Vanguard®

Q2 2020

VANGUARD GLOBAL BALANCED FUND
QUARTERLY UPDATE

LOW-COST ACTIVE MULTI-ASSET

Vanguard Global Balanced Fund is an actively managed multi-asset solution that invests in a balance of equities and bonds. The fund is managed by Wellington Management Company LLP and employs a conservative approach, using broad diversification to moderate risk in order to pursue three investment goals: conservation of capital, reasonable current income and profits without undue risk.

Highlights

- Markets rebounded strongly from the first-quarter sell-off.
- Growth equities, especially large-cap tech, maintained their leadership position.
- Value and dividend-paying stocks underperformed.
- Fixed income assets rose but lagged the gains in equities.
- The Vanguard Global Balanced Fund trailed its composite index.

Market overview

Equity markets rebounded and posted strong returns in the quarter as optimism rose on the reopening of global economies after Covid-19 lockdowns. The FTSE All World Net Tax (UK UCITS) Index in GBP, a broad measure of the market, returned +19.7%[1].

Technology stocks continued their leadership position, driving market returns. Increased risk appetite from investors drove returns in cyclical sectors such as materials, industrials and energy due to early signs of an economic recovery. Defensive sectors such as utilities and consumer staples posted positive returns, but lower than the broader benchmark returns. Growth stocks, small-caps and high-beta stocks (those that tend to follow market direction but at an exaggerated pace) outperformed, while value, low-volatility stocks and companies that pay out a large percent of their incomes in dividends, underperformed[2].

Developed markets marginally outperformed the emerging markets[3]. The US market performed well on optimism about increased economic activity as well as continued fiscal and monetary stimulus. Emerging market countries that are sensitive to commodity prices, such as Brazil and Russia, rebounded, while China, which was a standout performer in the first quarter, lagged the overall index[4].

Global fixed income markets returned 2.72%, as measured by the Bloomberg Barclays Global Aggregate Float Adjusted and Scaled Index Hedged[1]. In the government bond markets of developed countries, the unprecedented volume of quantitative easing (government bond repurchases by the central banks to create extra liquidity in the financial system), caused yield curves to steepen across the board but especially so in the US and UK[1].

The corporate bond markets were helped by the monetary policy response of central banks[1], in particular the US Federal Reserve's buy-back programme which included high-yield bonds.

[1] Source: Bloomberg, as at 30 June 2020.
[2] Source: Factset, sector performance for FTSE All-World Index, as at 30 June 2020.
[3] Source: FTSE Developed Net Tax (UK UCITS) Index in GBP v FTSE Emerging Net Tax (UK UCITS) Index in GBP, as at 30 June 2020.
[4] Source: Factset, country breakdown for FTSE All World Net Tax (UK UCITS) Index in GBP.

Performance and positioning[5]

The Vanguard Global Balanced Fund returned +10.8% (net of fees) over the quarter and underperformed its benchmark composite index (in GBP), which returned +14.7%.

The equity portfolio trailed its benchmark while the fixed income portfolio outperformed.

In equities, the portfolio's strategic value bias and dividend focus detracted from performance this quarter. Many companies challenged by global lockdowns responded defensively to the financial uncertainty by scaling back dividend payments to investors. On the sector front, an underweight allocation to technology, where the portfolio had no exposure to large caps Apple and Amazon due to its value bias, eroded relative performance. The impact was all the greater for the sector having one of the heaviest weightings in the index.

In terms of individual stocks, Shandong Weigao and Autoliv were among the top contributors while Tokyo Marine and Derwent London were the largest detractors. Shares in China's Shandong Weigao, a medical devices researcher, developer and producer, rose as the company's products increased their penetration in China and management improved profitability by capitalising successfully on product innovation.

Shares of the American-Swedish company Autoliv, the market leader in automobile safety systems, performed well as cyclical stocks, including autos, rebounded from heavy selling in March. Demand for autos has proved more resilient than investors had expected.

Shares in Tokyo Marine, a Japanese property and casualty insurer, fell on disappointing earnings guidance and a postponement of their dividend payment. Share of Derwent London, a property investor and developer, dropped due to broad global concerns about the prospects for commercial real estate and specific weakness in UK equities, connected to the country's response to the pandemic.

In the fixed income portfolio, outperformance was driven by sector allocation decisions and individual security selection. Performance benefitted from a rebound in industrials, an overweight position to the communications sector and security selection among bonds in the energy sector.

Activity

In the equity portfolio, Wellington increased its exposure to General Motors (GM) based on an attractive valuation opportunity. The manager has a positive view on the changes taking effect under new leadership and believes these are not fully reflected by the market share price, due to current concerns with automotive demand. The company has exited the European business, embarked on a significant capital efficiency programme in the US and is seeking outside investors for its autonomous GM Cruise platform.

Following the outperformance of US multinational holding company Alphabet, Wellington trimmed its position banking profits.

In the fixed income portfolio, Wellington is underweight to supranationals globally. Conversely, they are overweight in US bonds. Among corporate bonds, there is a bias for higher-quality issuers in less cyclical sectors.

Outlook

Wellington sees a tremendous opportunity in the current valuations of the shares of leading dividend-paying franchises that it believes are mispriced due to virus-induced shutdowns. The manager favours those industry leaders that might see their earnings decline in the near term, but whose long-term earnings power remains undiminished.

In fixed income, Wellington expects their positioning to benefit from global central bank policy and investors' search for yield. They remain disciplined in their emerging market bonds allocation, focusing mostly on countries that it believes are better able to cope with the economic and healthcare impact of the coronavirus pandemic.

[5] Source: Wellington and Vanguard, as at 30 June 2020.

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Key fund facts

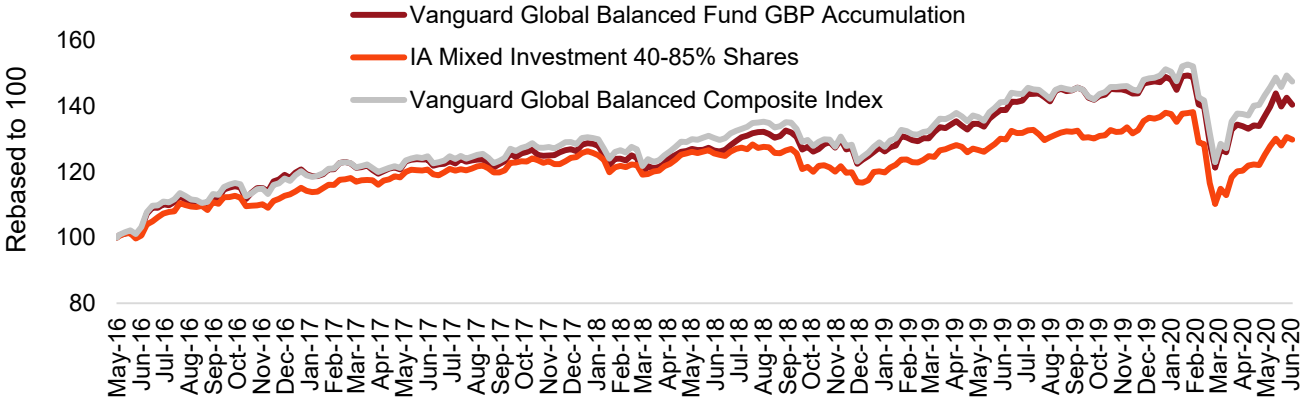
Investment manager: Wellington Management Company LLP
Target weighting: Equities 60%; Bonds 40%
Domicile: United Kingdom
Benchmark: Vanguard Global Balanced Composite Index

Inception date: 25 May 2016
Ongoing charges figure: 0.48%
Fund AUM: GBP 133m
ISIN: GB00BZ830054

Top 10 fund holdings (% exposure, as at 30 June 2020)

Company	%
Cisco Systems Inc.	1.9
Microsoft Corp.	1.8
Novartis AG	1.7
Johnson & Johnson	1.5
McDonald's Corp.	1.4
Deere & Co.	1.4
Bank of America Corp.	1.3
Merck & Co. Inc.	1.3
Nestle SA	1.3
United Parcel Service Inc.	1.3

Fund performance (as at 30 June 2020)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	-2.86	10.81	2.02	5.14	--	8.87
Peer Group	-4.13	13.10	0.10	2.91	5.34	6.61
Benchmark	1.91	14.68	6.13	7.08	--	10.43

Year on year (%)	1 Jul 2015 - 30 Jun 2016	1 Jul 2016 - 30 Jun 2017	1 Jul 2017 - 30 Jun 2018	1 Jul 2018 - 30 Jun 2019	1 Jul 2019 - 30 Jun 2020
Fund	--	14.64	3.57	9.99	2.02
Peer Group	2.35	16.29	4.99	3.71	0.10
Benchmark	--	14.53	5.99	9.13	6.13

Past performance is not a reliable indicator of future results.
Peer group is Investment Association Mixed Investment 40-85% Shares.
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 is NAV to NAV. Basis of index performance is total return. All performance is calculated in GBP, net of fees.
Source: Vanguard and Morningstar, as at 30 June 2020.

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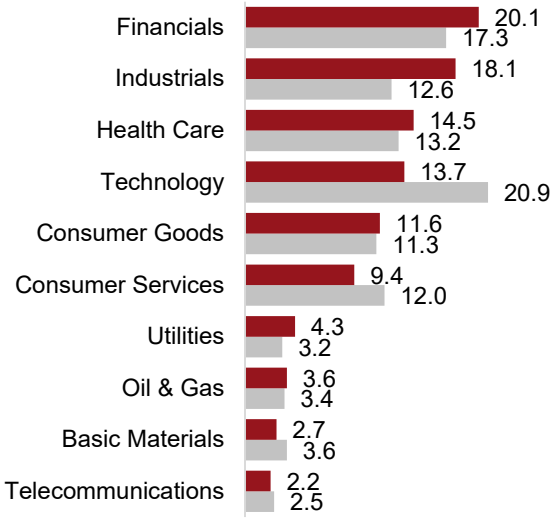
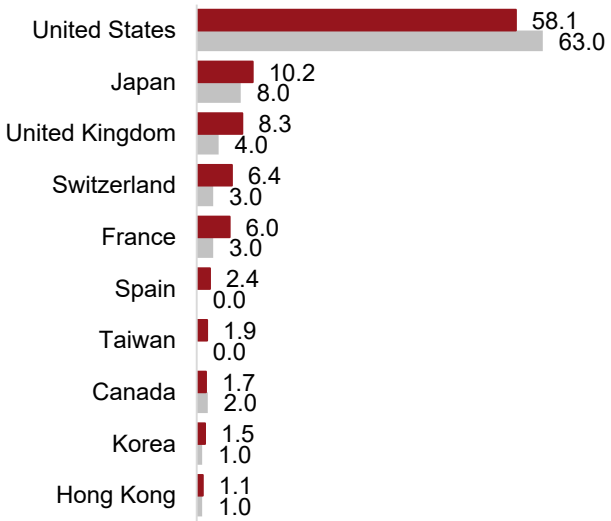
Equity portfolio (as at 30 June 2020)

Characteristics	Fund	Benchmark
Number of stocks	86	2,167
Median market cap	£62.8B	£55.8B
PE ratio	16.2X	19.9X
Equity yield (dividend)	3.0%	2.4%

Sector exposure (%)



Region exposure (%)



Fund Benchmark

Fixed income portfolio (as at 30 June 2020)

Average coupon: 2.6%
Average maturity: 8.8 years
Average quality: A

Average duration: 6.9 years
Turnover rate: 94.8%

Distribution by issuer (% of bonds)

Characteristics	Fund %
Industrial	38.3
Financial Institutions	18.8
Treasury	18.0
Mortgage Backed Security Pass-through	7.0
Utility	6.9
Sovereign	4.1
Local Authority	3.1
Agency	2.6
Other	0.5
Asset Backed Security	0.4
Commercial Mortgage Backed Security	0.2

Distribution by credit quality (% of bonds)

AAA	22.6
AA	6.6
A	27.6
BBB	42.4
Less than BBB	0.8
NR	0.0

Credit quality ratings for each issue are obtained from Barclays using ratings derived from Moody's Investors Service, Fitch Ratings, and Standard & Poor's. When ratings fro 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 30 June 2020.

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Investment Risk Information
Past performance is not a reliable indicator of future results. The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

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

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.

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

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