VANGUARD GLOBAL EQUITY INCOME FUND QUARTERLY UPDATE

LOW-COST ACTIVE EQUITY

Vanguard Global Equity Income Fund is an actively managed core fund. Its two independent sub-advisers follow distinct, yet complementary approaches in managing the Fund's assets. Wellington is a traditional bottom-up manager, while Vanguard's Quantitative Equity Group utilises a quantitative approach to find securities with an attractive combination of quality, valuation and yield.

Highlights

- Global equity markets moved higher.
- Developed markets outperformed emerging markets.
- Growth stocks took back the leadership from value stocks.
- The Vanguard Global Equity Income Fund underperformed its index.
- Both managers continue to find investment opportunities.

Market overview

Despite fresh outbreaks of Covid-19, the global economy continued to rebound sharply, if unevenly. Countries that have been more successful at containing the virus tended to fare best in the market rally.

The combination of faster economic growth, a recovery in commodity prices, ongoing fiscal and monetary stimulus and the low base, of a year ago, from which comparisons were being made, pushed inflation readings higher.

The reopening of economies and the effect of pent-up demand boosting corporate profits underpinned the gains in global stocks. Developed markets, led by the US, outperformed emerging markets. The technology sector, which roared back to life in developed markets, was a highlight. Some cyclical sectors, led by energy stocks, also continued to do well, particularly in emerging markets. From a style perspective, growth took back the leadership from value. High-quality stocks (as defined by a high return on assets) performed well in developed markets but less so in emerging markets.

Fund performance

The Vanguard Global Equity Income Fund returned 4.52% over the quarter but underperformed its benchmark, the FTSE Developed Index (in GBP), which returned 7.46%[1].

As an income-focused fund, the underperformance this quarter was not surprising as high-dividend stocks trailed the broader market due to the rotation back to growth stocks.

The fund's overweight exposure to high-yielding and value stocks detracted from performance. Security selection also had a negative effect, led by holdings in financials. The fund's underweight to technology was an additional drag. Both managers underperformed this quarter.

In terms of individual stocks held by the fund, Sands China and Volkswagen were the top detractors. AstraZeneca and ENN Energy were the top contributors.

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

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The share price of integrated resort developer Sands China fell after gaming revenue from its Macau-based operations rose less than analysts had expected in April. This was the third consecutive month of disappointment for the resort's casino business as it awaits a more liberal reopening of global travel.

The share price of Volkswagen ended the period a little lower, with the stock giving back some of the very strong gains seen in the first quarter. The move was in line with the market rotation back to growth companies. The car maker's first-quarter results and forward guidance were solid, even as it navigated the bottlenecks and disruptions seen across all auto maker supply chains.

Shares in AstraZeneca rose during the period. Excluding Covid-19 vaccine revenue, first-quarter 2021 revenue increased by 7%, driven by the oncology, new cardiovascular, renal and metabolism segments. Management confirmed 2021 guidance of revenue growth in the low teens. The pharmaceutical group's Covid-19 vaccine was granted emergency-use approval in Japan and its drug Tagrisso, for the treatment of early-stage lung cancer, was approved for use in the European Union[2].

The share price of Chinese natural gas company ENN Energy rallied as the company reported strong operating trends for the first quarter of 2021. Natural gas sold to vehicle refuelling stations increased by 10% year-on-year and integrated energy sales volume by 79% year-on-year[3].

Activity

Wellington, which runs a low-turnover portfolio, initiated a position in Rio Tinto and added to Merck. They had no sizeable sales in the quarter.

The new position in Rio Tinto, which is the world's second-largest metals and mining company, was entered on the basis that the stock was trading at an attractive valuation and the company has a record of strong cash flow generation.

Wellington also added to its holding in Merck, which has a robust portfolio of pharmaceutical drugs that have helped to drive strong sales growth. The company's expansion has seen it establish an increased international presence. Wellington views Merck as having a stable return on capital which it expects will accelerate due to the company's new drug pipeline and efficiency measures. Merck also has a strong balance sheet and its management continues to demonstrate a very disciplined approach to acquisitions.

Vanguard's Quantitative Equity Group's activity is driven by technical analysis of individual stocks in their model. The team added HP and Dominion Energy to their portfolio and eliminated Royal Dutch Shell and Uniper.

Outlook

Wellington believes that as the market continues to swing between growth and value, it is imperative that they stick to their strategic aims and remain focused on investing in attractively valued companies that generate the necessary free cash flow to pay sustainable and attractive dividends. While the broader market has adopted an optimistic view on risks such as elevated debt levels and further Covid-19 mutations, Wellington considers it important to monitor these concerns so as to focus its investment in resilient companies that can maintain a long-term ability and willingness to pay dividends.

[2] Source: AstraZeneca, as at 30 April 2021.
[3] Source: ENN Energy Holdings Limited, as at 28 April 2021.

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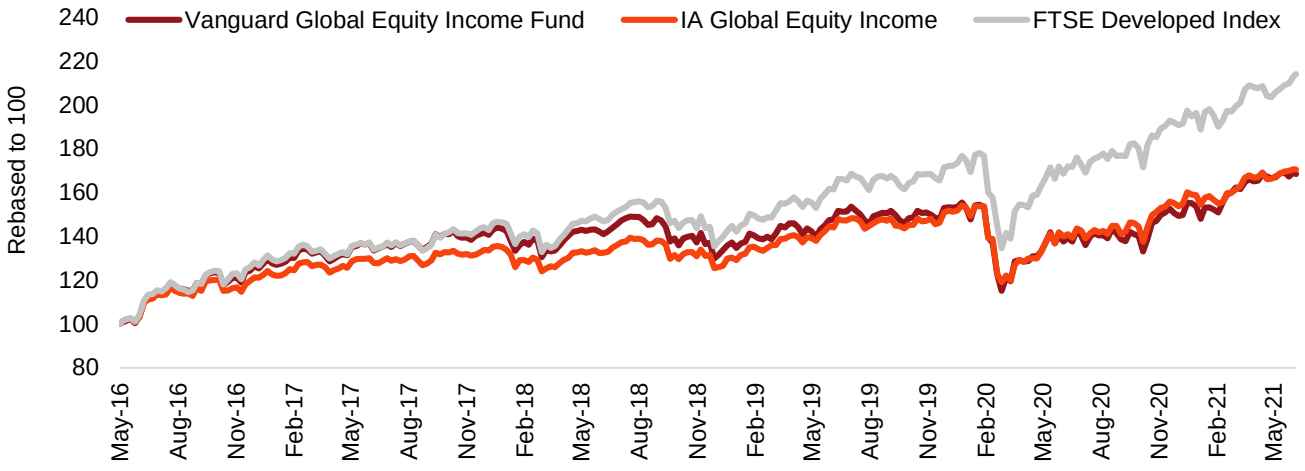
Key fund facts (as at 30 June 2021)

Investment managers: Vanguard Quantitative Equity Group, Wellington Management Company LLP
Inception date: 25 May 2016
Domicile: United Kingdom
Benchmark: FTSE Developed Index
Ongoing charges figure[1]: 0.48%

Fund AUM: GBP 70m
Number of holdings: 133
Median market cap: GBP 51.7B
PE ratio: 16.4X
Equity yield (dividend): 3.4%
ISIN: GB00BZ82ZW98

Fund performance (as at 30 June 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	12.53	4.52	21.08	6.10	9.09	10.76
Peer Group	10.05	4.86	20.94	8.53	9.30	10.59
Benchmark	11.81	7.46	24.83	13.40	14.37	16.09

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	22.48	5.63	4.75	-5.84	21.08
Peer Group	18.90	3.69	9.25	-2.26	20.89
Benchmark	22.52	9.54	10.00	6.20	24.83

Past performance is not a reliable indicator of future results.
Source: Vanguard and Morningstar, as at 30 June 2021. Peer group is IA Global Equity Income. 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.

[1]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.

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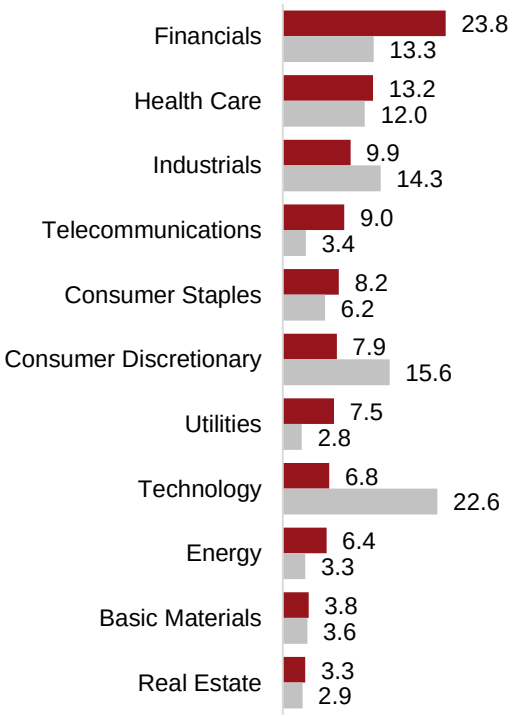
Top 10 fund holdings (% exposure, as at 30 June 2021)

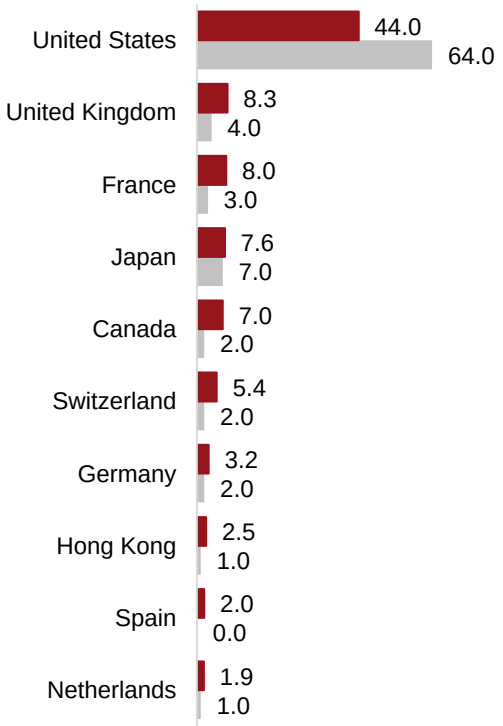
Company	%
Philip Morris International Inc.	2.4
Bank of America Corp.	2.2
Bank of Nova Scotia	2.1
Pfizer Inc.	1.9
AstraZeneca plc	1.8
Taiwan Semiconductor Manufacturing Co. Ltd.	1.8
Royal Bank of Canada	1.7
AXA SA	1.7
Lockheed Martin Corp.	1.6
Verizon Communications Inc.	1.6

Breakdown (as at 30 June 2021)

Sector exposure (%)



Region exposure (%)



Fund Benchmark

Source: Vanguard, as at 30 June 2021.

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Performance analysis

Top contributors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
AstraZeneca PLC	1.8	0.3	19.8	0.20
ENN Energy Holdings Limited	1.0	0.0	20.7	0.10
Isuzu Motors Limited	0.7	0.0	22.7	0.10
Philip Morris International Inc.	2.4	0.3	12.9	0.10
Walt Disney Company	0.0	0.5	-4.9	0.10

Top detractors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Alphabet Inc.	0.0	2.4	19.6	(0.30)
Volkswagen AG	1.1	0.1	-10.8	(0.20)
Apple Inc.	0.0	3.6	9.6	(0.20)
NVIDIA Corporation	0.0	0.8	49.7	(0.20)
Sands China Ltd.	0.9	0.0	-15.8	(0.20)

Top contributors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Taiwan Semiconductor Manufacturing Co. Ltd.	1.8	0.0	83.4	1.00
Bank of Nova Scotia	2.1	0.1	49.4	0.40
Bank of America Corporation	2.2	0.5	58.8	0.40
Amazon.com Inc.	0.0	2.5	11.5	0.30
Volkswagen AG	1.1	0.1	53.2	0.30

Top detractors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Alphabet Inc.	0.0	2.4	56.3	(0.60)
Tesla Inc.	0.0	0.9	181.5	(0.60)
Galp Energia SGPS S.A.	0.0	0.0	-16.9	(0.40)
Verizon Communications Inc.	1.6	0.4	-5.1	(0.40)
Kellogg Company	0.8	0.0	-9.7	(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).

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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.

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 Vanguard Global Equity Income Fund - Charges are deducted from capital (not income). Whilst this may increase the level of income paid, it will result in capital erosion and will constrain growth

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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