Vanguard

JUNE 2023
LOW-COST ACTIVE
MULTI-ASSET

Vanguard SustainableLife active funds

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

> "The SustainableLife funds are designed for investors who are looking for an actively managed fund - when the fund manager picks investments to try to outperform the market - that puts a firm emphasis on sustainability."
>
> 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 and to align with their own sustainability preferences. That's why we have created our range of SustainableLife funds, which are based on investments in companies and other assets in areas such as the environment and social responsibility.

Vanguard SustainableLife 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 in accordance with pre-agreed risk-return profiles: this means that investors don't need to keep their portfolios under constant review or make regular adjustments to the balance of assets they hold.

The Vanguard SustainableLife range of funds are actively managed and do not intend to track or replicate the performance of the benchmark index. Investors use benchmark indices to compare performance and to try to manage investment risk. Benchmark data is for reference only.

Net zero by 2050

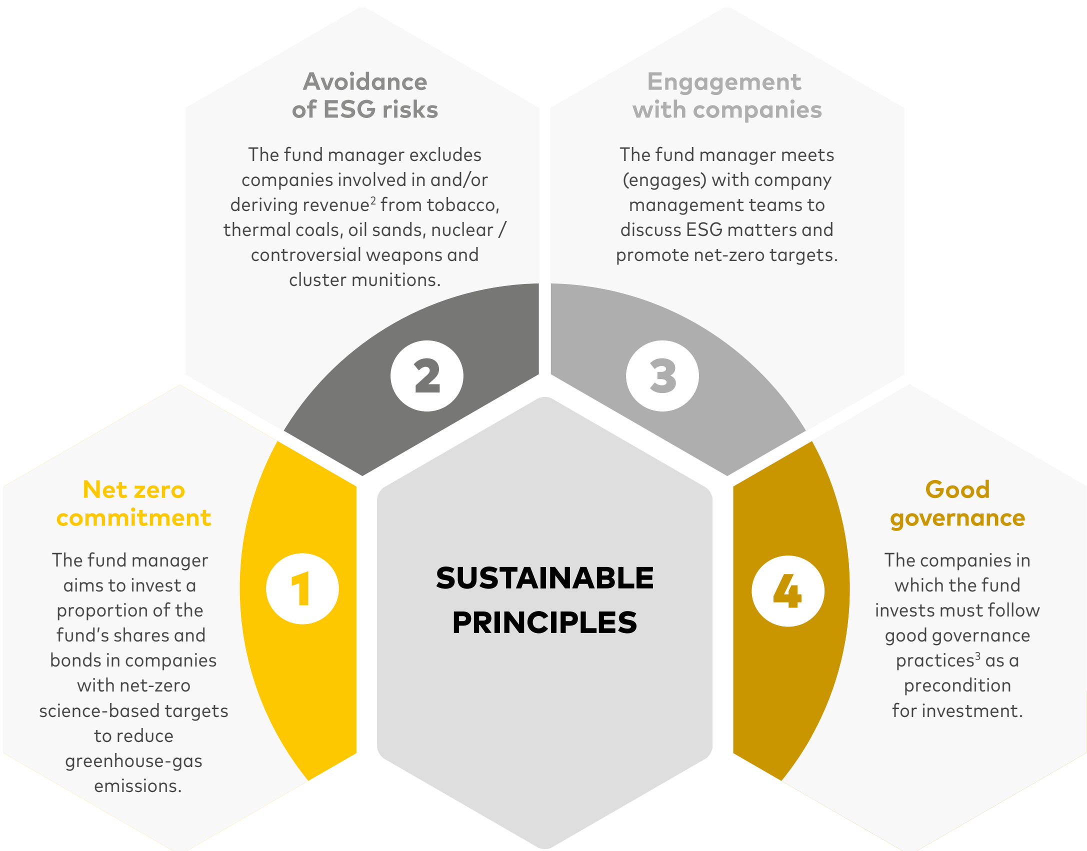
The Vanguard SustainableLife funds have a **2050 net zero emissions target** in alignment with the Paris Agreement to **limit global warming** to well below 2°C. It emphasises:

- Investing 60% of shares and corporate bonds in companies with net zero science-based targets[1] (SBTs) by 2030;
- Increasing this to 90% by 2040; and
- Ultimately investing 100% of the funds' shares

1 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 sustainability considerations in four main ways:

Vanguard SustainableLife funds: the four pillars of sustainability



2 Revenue above certain thresholds, as determined by the external manager of the fund according to the manager's exclusions policy.
3 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.

Why use Vanguard SustainableLife funds?

At Vanguard, we manage more than £6.0 trillion[4] of assets for investors all over the world. The SustainableLife funds are the latest addition to our range of portfolios and are designed for investors who are looking for an actively managed fund that puts a firm emphasis on sustainability.

Sustainable:
These funds incorporate a range of sustainability criteria, including a net-zero commitment, aimed at delivering sustainable returns over the long term.

Multi asset:
SustainableLife funds provide all-in-one portfolios of equities 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[5] of the Vanguard SustainableLife range is 0.48%, which is significantly below the 1.13% average expense ratio of the category[6]: there's no reason why investing in sustainability should cost more.

SustainableLife funds at a glance

Vanguard's SustainableLife funds give you exposure to a mix of sustainable equity and fixed-income investments. You can pick the most suitable combination of equities and bonds based on your attitude to risk. Essentially, the greater the proportion of equities in a fund, the higher its risk level – and the higher the potential rewards.

There are three funds to choose from:

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

4 Source: Vanguard, as at 31 December 2022.
5 The ongoing charges figure/total expense ratio (OCF/TER) covers administration, audit, depository, legal, registration and regulatory expenses incurred in respect of the funds.
6 Source: Morningstar, as at 31 December 2022.

Investment approach

Vanguard's SustainableLife funds are a range of multi-asset funds that are diversified across a number of countries, economic sectors and investment styles. They are made up of a core of equity holdings in between 75 and 110 medium and large companies that meet our sustainability criteria.

The funds are largely exposed to equities and bonds in established stock markets such as in the US, UK and Europe. The equity portions of the funds are tilted towards companies that are considered to be undervalued and are particularly well managed or have especially strong financials.

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 fundamental 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. 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 a combination of capital growth and income.

Our investment philosophy

Vanguard SustainableLife funds are managed by Wellington in accordance with a strict investment philosophy that is designed to deliver sustainable growth for investors. There are three key elements of this philosophy:

- An extended amount of time to invest.
- Ongoing engagement with the boards of investee companies.
- 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 equities and fixed-income assets. These inefficiencies can be magnified by external environmental, social and governance (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 sustainability into fund management.

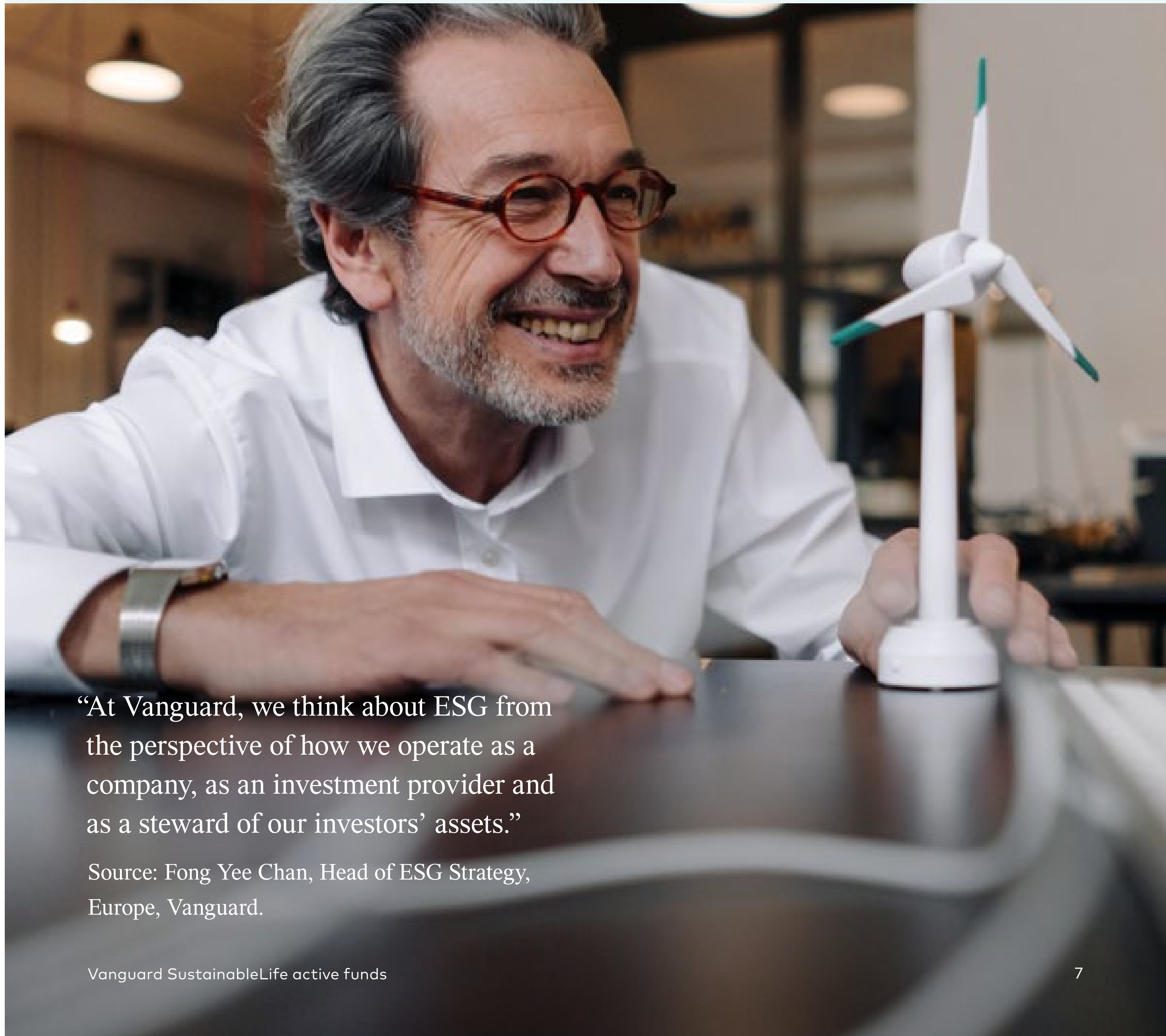
What is ESG?

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 from the perspective of how we operate as a company, as an investment provider and 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.
- Member of the **30% Club**, a global organisation that advocates for greater representation of women in boardrooms and in leadership roles.
- 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

If you have any questions related to your investment decision or the suitability or appropriateness for you of the products 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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