

**Vanguard**<sup>®</sup>

# Indexing at Vanguard

Quality not commodity



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"When you select a Vanguard index fund or ETF, you know exactly what you're going to get: low-cost, high-value, transparent access to a broad market exposure."

Mark Fitzgerald  
Head of Product Specialism, Product  
Management, Vanguard Europe

# Indexing at Vanguard – Quality not commodity

Vanguard is a pioneer of indexing, having developed the first-ever index fund for individual investors in 1976. Low cost and low risk by nature, indexing can be the foundation for almost any investment portfolio, helping to achieve broad diversification. As investors have increasingly come to appreciate these inherent traits, indexing has become ever more popular.

Against this widespread and growing appeal, it is tempting to regard index funds and ETFs as mere commodities, with selection based purely on securing exposure to markets at the lowest possible cost. But we do not believe this is the best way to approach

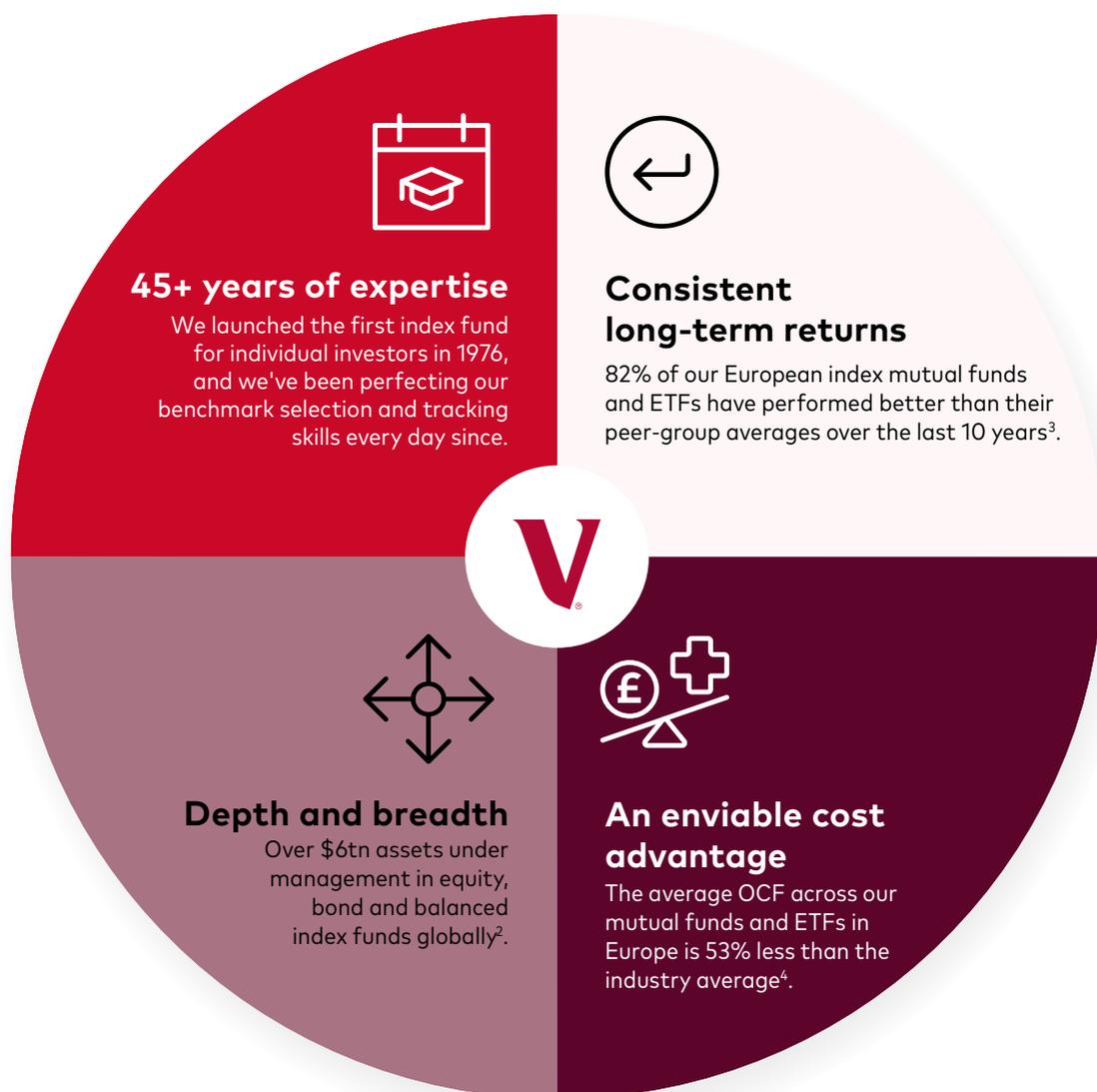
indexing. Whilst low cost is a critical success factor in capturing market returns – and the average ongoing charge figure (OCF) across Vanguard's index mutual funds and ETFs in Europe is 53% less than the industry average<sup>1</sup> – evaluating index products solely by reference to cost can mean neglecting crucial facets that can contribute significantly to successful investor outcomes.

We've built a sustainable, scaled and successful global index offering that is built on an uncompromising commitment to quality and recognises that although it's important, quality isn't just about cost, it's about long-term value.

Millions of investors have come to rely on Vanguard's index funds and ETFs to track global markets precisely in their search for consistent, dependable performance. With our extensive experience of 45+ years, we believe in doing the basics brilliantly and at a cost that allows investors to retain more of their investment returns. We aim to give investors the best chance of success through our commitment to indexing as a quality proposition rather than as a commodity.

<sup>1</sup> Vanguard average ongoing charge figure (OCF): 0.14%. Industry average expense ratio: 0.30%. All averages are for index mutual funds and ETFs and are asset-weighted. Industry average excludes Vanguard. Sources: Vanguard and Morningstar, as at 30 April 2021.

# Core attributes



<sup>2</sup> Source: Vanguard. Data as at 30 April 2021.

<sup>3</sup> Source: Lipper, a Thomson Reuters Company. For the 10-year period ended 30 June 2021, 26 of 34 Vanguard fixed income funds, 16 of 17 Vanguard balanced index funds, and 85 of 103 Vanguard stock index funds – for a total of 127 of 154 Vanguard index funds – outperformed their Lipper peer-group averages. Results will vary for other time periods. Only index mutual funds and ETFs with a minimum 10-year history were included in the comparison. The competitive performance data shown represent past performance, which is not a guarantee of future results.

<sup>4</sup> Vanguard average ongoing charge figure (OCF): 0.14%. Industry average expense ratio: 0.30%. All averages are for index mutual funds and ETFs and are asset-weighted. Industry average excludes Vanguard. Sources: Vanguard and Morningstar, as at 30 April 2021.

## Our commitment to quality adds value to indexing

We know low cost is key to successfully capturing market returns, but our focus on quality aims to improve investor outcomes. Our commitment to quality ensures that investors receive low-cost, high-value, transparent access to a broad market exposure, at the same time as minimising tracking error and other risks. Vanguard's indexing solutions are underpinned by considered benchmark selection, uncomplicated tracking methodology, robust and consistent risk management and a powerful transactional model, with our portfolio management and trading functions fully integrated. We also use our global scale to promote good corporate behaviour through our investment stewardship programme.

Together with our 45+ years' experience and our commitment to working with professional investors and advisers, our focus on quality reinforces why Vanguard remains a good choice for indexing. Our 30 million investors worldwide trust us to deliver long-term value<sup>5</sup>.

### Focused range of core solutions

Our indexing range in Europe, comprises 34 equity index products, from large cap to small cap, across developed and emerging markets, plus 27 bond ETFs and funds covering all major parts of the fixed income market, as well as a comprehensive range of multi-asset solutions. Across all our index funds and ETFs we aim to provide low-cost, diversified core building blocks to meet the needs of most long-term investors, for whom we aim to offer enduring, high-value options.

### EQUITY EXPOSURES

# 34

From large cap to small cap, across developed and emerging markets<sup>6</sup>.

### FIXED INCOME EXPOSURES

# 24

Covering all major areas of the fixed income market<sup>6</sup>.

### MULTI-ASSET EXPOSURES

# 20

Ready-made portfolios to help with savings or retirement<sup>6</sup>.

<sup>5</sup> Source: Vanguard. As at 30 April, 2021

<sup>6</sup> Source: Vanguard. As at 10 June, 2021. Fund numbers refer to funds available in Europe. Specific fund numbers will vary by country.

## Considered benchmark selection

We offer exposure to reliable and diversified benchmarks through major, recognisable and transparent core indices, across developed and emerging markets. We only partner with the leading global index providers – FTSE, MSCI and S&P for equities and Bloomberg Barclays for fixed income.

Our scale enables us to closely replicate the broadest possible benchmarks, and the widest possible investable universe. Our fixed income index funds, for instance, track float-adjusted indices, thereby excluding the bonds held by central banks and more accurately representing investors' opportunity set.

Coverage includes the UK, Europe, Japan, Asia Pacific and the US, as well as environmental, social and governance (ESG) and socially responsible investing (SRI). Vanguard takes a considered approach to benchmark selection, with the overarching goal of delivering high-quality solutions.

### Uncomplicated tracking

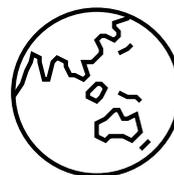
We use full physical replication wherever feasible, on the basis that matching assets to their corresponding weights in the benchmark index offers a purer form of indexing, thereby enhancing tracking, removing counterparty risk and improving transparency. Where benchmarks hold an unmanageable number of securities or contain illiquid stocks, we look to hold the optimal sample of securities, deploying the expertise of our portfolio managers and research teams to match the risk characteristics of the index, without holding every component. Sampling reduces turnover and lowers transaction costs.

We have 45+ years' expertise in tracking benchmarks accurately, efficiently and cost-effectively. Our aim is to consistently provide some of the tightest tracking in the field of indexing.

### COVERAGE INCLUDES



**UK and Europe**



**Japan, Asia Pacific**



**United States**



**Environmental, social and governance**



**Socially responsible investing**

# We favour physical replication

With our uncomplicated tracking methodology, we aim to consistently provide some of the tightest tracking in the field of indexing.



## Unique transactional model

Rather than operating in silos, our portfolio management and trading functions are fully integrated. This transactional model fosters deep sector specialism and means we can better manage index changes, rebalances, corporate actions and cash flows. In turn, this creates more optimal outcomes for clients. Our structure and scale, coupled with our extensive and long-standing trading relationships, can result in lower trading costs, greater choice of favourable securities lending opportunities, improved global access to trades and tighter index replication.

We have one of the largest global index portfolio management teams in the industry. The global nature of Vanguard's investment platform enables regional experts to make timely decisions locally. We continuously invest in our people, processes and technology to ensure we keep adding value as the market evolves.

## Robust and consistent risk management

All Vanguard's index funds and ETFs worldwide use the same daily, disciplined and tightly risk-controlled approach to ensure investor peace of mind. In tandem, we continuously seek to strengthen our risk management process to ensure we are capturing the critical drivers of performance. Our equity funds adopt a conservative securities lending approach with low structural risk, and we are fully transparent about the portion of lending revenue we return to end investors. As one of the world's largest fund managers, our global scale enables us to implement leading-edge risk management systems and processes.

We mitigate reinvestment risk in our securities lending programme by accepting non-cash collateral and we require 105% collateral for all loans.



## Investment stewardship

Investment stewardship is a core capability for Vanguard and we are committed to excellence in this critical function.

We engage with the portfolio companies in our index funds. Our investment stewardship activities are the principal levers by which we keep companies focused on building long-term value for index-fund and ETF investors.

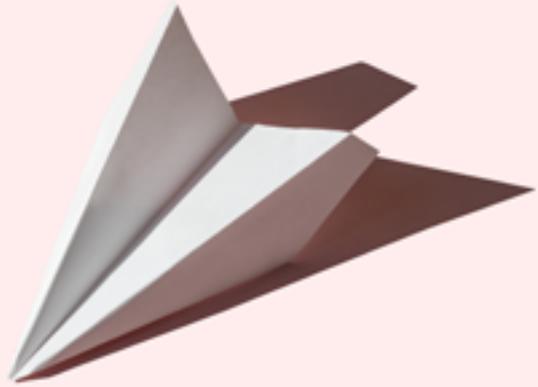
Because material ESG risks can undermine returns over the long run and our index funds and ETFs are long-term owners of the companies in which they invest, Vanguard's Investment Stewardship team works with the management teams of portfolio companies to better understand how they are addressing these material risks.

In 2020, Vanguard's Investment Stewardship team voted on 176,834 proposals <sup>7</sup>.

We expect companies to disclose significant risks to shareholders, such as carbon emissions; set a goal and strategy for mitigating those risks; and report on progress. However, although we want companies to mitigate material risks, we don't dictate their strategy. We believe company boards should be fully committed to addressing such risks, ensuring appropriate action is taken and progress is monitored.

With respect to our fixed income index funds, Vanguard's Fixed Income Group engages with bond issuers to understand their approach to mitigating financially material ESG-related risks.

<sup>7</sup> Source: Vanguard Investment Stewardship Annual Report, 31 December 2020.



# Why Vanguard?

Vanguard is a different kind of investment company. It was founded in the United States in 1975 on a simple but revolutionary idea: that an investment company should manage its funds solely in the interests of its clients.

This is a philosophy that has helped millions of people around the world to achieve their goals with low-cost, uncomplicated investments.

It's what we stand for: **value to investors.**

“Time is your  
friend, impulse  
is your enemy.”

John C. Bogle,  
founder of Vanguard

### **Important risk information**

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

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