

**Vanguard**<sup>®</sup>

# Vanguard Target Retirement Funds

Help your clients  
reach their retirement goals

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**Vanguard Asset Management, Limited**

The funds profiled in this brochure are distributed by Vanguard Asset Management, Limited in the UK. The Vanguard Group Inc is the investment adviser to the funds and the parent company of Vanguard Asset Management, Limited.

The Vanguard Group Inc. launched the world's first retail mutual index fund in the US in 1976 and now manages over \$4.9 trillion (as at 31 December 2018) globally. The Group's experienced and expert index investing teams aim to provide a straightforward, transparent portfolios, tight benchmark tracking and impeccable execution in all market cycles.

# Introducing Vanguard Target Retirement Funds

## Single-fund solutions that adapt to your client's journey to and through retirement

Vanguard's Target Retirement Funds simplify the retirement process for you and your clients. They're designed to help your clients focus on what they can control – how much to save and when to retire – and leave the investment decisions in the care of experienced investment professionals.

They represent an alternative for advisers who want broad diversified portfolios for their clients' retirement savings but without the hassle of frequently adjusting portfolios to maintain the appropriate asset allocation for the client's stage in life.

A Target Retirement Fund – also called a Target Date Fund – will automatically adjust asset allocation over time. The asset mix of a specific Target Retirement Fund gradually changes as your client moves closer to retirement.

Vanguard's Target Retirement Funds are created using several investment best practices. These include asset allocation, diversification, transparency and a balance between risk, return and cost.

## Why Target Retirement Funds make sense for your clients

When it comes to retirement planning, you and your clients face a bewildering array of decisions and a considerable amount of uncertainty. How much money will be needed, how much should be saved, how should it be invested and how long will it last are just some of the difficult questions.

Changing regulations also add to the complexity, including the new pension freedom legislation introduced in 2015. The biggest change for most people is that retirees are no longer compelled to buy annuities when they retire. By giving people more freedom with their pensions, we now face even more decisions at retirement about how to spend or draw an income from our assets.

These changes re-inforce the need for you and your clients to think long term and seek an enduring solution. And yet, many investors lack the time or interest in retirement planning. And even a motivated saver may make errors or fail to manage a portfolio's strategy effectively. Vanguard's Target Retirement Funds can help advisers overcome these issues for their clients by offering a convenient single-fund solution.

# Vanguard Target Retirement Funds

## **Convenient yet sophisticated single-fund solution**

Target Retirement Funds allow advisers and their clients to focus on what they can control – how much to save and when to retire. You and your client select the fund that targets the year in which your client expects to retire and decide how much to save. Use the chart on page 11 to help. Thereafter, all the investment decisions are made by experienced investment managers. Neither you nor your client need to re-balance or undertake complex switching arrangements, unlike other retirement solutions such as lifestyle options.

Vanguard's Target Retirement Funds are constructed based on our investment best practices. The funds take a long-term, strategic approach and are built to be highly diversified and low cost, which have proven to be keys to long-term investment success. They are straightforward and transparent by design and implemented with broad-based exposure to major asset classes. This low-cost approach is designed to maximise the impact of these funds for investors.

## **How they work – the glide path**

A Target Retirement Fund aims to ensure your client's retirement fund has the right mix of assets throughout its lifecycle. This feature differentiates Target Retirement Funds from static allocation single-fund solutions such as Vanguard's LifeStrategy range of funds.

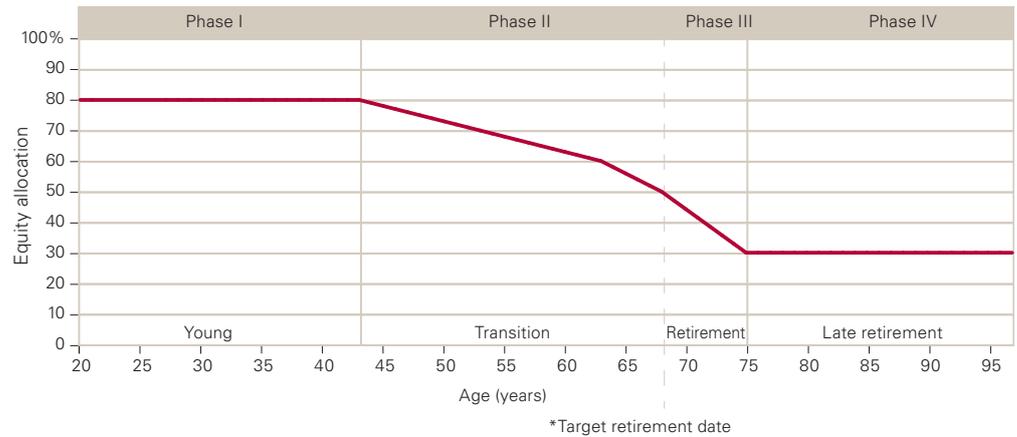
The asset allocation in Target Retirement Funds shifts over time to reduce risk in the portfolio as investors move towards retirement. This is known as the glide path and is illustrated in Figure 1.

The funds' glide path is designed to help a typical investor who maintains a reasonable savings rate<sup>1</sup> to reach his or her retirement investment goals. Using insights from our experience as one of the largest target date fund providers in the US, Vanguard's investment strategy group developed this glide path specifically for UK investors. It is a strategic allocation to a broadly diversified set of assets – not a tactical asset allocation philosophy. Experienced portfolio managers implement the glide path, which determines the appropriate level of risk for each stage of the lifecycle.

In the chart, the target retirement age is 68. In phase I, which lasts up to age 43, savers have time on their side. Their long-term investment horizon brings several advantages. Although their financial assets may be low at the outset, savers will continue to accumulate assets over their working life. These assets are able to grow and compound over time. And with retirement still many years away, their portfolios can withstand market volatility. A significant proportion (80%) of the fund is therefore invested in equities, allowing savers to benefit from potentially higher long-term returns compared with traditional bonds or cash.

<sup>1</sup> For our purposes, a reasonable savings rate is assumed to be a total contribution of 8% of their income at age 25. This gradually increases to 11.5% as they approach retirement. See Vanguard's approach to target retirement funds in the UK (2016), Ankul Daga, Schlanger, Donaldson and Westaway.

Figure 1: How they work – four distinct phases



Equity exposure begins to be scaled back in the transition phase, which is phase II in the chart and begins 25 years before retirement. We introduce more bond investments to balance the portfolio’s ability to grow with its ability to withstand any sudden stock market downturns. In the few years prior to retirement, we also add inflation-linked bonds to manage the risk of inflation eroding spending power. When retirement is reached at age 68, half the portfolio is in equities and the other half is in bonds.

Vanguard’s Target Retirement Funds are designed with the knowledge that at this point in time, you and your clients will face many choices. Your client should reach retirement with sufficient resources, from which they can take lump sums, draw a regular income or buy an annuity.

Even if your client wishes to run down their savings by taking lump sums or a regular income, the remaining portfolio maintains a growth element through its equity exposure. Over the seven years after retirement, phase III, we reduce the 50% equity allocation to 30%.

By age 75, the asset allocation is set for the remaining life of the fund, which is phase IV – late retirement. While 70% of the portfolio invests in traditional bonds, helping to preserve capital, the combination of equities and inflation-linked bonds should help offset inflation and the risk of your clients outliving their means. There is also the potential for savings that are unspent to be bequeathed.

Note: Details of Vanguard’s Target Retirement Fund methodology can be found in our paper *Vanguard’s approach to Target Retirement Funds in the UK*

# Why Vanguard Target Retirement Funds

## Low-cost investment solution

Our Target Retirement Funds use our low-cost index funds as the building blocks of the portfolio. Keeping costs low allows investors to save more of their money for retirement.

## Strategic asset allocation

Using Vanguard's best thinking on retirement and investing, the funds take a long-term strategic approach to asset allocation to ensure your client has the appropriate mix of assets at each stage of the lifecycle.

## Automatic rebalancing

Our investment managers make the necessary adjustments to keep the funds on the right glide path, allowing you and your clients to focus on what you can control.

## Global retirement expertise

Vanguard is the leading provider of Target Retirement Funds in the US. Since we launched them in 2003, our index expertise coupled with rigorous investment and retirement research has helped grow our target retirement fund business.

## Asset mix designed for UK investors

Vanguard Target Retirement Funds for the UK have been created specifically for UK investors using our expertise as the US's largest provider of target date funds. Extensive research into what will work best for UK investors has informed the design of these funds in terms of the mix between equities and bonds and domestic and overseas investments

# Vanguard's principles for investing success

Successful investing hinges on many factors. Some can't be controlled – market returns, for example. But others can be. Vanguard believes that the following four principles will allow you to focus on the factors within your control, which can be an effective way to achieve long-term results. These principles are intrinsic to our company and the creation of Vanguard's Target Retirement Funds.

## Investment goals

Vanguard's Target Retirement Funds are specifically designed to help your clients save for retirement

## Asset allocation

Each fund is well-diversified, investing in a broad range of assets with a risk profile that changes to suit your clients' stage in life

## Minimise cost

Each fund is low cost so your clients keep more of their investment returns

## Maintain perspective

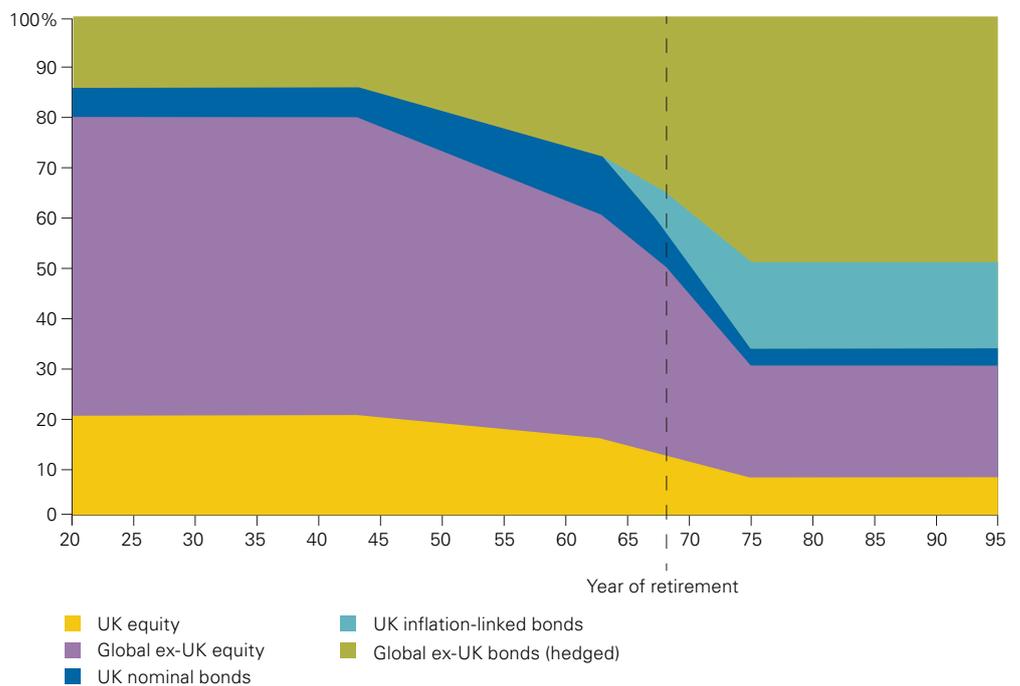
Staying the course is easier with a single fund solution focused on your clients' retirement date

# The building blocks for retirement saving

Vanguard Target Retirement Funds are well-diversified portfolios throughout an investor's lifecycle. We use our expertly managed, low-cost index funds as the building blocks for the Target Retirement Funds' glide paths.

Figure 2 illustrates the sub-asset classes in the glide path and how the mix changes over time.

Figure 2: The building blocks



Notes: Figure assumes that a particular fund was selected based on a projected target retirement age of 68. Linkers = index-linked gilts (see discussion of linkers later in the text).

Source: Vanguard.

## UK equities

Knowing investors often prefer their domestic market and are unwilling to take on too much currency risk with overseas investing, the funds will always have exposure to all segments of the broad UK stock market, including large-, mid- and small-cap equities.

## Global ex-UK equities

Investing in equities from outside the UK provides diversification and helps reduce risks in the fund by ensuring there is not undue focus on any single country, region or sector. This can provide a more stable return stream over time.

### **UK nominal bonds**

Bonds provide stability in a portfolio. To balance the risks associated with equity investing, the funds invest in UK investment grade bonds. These are sterling-denominated government and corporate bonds.

### **UK inflation-linked bonds**

The value of these bonds is tied to the prevailing inflation rate. They are included in the years leading up to retirement and we increase their proportion during the retirement phase. They help manage the risk of the value of your client's savings being eroded by inflation.

### **Global ex-UK bonds – hedged**

International investment grade bonds give investors exposure to the interest rate profile, inflation and economic cycles and political climate of a wide range of markets beyond of the UK. Vanguard research shows currency fluctuations are a greater source of risk with international bond investing than with equities, which is why we hedge currency back to sterling in this asset class.

## Risks with target retirement funds

Target retirement funds may not be suitable for all investors. They have been specifically designed to help people save for retirement. This investment objective gives clarity on the time horizon, the mix of assets and liquidity limits.

Typically, retirement investors have a very long investment perspective. Even when investors reach their target retirement date, their savings still need to sustain through retirement for another 20 to 30 years, approximately. The long-term nature of the investment helps define the risk constraints within the fund, giving investors the ability to take on significant risk, especially in the early phases of retirement saving.

While target retirement funds are designed for most investors saving for retirement, it does not take an individual's personal circumstances into consideration. It is possible that an investor's expectations may not be met when they retire. For example, an investor may have fewer assets than expected, especially if they have not saved a sufficient proportion of their earnings, or an investor may exhaust their savings while in retirement. This could happen if their spending level is frequently higher than the sustainable growth rate of their portfolio.

At all times, the portfolio will be subject to investment risk. While exposure to this risk reduces as the investor approaches retirement, the portfolio's value will fluctuate. This has timing implications for investors who wish to annuitise, take lump sums or draw a regular income.

# Designed to help you and your clients

## A single-fund retirement solution

Well-diversified portfolios with asset allocation adjusting over time may help clients save sufficient assets for retirement.

## Assisting product suitability

Well-constructed and implemented portfolios may give you more time and resources to focus on your clients and to ensure their assets are aligned to their financial situation.

## Enhancing your role as client coach

Simple packaged portfolios may help your clients avoid common behaviours that tend to reduce investor returns or increase investor risk, such as market timing and performance chasing.

## Serving a variety of client types

The low cost and low maintenance of these funds allows you to serve a range of clients from those that require a lighter touch to those that need fully advised solutions for all their financial needs.

## Focusing on clients

Pre-set investment solutions can free up the time and resources that you might have traditionally spent on activities such as fund selection and oversight. Selecting a suitable Vanguard Target Retirement Fund can allow you to spend more time building a sustainable and valuable business, enhancing relationships with your existing clients and finding new ones.

## Making promises you can keep

Using a professionally managed, single-fund solution can help you focus on critical financial planning areas such as estate and family planning, rather than topics that you can't control, such as market performance. These services can provide a more reliable foundation for an enduring advice practice

# Target Retirement Funds and the focus on product design and suitability

## Product design

Vanguard's Target Retirement Funds apply a number of investment best practices, including the principles of asset allocation, broad diversification, and balancing risk, return and cost. The funds offer a straightforward design, low investment costs and broad exposure to a mix of equity and fixed income investments. Vanguard believes these product features are designed to place client interests first.

## Product suitability

The investment best practices underpinning Vanguard's Target Retirement Funds should not replace the 'know your client' process. The decision to invest in a single-fund retirement solution is only as effective as the suitability assessment and 'know your client' process that precedes it.

# Choosing a Target Retirement Fund

Select the right Target Retirement Fund for your client based on the year of their birth and expected retirement age.

Example: Your client was born in 1970 and plans to retire at 65. They should invest in the Vanguard Target Retirement 2035 Fund.

Client's birth year	Client's target retirement date					
	55	60	65	68	70	75
1950	2005	2010	<b>2015</b>	2018	<b>2020</b>	<b>2025</b>
1951	2006	2011	2016	2019	2021	2026
1952	2007	2012	2017	<b>2020</b>	2022	2027
1953	2008	2013	2018	2021	2023	2028
1954	2009	2014	2019	2022	2024	2029
1955	2010	<b>2015</b>	<b>2020</b>	2023	<b>2025</b>	<b>2030</b>
1956	2011	2016	2021	2024	2026	2031
1957	2012	2017	2022	<b>2025</b>	2027	2032
1958	2013	2018	2023	2026	2028	2033
1959	2014	2019	2024	2027	2029	2034
1960	<b>2015</b>	<b>2020</b>	<b>2025</b>	2028	<b>2030</b>	<b>2035</b>
1961	2016	2021	2026	2029	2031	2036
1962	2017	2022	2027	<b>2030</b>	2032	2037
1963	2018	2023	2028	2031	2033	2038
1964	2019	2024	2029	2032	2034	2039
1965	<b>2020</b>	<b>2025</b>	<b>2030</b>	2033	<b>2035</b>	<b>2040</b>
1966	2021	2026	2031	2034	2036	2041
1967	2022	2027	2032	<b>2035</b>	2037	2042
1968	2023	2028	2033	2036	2038	2043
1969	2024	2029	2034	2037	2039	2044
1970	<b>2025</b>	<b>2030</b>	<b>2035</b>	2038	<b>2040</b>	<b>2045</b>
1971	2026	2031	2036	2039	2041	2046
1972	2027	2032	2037	<b>2040</b>	2042	2047
1973	2028	2033	2038	2041	2043	2048
1974	2029	2034	2039	2042	2044	2049
1975	<b>2030</b>	<b>2035</b>	<b>2040</b>	2043	<b>2045</b>	<b>2050</b>
1976	2031	2036	2041	2044	2046	2051
1977	2032	2037	2042	<b>2045</b>	2047	2052
1978	2033	2038	2043	2046	2048	2053
1979	2034	2039	2044	2047	2049	2054
1980	<b>2035</b>	<b>2040</b>	<b>2045</b>	2048	<b>2050</b>	<b>2055</b>
1981	2036	2041	2046	2049	2051	2056
1982	2037	2042	2047	<b>2050</b>	2052	2057
1983	2038	2043	2048	2051	2053	2058
1984	2039	2044	2049	2052	2054	2059
1985	<b>2040</b>	<b>2045</b>	<b>2050</b>	2053	<b>2055</b>	<b>2060</b>
1986	2041	2046	2051	2054	2056	2061
1987	2042	2047	2052	<b>2055</b>	2057	2062
1988	2043	2048	2053	2056	2058	2063
1989	2044	2049	2054	2057	2059	2064
1990	<b>2045</b>	<b>2050</b>	<b>2055</b>	2058	<b>2060</b>	<b>2065</b>
1991	2046	2051	2056	2059	2061	2066
1992	2047	2052	2057	<b>2060</b>	2062	2067
1993	2048	2053	2058	2061	2063	2068
1994	2049	2054	2059	2062	2064	2069

- Vanguard Target Retirement 2015 Fund
- Vanguard Target Retirement 2020 Fund
- Vanguard Target Retirement 2025 Fund
- Vanguard Target Retirement 2030 Fund
- Vanguard Target Retirement 2035 Fund
- Vanguard Target Retirement 2040 Fund
- Vanguard Target Retirement 2045 Fund
- Vanguard Target Retirement 2050 Fund
- Vanguard Target Retirement 2055 Fund
- Vanguard Target Retirement 2060 Fund
- Vanguard Target Retirement 2065 Fund

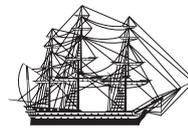
Source: Vanguard

## Vanguard Target Retirement Funds details

Vanguard aims to give you and your client's the best chance of investment success. A key component of this success is offering low-cost investment solutions. Our Target Retirement Funds, which represent our best investment, retirement and product knowledge, offer a cost-effective solution for UK investors.

Vanguard Target Retirement Fund	Ongoing charges figure as at 1 January 2019
Vanguard Target Retirement 2015 Fund	0.24%
Vanguard Target Retirement 2020 Fund	0.24%
Vanguard Target Retirement 2025 Fund	0.24%
Vanguard Target Retirement 2030 Fund	0.24%
Vanguard Target Retirement 2035 Fund	0.24%
Vanguard Target Retirement 2040 Fund	0.24%
Vanguard Target Retirement 2045 Fund	0.24%
Vanguard Target Retirement 2050 Fund	0.24%
Vanguard Target Retirement 2055 Fund	0.24%
Vanguard Target Retirement 2060 Fund	0.24%
Vanguard Target Retirement 2065 Fund	0.24%





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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.

The fund(s) may invest in financial derivative instruments that could increase or reduce exposure to underlying assets and result in greater fluctuations of the fund's Net Asset Value. Some derivatives give rise to increased potential for loss where the fund's counterparty defaults in meeting its payment obligations.

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.

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.

Investments in smaller companies may be more volatile than investments in well-established blue chip companies.

The Target Retirement Funds may invest in exchange traded fund (ETF) shares.

### **Important information**

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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 this fund is available from Vanguard via our website <https://global.vanguard.com/>

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