.2
Petroleo Brasileiro SA	2.2
Tencent Holdings Ltd.	2.1
Sberbank of Russia PJSC	1.8
Reliance Industries Ltd.	1.8
Vale SA	1.8
Hon Hai Precision Industry Co. Ltd.	1.6

Breakdown (as at 30 June 2021)

Sector exposure (%)



Region exposure (%)



■ Fund ■ Benchmark

Source: Vanguard, as at 30 June 2021.

Performance analysis

Top contributors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Petroleo Brasileiro SA	2.2	0.0	48.1	0.60
Vale S.A.	1.8	0.0	33.6	0.40
Naspers Limited	0.0	1.1	-12.3	0.20
Tencent Holdings Ltd.	2.1	5.9	-4.0	0.20
Pacific Basin Shipping Limited	0.6	0.0	49.0	0.20

Top detractors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Wuxi Biologics (Cayman) Inc.	0.0	0.8	46.2	(0.20)
NIO Inc.	0.0	0.9	36.3	(0.20)
Galaxy Entertainment Group Limited	1.5	0.0	-11.2	(0.20)
Vale S.A.	0.0	1.2	32.4	(0.20)
Petroleo Brasileiro SA	0.0	0.7	44.0	(0.20)

Top contributors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Alibaba Group Holding Ltd.	3.1	5.3	-6.2	0.90
Samsung Electronics Co. Ltd.	2.6	0.0	53.2	0.60
POSCO	0.9	0.0	97.9	0.50
Tencent Holdings Ltd.	2.1	5.9	4.8	0.50
ICICI Bank Limited	1.2	0.2	64.6	0.50

Top detractors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
NIO Inc.	0.0	0.9	516.4	(0.70)
Wuxi Biologics (Cayman) Inc.	0.0	0.8	168.7	(0.40)
AngloGold Ashanti Limited	0.5	0.1	-42.5	(0.40)
Charoen Pokphand Foods Public Co. Ltd.	0.5	0.0	-26.2	(0.30)
Meituan	0.9	2.1	66.4	(0.30)

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.

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>.

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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/>

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