

## 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

- Equity markets rose over the quarter.
- Growth equities continued to lead but retreated into quarter-end.
- Value and dividend-paying stocks underperformed.
- Fixed income markets faced competing pressures.
- The Vanguard Global Balanced Fund trailed its composite index.

### Market overview

Equity markets posted strong returns over the quarter as economies around the world continued to reopen following Covid-19-related lockdowns<sup>1</sup>. The market gave back some of the returns in September as US large-cap technology stocks sold off.

Consumer discretionary stocks posted the strongest returns followed by the economically sensitive sectors of industrials and materials. Technology and communication services also outperformed the broader benchmark return<sup>2</sup>.

Defensive sectors such as utilities and healthcare lagged. Oil & gas was the worst-performing sector as oil prices remained low<sup>2</sup>.

From a regional perspective, the US continued its leadership. Emerging markets also posted strong returns with a large contribution from China. European markets lagged, led by the UK which was down almost 4%<sup>2</sup>.

Growth stocks outperformed value and large-cap stocks marginally outperformed small-caps. Quality stocks outperformed the broader market and dividend-paying stocks underperformed<sup>2</sup>.

Growth equities were trading at their highest valuation premium versus value stocks since the Dot.com crisis of 2000, before retreating in September<sup>3</sup>.

Momentum in fixed income markets slowed over the quarter and September ended with investors uncertain about future direction, as they sought to balance deteriorating economic fundamentals and growth prospects, with higher central-bank liquidity and supportive bond issuance supply and demand dynamics.

Covid-19 lockdown measures were reintroduced in many parts of the world, prompting investors to again seek refuge in safe-haven assets such as high-quality bonds. In contrast, higher-risk segments of fixed income, such as high yield and emerging market debt, experienced wider spreads<sup>4</sup>.

### Performance and positioning<sup>5</sup>

The Vanguard Global Balanced Fund returned +1.08% (net of fees) over the quarter and underperformed its benchmark composite index (in GBP) which returned +2.59%.

<sup>1</sup> Source: FTSE All World Net Tax (UK UCITS) Index in GBP, as at 30 September 2020.

<sup>2</sup> Source: Factset, sector, country and capitalisation breakdown of performance for FTSE All World Net Tax (UK UCITS) Index in GBP, as at 30 September 2020.

<sup>3</sup> Source: Factset: MSCI World Growth Index, MSCI World Value Index, P/E (LTM) 31.12.1974 to 30.09.2020. GBP

<sup>4</sup> Source: Bloomberg Barclays, as at 30 September 2020.

<sup>5</sup> Source: Wellington and Vanguard as at 30 September 2020.

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 added to their

position in Johnson & Johnson, the leading healthcare and wellness conglomerate, on the basis that it has underappreciated assets trading at a discounted valuation due to near-term concerns surrounding US elections. Johnson & Johnson's pharma pipeline remains strong and it recently launched its phase 3 clinical trial for a Covid-19 vaccine.

Wellington eliminated its position in Japanese diversified retail group Seven & I after the company announced that it would be acquiring US petrol station chain Speedway. They were concerned the company is overpaying for this asset.

In the fixed income portfolio, in government bonds the exposure to US Treasuries was increased while that to sovereigns bonds was reduced. In corporate bonds, Wellington trimmed their holding in industrials, both in the investment-grade and high-yield segments. The portfolio stayed underweight to supranationals globally.

## Outlook

With global economies reopening, Wellington are most closely focused on government stimulus programmes, central bank actions and developments in health science. They believe these factors will drive company fundamentals in 2021 and beyond, informing their long-term views and positioning for a cyclical improvement in economic activity. In the near term, they are mindful of the risks and volatility in global equity markets due to policy uncertainty in connection with the US Presidential election, Brexit and the second wave of Covid-19 infections. Therefore, they believe the equity portfolio needs to be positioned for a range of outcomes.

They are leaning into the downside support of stronger balance sheets and dividend compounding, and into the upside of depressed valuations, primarily among economically challenged sectors.

With regard to the fixed income portfolio, Wellington is responding to the period of uncertainty ahead by retaining its bias towards quality.

## Key fund facts

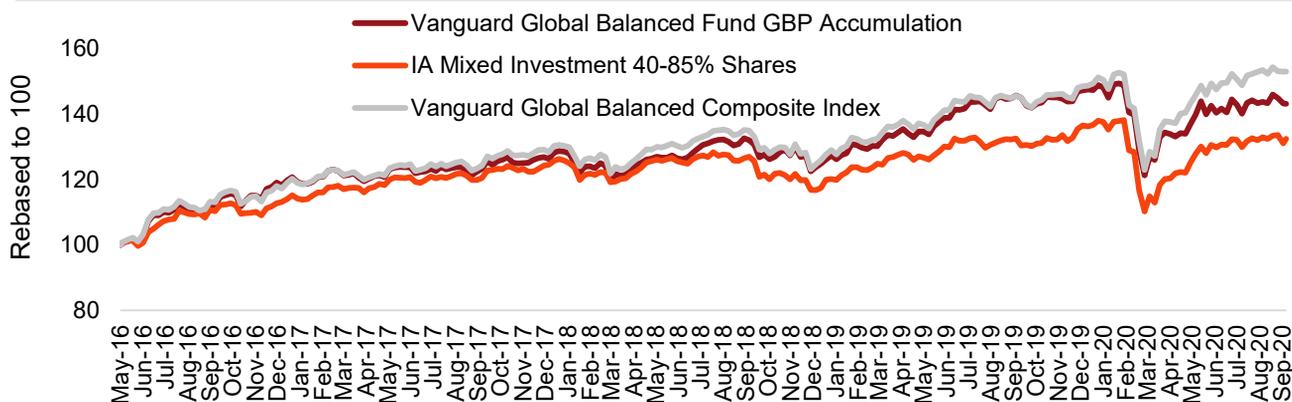
**Investment manager:** Wellington Management Company LLP  
**Target weighting:** Equities 60%; Bonds 40%  
**Domicile:** United Kingdom  
**Benchmark:** Vanguard Global Balanced Composite Index

**Inception date:** 25 May 2016  
**Ongoing charges figure:** 0.48%  
**Fund AUM:** GBP 148m  
**ISIN:** GB00BZ830054

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

Company	%
Johnson & Johnson	2.0
United Parcel Service Inc.	1.9
Novartis AG	1.9
Microsoft Corp.	1.8
Deere & Co.	1.8
Taiwan Semiconductor Manufacturing Co. Ltd.	1.7
Cisco Systems Inc.	1.5
McDonald's Corp.	1.5
Nestle SA	1.3
Comcast Corp.	1.3

## Fund performance (as at 30 September 2020)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	-1.81	1.08	-1.86	5.13	--	8.61
Peer Group	-2.17	1.88	-0.01	2.84	6.73	6.57
Benchmark	4.55	2.59	5.38	7.51	--	10.45

Year on year (%)	1 Oct 2015 - 30 Sep 2016	1 Oct 2016 - 30 Sep 2017	1 Oct 2017 - 30 Sep 2018	1 Oct 2018 - 30 Sep 2019	1 Oct 2019 - 30 Sep 2020
Fund	--	10.05	7.14	10.50	-1.86
Peer Group	16.14	9.41	5.09	4.09	-0.01
Benchmark	--	9.81	8.80	8.40	5.38

### Past performance is not a reliable indicator of future results.

Peer group is Investment Association Mixed Investment 40-85% Shares.

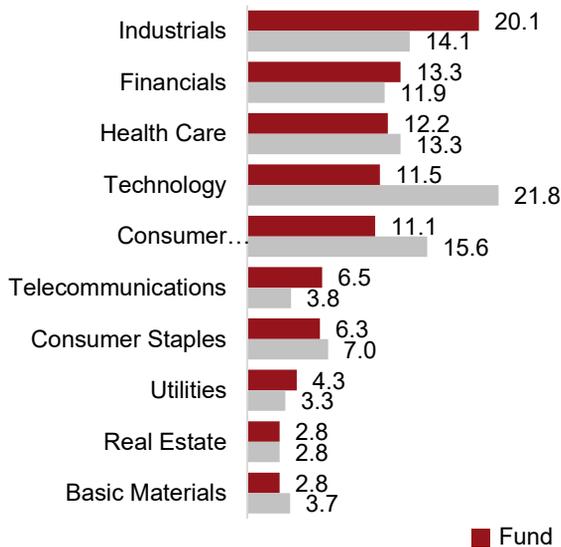
Performance figures include the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares. Basis of fund performance is NAV to NAV. Basis of index performance is total return. All performance is calculated in GBP, net of fees.

Source: Vanguard and Morningstar, as at 30 September 2020.

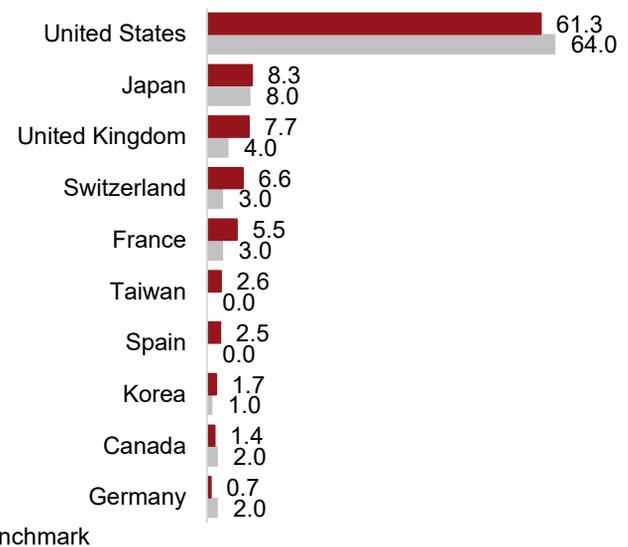
## Equity portfolio (as at 30 September 2020)

Characteristics	Fund	Benchmark
Number of stocks	83	2,139
Median market cap	£68.0B	£60.5B
PE ratio	19.3X	23.4X
Equity yield (dividend)	2.9%	2.1%

### Sector exposure (%)



### Region exposure (%)



## Fixed income portfolio (as at 30 September 2020)

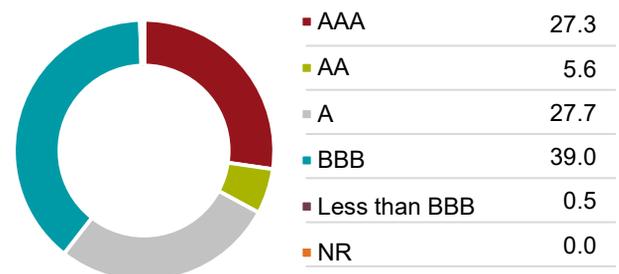
**Average coupon:** 2.4%  
**Average maturity:** 8.8 years  
**Average quality:** A

**Average duration:** 6.9 years  
**Turnover rate:** 93.8%

### Distribution by issuer (% of bonds)

Characteristics	Fund %
Industrial	35.5
Treasury	23.0
Financial Institutions	18.8
Utility	6.8
Mortgage Backed Security Pass-through	6.7
Sovereign	3.3
Local Authority	3.2
Agency	2.1
Asset Backed Security	0.5
Commercial Mortgage Backed Security	0.3

### Distribution by credit quality (% of bonds)



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 for 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 September 2020.

### **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>

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

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