Vanguard ActiveLife Climate Aware funds

Low-cost active | Multi-asset

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

"Offering a range of uncomplicated, all-in-one, actively managed portfolios of shares and bonds from around the world, ActiveLife Climate Aware funds can provide a core portfolio solution for investors."

Source: Fong Yee Chan, Head of ESG Strategy, Europe, Vanguard.

Introducing the range

At Vanguard, we understand that people increasingly want their investments to generate long-term returns (more than five years) and to align with their own environmental, social and governance (ESG) preferences. That's why we have created our range of ActiveLife Climate Aware funds, which invest in companies based on environmental and social considerations.

Vanguard ActiveLife Climate Aware funds offer a range of simple all-in-one portfolios made up of company shares - or 'equities' - and bonds (a type of loan) issued by hundreds of companies. These portfolios are run by Wellington Management Company on a day-to-day basis.

The Vanguard ActiveLife Climate Aware range of funds are actively managed and do not intend to track or replicate the performance of the benchmark[1] index.

Net zero by 2050

The Vanguard ActiveLife Climate Aware funds have a **2050 net-zero emissions target** in alignment with the Paris Agreement to **limit global warming** to well below 2°C. It emphasises:

- Investing 50% of shares and corporate bonds[2] in companies with net zero science-based targets[3] (SBTs) by 2027;
- Increasing this to 60% by 2030, 90% by 2040; and
- Ultimately investing 100% of the funds' shares by 2050.

1 A benchmark is often a market index, or combination of indices, that investors use to measure investment performance. An index typically measures the performance of a basket of investments, such as a basket of shares or bonds, that are intended to represent a certain area of the market. Bonds are a type of loan issued by governments or companies, which typically pay a fixed amount of interest and return the capital at the end of the term.

2 A corporate bond is a type of loan that is issued by a company and sold to investors. In return, the company promises to pay the bondholder a specified amount of interest during the life of the bond and to repay the face value of the bond at maturity.

3 Net-zero science-based targets are targets that provide a way for companies to reduce their greenhouse-gas emissions. They are considered to be 'science-based' if they are in line with what scientists deem is necessary to meet the goals of the Paris Agreement. This is an international treaty to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit global warming to 1.5°C above pre-industrial levels.

The fund manager incorporates ESG considerations in four main ways:

Vanguard ActiveLife Climate Aware funds: the four principles of ESG

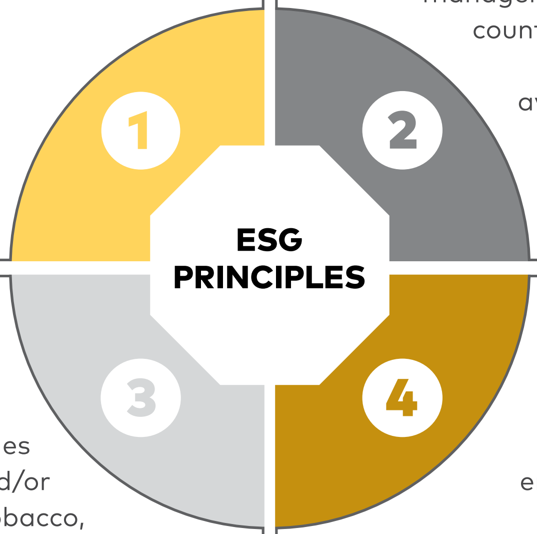
Net-zero commitment

The fund manager aims to invest a proportion of the fund's shares and corporate bonds in companies with net-zero science-based targets to reduce greenhouse-gas emissions. Net-zero science-based targets are targets that provide a way for companies to reduce their greenhouse-gas emissions.

Climate considerations

The fund manager looks to invest a proportion of the fund's shares and corporate bonds in companies which display qualities that support their journey towards net zero. We explain more about these climate considerations[4] on the next page.

When the fund manager purchases government bonds[5] for the fund, the fund manager will consider whether the country's carbon intensity is at least 25% lower than the average of the government bonds issued by other countries within the benchmark index.



Exclusions policy

The fund manager excludes companies involved in and/or deriving revenue[6] from tobacco, thermal coal, oil sands and nuclear / controversial weapons.

When the fund manager purchases government bonds for the fund, the fund manager will ensure that the fuel exports for the relevant country do not exceed 50% of total exports.

Engagement with companies

The fund manager will engage with (meet) certain companies to encourage improvements in their paths to net zero by 2050. Engagement activities might include meeting with company boards, engagement with non-executive directors and participating in stakeholder dialogues.

4 The fund manager will not invest more than 30% of the gross value of the assets of the fund in investments that do not demonstrate any of the climate considerations.

5 A government or sovereign bond is a loan issued by a national government. It is a way for a country to raise funds from investors and is typically denominated in the country's own currency.

6 Revenue above certain thresholds, as determined by the external fund manager of the fund and set out in the fund manager's exclusions policy.

When purchasing **shares** and **corporate bonds**, the fund manager looks to **invest a proportion** of the fund's investments **in companies** which have **set targets** in their journey towards **net zero**.

The fund manager does this by investing in companies which have a level of carbon intensity that is at **least 25% below** the **industry average**, and/or by publishing an **active emissions reduction target**.

The **carbon intensity** of an individual company **generally refers** to company's **annual emissions divided by its annual revenue**, expressed in tons of carbon dioxide equivalent[7] (CO2e) per million dollars of revenue, or tons CO2e / $M revenue.

As part of its measure of carbon intensity, the fund manager takes into account a company's Scope 1 and Scope 2 carbon emissions.

- **Scope 1 emissions** cover the direct greenhouse gas emissions that come from sources owned or controlled by a company, such as emissions from fuel combustion in company vehicles and facilities.
- **Scope 2 emissions** are the emissions it makes indirectly - for example, from the generation of purchased electricity, steam, heating and cooling that a company buys and uses.

When the fund manager purchases government bonds for the fund, the fund manager will consider whether the country's carbon intensity is at least 25% lower than the average of the government bonds issued by other countries within the benchmark index.

Country carbon intensity refers to the volume of carbon emissions per annual GDP[8], expressed in tons of carbon dioxide equivalent/nominal (before inflation) GDP in dollar terms.

7 Carbon dioxide equivalent is a metric measure used to standardise the emissions from various greenhouse gases.

8 GDP – or Gross Domestic Product – measures the monetary value of goods and services.

Why use Vanguard ActiveLife Climate Aware funds?

At Vanguard, we manage more than £7.7trillion[9] of assets for investors all over the world. The ActiveLife Climate Aware funds are designed for investors who are looking for an actively managed multi-asset fund (a portfolio of shares and bonds) that takes ESG considerations into account.

Climate considerations:
These funds incorporate a range of ESG criteria aimed at delivering long-term growth for investors.

Multi asset:
ActiveLife Climate Aware funds provide all-in-one portfolios of shares and bonds that offer a high level of diversification across a range of geographies, sectors and investment styles. This diversification is a vital element of risk management.

Proven expertise:
Vanguard and Wellington have a long history in multi-asset investing. Wellington's expertise in multi-asset investing dates back to 1929.

Low cost:
The ongoing charges figure[10] of the Vanguard ActiveLife Climate Aware range is 0.48%, which is significantly below the 1.02% average expense ratio of the category[11].

ActiveLife Climate Aware funds at a glance

Vanguard's ActiveLife Climate Aware funds give you exposure to a mix of shares and bonds. You can pick the most suitable combination of shares and bonds based on your attitude to risk.

Shares typically give you a higher return over the long run, but are riskier. Whereas bonds are more stable but offer lower potential returns. Essentially, the greater the proportion of shares in a fund, the higher its risk level – and the higher the potential rewards. Having a mix of both helps balance risk and reward.

There are three funds to choose from:

1. The Vanguard **ActiveLife Climate Aware 40-50% Equity Fund** typically consists of 45% shares and 55% bonds. This is aimed at investors with a **lower risk tolerance**.
2. The Vanguard **ActiveLife Climate Aware 60-70% Equity Fund** is normally made up of 65% shares and 35% bonds and is more suitable for investors with a **moderate risk tolerance**.
3. The Vanguard **ActiveLife Climate Aware 80-90% Equity Fund**, meanwhile, holds around 85% shares and just 15% bonds. This is designed for investors with a **higher risk tolerance**.

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9 Source: Vanguard, as at 31 October 2024.
10 The ongoing charges figure/total expense ratio (OCF/TER) covers administration, audit, depository, legal, registration and regulatory expenses incurred in respect of the funds.
11 Source: Morningstar, as at 15 November 2024.

Vanguard's ActiveLife Climate Aware funds provide all-in-one portfolios of shares and bonds.

Investment approach

Vanguard's ActiveLife Climate Aware funds are a range of multi-asset funds that are diversified across a number of countries, economic sectors and investment styles. They invest in between 75 and 110 medium and large companies that meet our ESG criteria.

The funds are largely exposed to shares and bonds in established stock markets such as in the US, UK and Europe. The investments in shares are tilted towards companies that are considered to be undervalued and are particularly well managed or have especially strong financial metrics.

Companies may be considered undervalued for a number of reasons, often if there is a difference in interpretation between investors around accounting rules. It can also be for other reasons, such as the appeal or significance of a company's new product not being appreciated by professional investors. Financial strength is a company's ability to generate revenue and have sufficient cash flow.

The bond portions consist of investment-grade bonds[12] and sovereign bonds issued by countries with fuel exports below a certain threshold. As bond prices in the past have tended to fluctuate to a lesser extent than equity values, their role is to reduce the amount of volatility (the degree to which share prices fluctuate) in each fund. Overall, the funds are designed to deliver long-term returns through an increase in the value of the investments and income.

Our investment philosophy

Vanguard ActiveLife Climate Aware funds are managed by Wellington in accordance with a strict investment philosophy that is designed to deliver long-term growth for investors. There are three key elements of this philosophy:

- An extended amount of time to invest.
- Ongoing engagement with the boards of the companies in which the funds invest.
- Constant monitoring of the value of a business and its assets.

At the same time, Wellington seeks out opportunities created by market inefficiencies (where the price of an investment doesn't always reflect its fundamentals, meaning factors such as profitability, revenue streams, assets and liabilities) in both shares and bonds. These inefficiencies can be magnified by ESG factors (see below) and can have a significant impact on a company's ability to generate investment returns in the future. By identifying when these inefficiencies occur and then acting accordingly, Wellington delivers a multi-dimensional and dynamic approach to incorporating ESG considerations into fund management.

12 Bonds are referred to as investment-grade bonds if they have a high-quality rating from third-party ratings agencies. A bond will have a high-quality rating if it is considered to be at a lower risk of default (in other words, the bond is more likely to be repaid at the end of the term).

What is ESG?

ESG stands for environment, social and governance criteria that can play a role in deciding what a fund invests in. ESG issues can impact a company's financial performance. So funds that consider ESG issues could fit with an individual's investment goals. They could also suit their personal preferences. We outline some of these considerations below.

Environmental
Environmental criteria cover how a company manages its impact on the natural environment and how climate change and climate regulation can impact a company's prospects.

Social
Social criteria cover how a company manages its relationships with groups such as employees, suppliers, clients and communities and how its business activities impact those stakeholders.

Governance
Corporate governance focuses on how a company is run. This can include its board and leadership structure, executive pay, financial controls and shareholder rights.

"At Vanguard, we think about ESG as a steward of our investors' assets."

Source: Fong Yee Chan, Head of ESG Strategy, Europe, Vanguard.

Why Vanguard?

At Vanguard, we believe you can give yourself the best chance of realising your investment goals by focusing on the elements you can control rather than external factors such as the economic environment or the day-to-day movements of financial markets. That's why we have developed four principles for investment success:

Goals

Create clear, appropriate investment goals and develop plans for reaching those goals.

Balance

Develop the right asset allocation using diversified funds that can help limit your exposure to unnecessary risks.

Cost

You can't control the markets, but you can control how much you pay to invest. The more you pay in annual charges, the lower your returns.

Discipline

Investing in financial markets can lead to stress during periods of turbulence but by formulating and sticking to a long-term plan, you can counter any negative emotions.

A commitment to long-term returns

Vanguard participates in a number of collaborative initiatives focused on governance, long-term returns and climate:

- Signatory to the **Principles for Responsible** Investment (PRI), a voluntary set of principles that commit signatories to incorporating ESG issues into investment analysis and decision-making.
- Supporter of the **Task Force on Climate-related Financial Disclosures** (TCFD). Vanguard encourages companies to disclose climate-related risks in line with the TCFD framework.
- Signatory to the **UK Stewardship Code 2020**.

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.

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.

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.

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 further information on risks please see the "Risk Factors" section of the prospectus on our website at https://global.vanguard.com.

Important information

Vanguard only gives information on products and services and does not give investment advice based on individual circumstances. If you have any questions related to your investment decision or the suitability or appropriateness for you of the product[s] described, please contact your financial adviser.

For further information on the fund's investment policies and risks, please refer to the prospectus of the UCITS and to the KIID before making any final investment decisions. The KIID for this fund is available, alongside the prospectus via Vanguard's website https://www.vanguardinvestor.co.uk.

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