Guide to Vanguard's ESG funds

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Introduction

At Vanguard, we have a clear mission to take a stand for all investors, to treat them fairly and to give them the best chance for investment success. This informs everything we do, including our approach to offering environmental, social and governance (ESG) funds.

Interest in ESG funds has increased in recent years. However, approaches to incorporating ESG criteria into funds' investment strategies can vary, and many investors can be confused by the topic.

In this brochure, we aim to give you an understanding of Vanguard's ESG funds to help you make an informed investment decision.

Vanguard offers a choice of both index and active ESG funds, which we explain broadly below. This information is designed to be used alongside key fund documents. These include the fund prospectus and the Key Investor Information Document (KIID), which are available through your adviser or investment platform.

What you will learn from this document:

1. What
Vanguard offers a range of index and active ESG funds.

2. Why
This brochure aims to help you make an informed decision.

3. How
Use this brochure with the prospectus and Key Investor Information Document (KIID).

What does ESG mean?

ESG stands for environmental, social and governance. These are criteria that can be considered in the investment process.

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.

Vanguard's principles for investing success

At Vanguard, we think four simple principles can improve your chances of investment success. These principles apply to any form of investing, including investing in ESG funds.

Think about your goals

Having a goal in mind can help when it comes to picking the right investments. Knowing what you are investing for can keep you focused on building a portfolio that's right for your needs.

Stay balanced

Investing in the right mix of shares and bonds could have a bigger impact on returns than anything else you do.

It's all about finding the right level of risk and reward for you. Shares have typically given a higher return over the long term, while bonds have been more stable but have historically offered lower returns. A mix of both can help even out the ups and downs of investing.

Keep costs low

Investing is, by its nature, unpredictable. While you can't control the markets, you can control your investment costs. Every pound you pay in costs and charges comes directly out of your potential returns. By keeping your costs low, you keep more of your returns.

Be disciplined

Sometimes our emotions can lead us to make simple mistakes when investing, like buying the latest hot investment when prices are high and panic-selling when prices drop.

However, the most successful investors are often the most disciplined. They invest for the long term and don't tinker with their portfolios too much.

What does Vanguard offer?

Vanguard offers a range of high-quality investment funds to help you meet your financial goals as well as reflect your ESG preferences. These are all underpinned by our four investment principles of goals, balance, cost and discipline.

Index funds seek to 'track' the overall performance of an entire market index, like the FTSE 100 or S&P 500. Active funds try to beat market returns with investments hand-picked by professional money managers. We offer a choice of both index and active ESG funds, which are designed to pursue certain ESG criteria, as stated in the fund's objectives.

There is no one-size-fits-all approach to ESG, and ESG funds may not be suitable for everyone. The approach to ESG fund investing that you choose will be unique to you and will depend on several factors. These could include your investment goals, your investment timeframe (how long you have until you need the money), your attitude to risk (how you feel about the chance that returns will fluctuate or that you won't meet your objectives) as well as your ESG preferences.

Here is some more information about the types of funds we offer.

ESG funds

ESG index funds

Vanguard offers ESG index mutual funds and exchange-traded funds (ETFs) for investors who want to avoid or reduce their exposure to certain ESG-related risks.

While our index mutual funds typically track an index that covers a broad market, our ESG index mutual funds and ETFs track an index that screens out (or excludes) companies involved in certain business activities[1]. These include, but are not limited to, some companies involved in the manufacture or supply of fossil fuels, tobacco and controversial weapons[2].

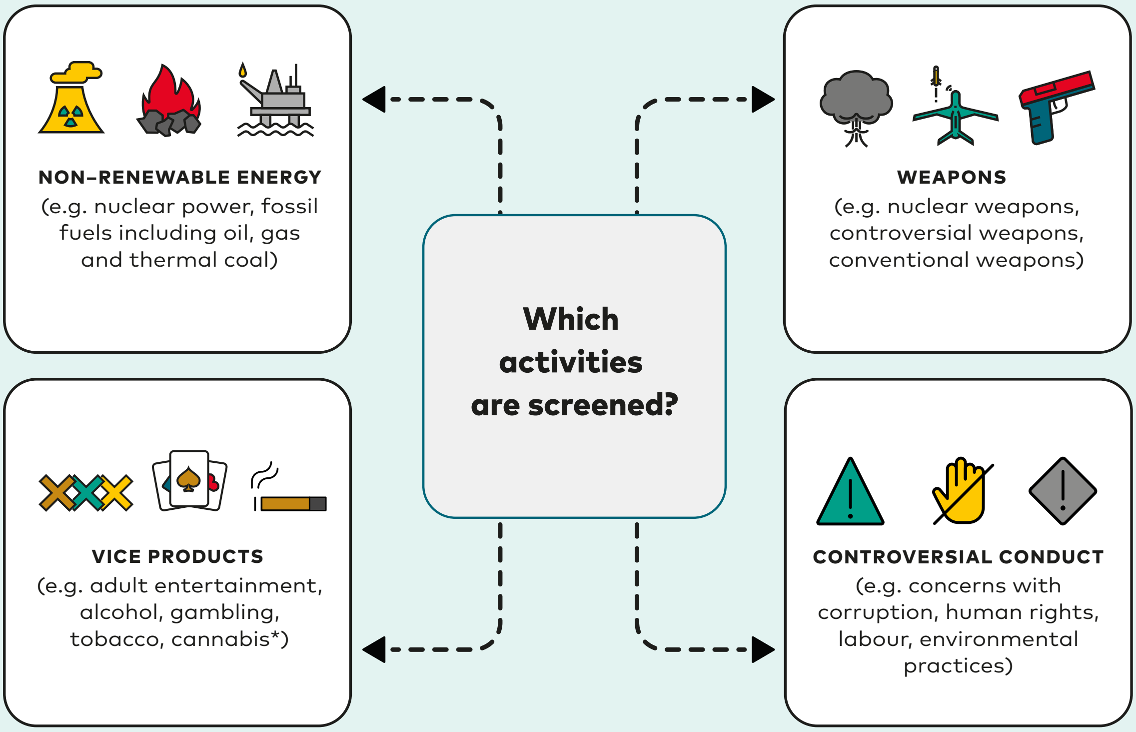
Index ETFs are like index mutual funds, in that they track the returns of a specific market index (such as the shares of companies in developed markets, or global bonds). However, unlike index mutual funds, ETFs are traded on the stock market and you can buy or sell them at any time during the trading day.

1 The indices that our ESG index funds track are provided by FTSE Russell or Bloomberg MSCI. For more details of the indices, please see the fund prospectus.

2 Companies are excluded if FTSE Russell or MSCI determine them to derive revenue (above a threshold) from a particular business activity. This will depend on whether their involvement is primary (e.g., a producer/ manufacturer) or secondary (e.g., a retailer/ supplier). For example, a company that manufactures tobacco products will be excluded by FTSE Russell if it derives any revenue from the category (greater than 0%). A company that is involved in the distribution and/or retail sale of tobacco products will be excluded if its revenues are equal to or greater than 5%.

The index providers also exclude companies that are involved in severe controversies. For ESG index funds that invest in shares, these are defined as companies that do not meet the labour, human rights, environmental and anti-corruption standards as defined by the United Nations Global Compact Principles[3].

Even with the exclusions, our ESG index funds and ETFs aim to offer a broad spread of investments (also known as diversification) at low cost.



Notes: This graphic shows the company activities/conduct that are screened by the index provider based on their own specific methodologies. The index providers are FTSE Russell (for ESG index funds that invest in shares) and Bloomberg MSCI (for ESG index funds that invest in bonds). A company's involvement in certain activities or conduct will be determined by the index provider's methodology, with details provided in the fund prospectus.

*Not excluded for bond funds. **As determined by the index provider's methodology.

3 The UN Global Compact is an initiative under which global businesses commit to responsible business practices, based on 10 operating principles. For ESG index funds that invest in bonds, controversies are defined by MSCI by evaluating a company's involvement in events or incidents that could have significant negative environmental, social or governance implications.

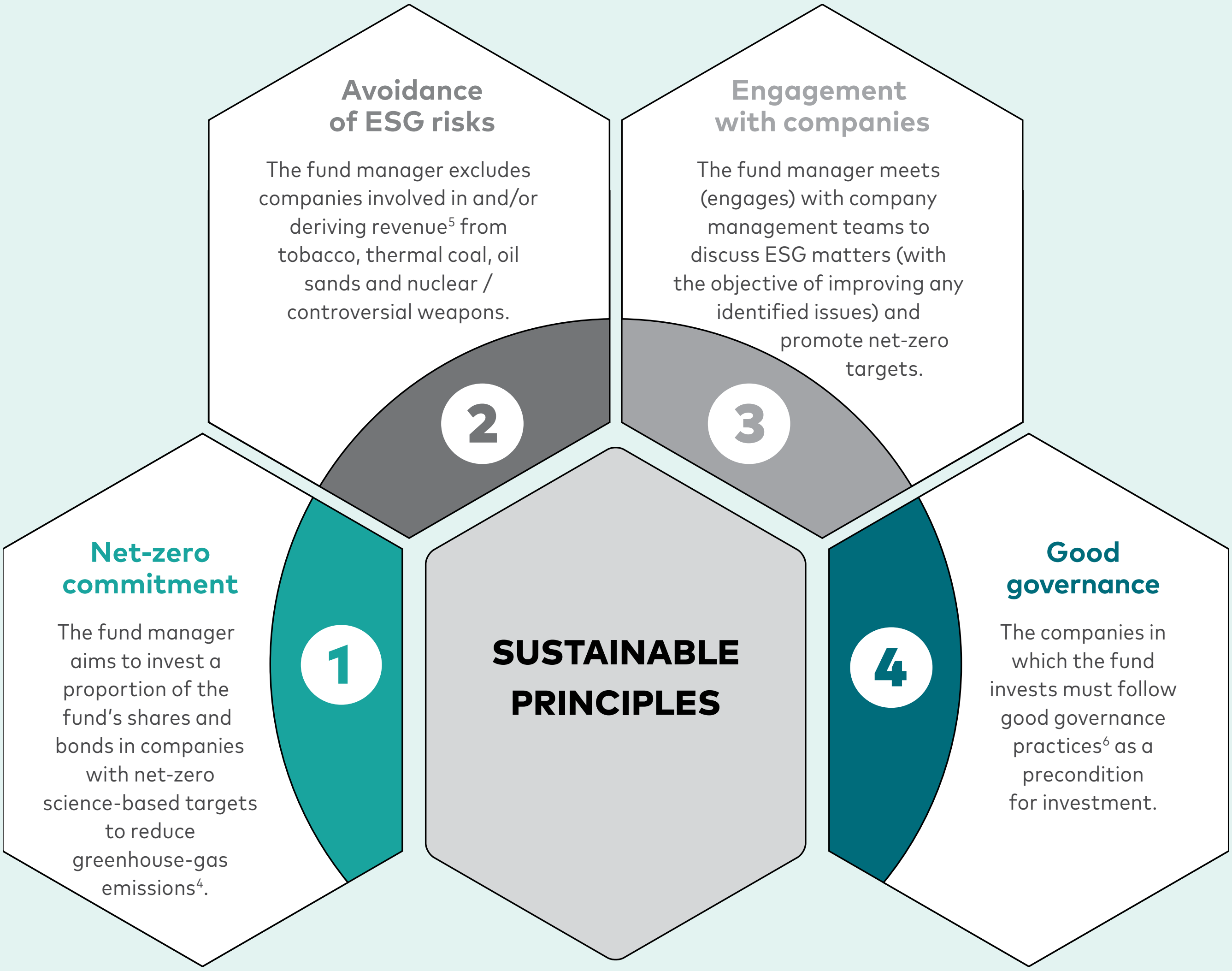
ESG active funds

Vanguard also offers active funds that aim to deliver sustainable, long-term growth for investors alongside an emphasis on certain ESG considerations. Most of Vanguard's active funds are managed by external managers, with the ESG active funds managed by Wellington Management Company.

The funds aim to provide an increase in the value of the investments over the long term (more than five years) by selecting companies based on specific sustainability criteria, consistent with the fund's objectives.

Within this active ESG range, there are four funds. There are three SustainableLife funds, which are multi-asset funds that invest in different combinations of shares and bonds. The Vanguard Global Sustainable Equity Fund invests only in shares.

The manager of the SustainableLife funds incorporates sustainability considerations in four main ways:



Notes: These are the sustainability criteria for Vanguard's SustainableLife funds. The sustainability criteria for Vanguard's Global Sustainable Equity Fund are different. Details can be found in the prospectus.

4 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 degrees C above pre-industrial levels and to pursue efforts to limit global warming to 1.5 degrees C above pre-industrial levels. The fund managers aim to invest 60% of the fund's shares and corporate bonds in companies with these targets by 2030, rising to 90% by 2040 and 100% by 2050.

5 Revenue above certain thresholds, as determined by the external manager of the fund according to the manager's exclusions policy.

6 The fund manager considers good governance to be running a company in a way that broadly reflects industry-established norms and practices. These could include management structure, decision-making, compensation (pay) structures and company culture.

Choosing an ESG fund

Do you wish to invest in a fund that has certain ESG criteria?

I do not wish to invest in a fund that pursues certain ESG criteria.

It may be worth considering an index or active fund without a stated ESG objective.

I wish to invest in a fund that pursues certain ESG criteria.

Would you be comfortable if your investment performed differently to the market?

No.

ESG funds may not be right for you.

Yes.

Which statement best describes your investment objective?

I want to mostly match the performance of the broader market but avoid certain industries.

Consider ESG index funds that exclude or reduce exposure to certain business activities.

I want to try to outperform the market by investing in a fund with an explicit ESG strategy.

Consider active ESG funds, but be aware that performance may vary significantly from the market.

Source: Vanguard

Key points

1. ESG refers to considering environmental, social and governance criteria in the investment process.

2. Vanguard offers:

   ESG index funds that aim to avoid or reduce exposure to companies involved in certain business activities, and **ESG active funds** that select companies based on certain sustainability criteria.

3. **There is no one-size-fits-all approach to ESG**: understanding your goals will help you to decide on the best approach for you.

4. As with any form of investing, Vanguard's approach to ESG is underpinned by our four investment principles of **goals**, **balance**, **cost** and **discipline**.

Vanguard ESG fund list

INDEX FUNDS/ETFs
Equity
ESG Developed Asia Pacific All Cap UCITS ETF
ESG Developed Europe All Cap UCITS ETF
ESG Developed World All Cap Equity Index Fund (UK)
ESG Developed World All Cap Equity Index Fund
ESG Emerging Markets All Cap Equity Index Fund
ESG Emerging Markets All Cap UCITS ETF
ESG Global All Cap UCITS ETF
ESG North America All Cap UCITS ETF
ESG Developed Europe Index Fund
Bond
ESG EUR Corporate Bond UCITS ETF
ESG Global Corporate Bond Index Fund
ESG Global Corporate Bond UCITS ETF
ESG USD Corporate Bond UCITS ETF
SRI Euro Investment Grade Bond Index Fund

ACTIVE FUNDS
Equity
Global Sustainable Equity Fund
Multi-asset
SustainableLife 40-50% Equity Fund
SustainableLife 60-70% Equity Fund
SustainableLife 80-90% Equity Fund

Glossary

Active fund management
This is an approach to investing that sees an investment manager select shares and/or other investments in accordance with the fund's investment objectives, which may be to outperform relative to a benchmark index (see below).

Bonds
This is a loan issued by a government, public-sector body or company. Bonds usually pay a fixed rate of annual interest—hence they are also known as fixed-income investments—while the original sum borrowed is typically repaid at a specific future date.

Diversification
This is a strategy designed to reduce the risk in an investment portfolio by holding a wide range of investments. This helps to manage risk because better-performing investments can help to offset those that perform less well, over time.

Corporate governance
Corporate governance refers to the way in which companies are governed and ensures they have appropriate decision-making processes and controls in place.

Equities
Another word for ordinary company shares, which represent an ownership stake in a business.

Exchange-traded funds (ETFs)
ETFs are a type of index fund (see below) that typically track a particular market index. Unlike index funds, however, they are traded on the stock market and investors can buy and sell them at any time during the day. Other funds are traded only once a day.

Fund
An investment vehicle that pools the money of many investors to buy shares and/or other investments.

Fund manager
This is the person or company who manages a fund. In an active fund, they make the investment decisions. In an index fund, they will make sure the fund is closely tracking the index.

Index
An index typically measures the performance of a basket of investments that are intended to represent a certain area of the market. Indices are often used as benchmarks against which to evaluate the performance of an investment, such as a fund.

Index funds
An investment fund that aims to closely match the returns of a specified market index. The fund may hold all of the constituents of the particular index or buy a sample of those constituents so that its performance is as close as possible to the index.

Index provider
An index provider is a company that designs and calculates the performance of indices (as defined above). They set the rules on what is included in the index, how it is maintained and how constituents will be added or removed over time.

Material risks
Material risks are those that are recognised by company management as having the potential to materially (significantly) impact a company's business or financial performance.

Multi-asset fund
A multi-asset fund is one that combines different types of investment in one fund. This could include company shares and bonds, although the exact blend of investments will depend on the fund.

Net zero
Net zero refers to achieving a balance between the amount of greenhouse-gas emissions produced and the amount removed from the atmosphere.

In order to meet the targets set in the Paris Agreement (please see definition below)—to keep global warming to well below 2 degrees Celsius, and preferably to 1.5 degrees Celsius, above pre-industrial levels—global carbon emissions will need to reach net zero by 2050.

Paris Agreement

The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 parties at the UN Climate Change Conference (COP21) in Paris on 12 December 2015 and entered into force on 4 November 2016.

Portfolio

This is a combination of individual investments or funds that is usually created to meet specific goals, such as long-term capital growth.

Risk

The likelihood that the return on an investment will differ from what is expected. There are different types of risk, including market risk (the chance that returns will fluctuate) and shortfall risk (the possibility that a portfolio will fail to meet its longer-term objective). Different investors have different tolerances for risk based on factors such as their personal circumstances and their investment timeframe.

Science-based targets

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.

SRI - Socially Responsible Investing

You may hear the term ESG investing used interchangeably with "socially responsible investing (SRI)" and "sustainable investing."

SRI funds may promote environmental and social characteristics by either including companies which have been scored according to a set of ESG criteria or excluding companies based on the impact of their conduct or products on society and / or the environment.

Sustainability, sustainable investing

Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcomes. Investments are chosen on the basis of their economic activities (what they produce/ what services they deliver) and on their business conduct (how they deliver their products and services)[7].

Sustainability risks are environmental, social or governance events or conditions that, if they occur, could cause actual or potential material negative impacts on the value of a fund. For further details, please see the Sustainability Risk section in the prospectus.

Volatility

The extent to which investment values fluctuate over time. When investors are uncertain about the economic environment or geopolitical events, short-term volatility tends to increase.

7 Source: Investment Association, Responsible Investment Framework. November 2019.

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.

Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only.

ETF shares can be bought or sold only through a broker. Investing in ETFs entails stockbroker commission and a bid- offer spread which should be considered fully before investing.

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

If you have any questions related to your investment decision or the suitability or appropriateness for you of the product[s] described in this document, 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://global.vanguard.com.

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The Manager of the Ireland domiciled funds may determine to terminate any arrangements made for marketing the shares in one or more jurisdictions in accordance with the UCITS Directive, as may be amended from time-to-time.

The Indicative Net Asset Value ("iNAV") for Vanguard's ETFs is published on Bloomberg or Reuters. Refer to the Portfolio Holdings Policy at https://fund-docs.vanguard.com/portfolio-holdings-disclosure-policy.pdf

For investors in UK domiciled funds, a summary of investor rights can be obtained via https://www.vanguard.co.uk/content/dam/intl/europe/documents/en/Vanguard-InvestorsRightsSummaryUKFUNDSJan22.pdf and is available in English.

For investors in Ireland domiciled funds, a summary of investor rights can be obtained via https://www.ie.vanguard/content/dam/intl/europe/documents/en/vanguard-investors-rights-summary-irish-funds-jan22.pdf and is available in English, German, French, Spanish, Dutch and Italian.

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