Vanguard

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Understanding the risks: Vanguard LifeStrategy model portfolio solutions

The model portfolio service

Vanguard's model portfolio service (MPS) offers a range of model portfolio solutions for advisers and their clients. Our MPS has designed solutions to enable you to delegate your investment management responsibilities. The benefit is it gives you the opportunity to spend more time to plan your clients' financial future and deepen your relationships. We handle the investment management of your clients' portfolios. As the client's adviser, you retain the responsibility of determining which model portfolio solution is suitable, if any, for your client. This depends on the client's investment objective, risk appetite and their capacity to absorb financial loss.

Who is the Vanguard MPS aimed at?

MPS's model portfolio solutions may be for you if:

- You want to delegate part of or all the investment management to Vanguard.
- You want Vanguard to manage portfolio rebalancing.
- You would like to enhance and strengthen your client relationships (agent-as-client framework).
- Your client's investments meet the applicable platform minimums.

Our model portfolio solutions **may not be suitable** for you if:

- You prefer to regularly rebalance your clients' portfolios yourself.
- You would like the discretionary fund manager to have a directly contracted relationship with your clients (reliance-on-others framework).

What is the Vanguard LifeStrategy MPS?

The Vanguard LifeStrategy MPS offers a range of model portfolio solutions that aim to maximise an investor's risk-adjusted return. Five individual model portfolios are available, each with varying levels of potential risk and return based on their equity and bond mix.

The LifeStrategy MPS follows Vanguard's foundational investment principles* for portfolio construction, which we believe is important for long-term investment success.

Our proprietary financial models power the LifeStrategy model portfolio solutions - the Vanguard Capital Markets Model (VCMM), which forecasts expected asset returns, and the Vanguard Asset Allocation Model (VAAM), which optimizes the asset allocation mix for different risk preferences.

Vanguard uses its low-cost index funds as building blocks to construct LifeStrategy model portfolio solutions. This results in a range of model portfolios providing diversified exposure to equity and bond markets globally.

We rebalance the LifeStrategy MPS on a three-monthly basis to ensure that clients' investments remain aligned with their risk and return objectives.

* Vanguard's four principles for long-term, successful investing: Goals (create clear, appropriate investment goals), Balance (avoid uncompensated risk), Costs (minimise), Discipline (maintain perspective).

Vanguard LifeStrategy MPS is available in two ranges:

1. **Classic**
   The Vanguard LifeStrategy MPS Classic range is made up of five different equity-bond weightings. Each portfolio has a non-market capitalization-weighted tilt to the UK equity and UK bond markets.
2. **Global**
   The Vanguard LifeStrategy MPS Global range offers a global market capitalisation-weighted approach to portfolio construction. As with the LifeStrategy MPS Classic range, five equity-bond portfolio choices are available, but without the tilt to the UK equity and UK bond markets.

What is the rebalancing schedule for Vanguard LifeStrategy MPS?

The rebalancing schedule is March/June/September/December.

What benchmark can I use to assess the performance of the model portfolios?

Each LifeStrategy MPS seeks to achieve market-like performance that is consistent with its equity and bond weightings.

- Vanguard LifeStrategy 20% Equity MPS Classic
- Vanguard LifeStrategy 40% Equity MPS Classic
- Vanguard LifeStrategy 60% Equity MPS Classic
- Vanguard LifeStrategy 80% Equity MPS Classic
- Vanguard LifeStrategy 100% Equity MPS Classic
- Vanguard LifeStrategy 20% Equity MPS Global
- Vanguard LifeStrategy 40% Equity MPS Global
- Vanguard LifeStrategy 60% Equity MPS Global
- Vanguard LifeStrategy 80% Equity MPS Global
- Vanguard LifeStrategy 100% Equity MPS Global

Vanguard will publish quarterly factsheets, assessing each model portfolio's progress against its return targets. We will display a portfolio's performance alongside a comparable industry composite.

Who is Vanguard LifeStrategy MPS for?

The MPS may be for your client if:

- They are looking for potential capital growth or income.
- They are willing to take investment risk.
- They have some investment knowledge.
- They are retired and looking to draw an income from their portfolio's capital.

The model portfolio solutions offered through Vanguard's MPS **may not be suitable for your client** if:

- They have no capacity for capital loss.
- Their investment horizon is less than five years.
- They wish to access their portfolio on a non-advised basis.
- They are using their portfolio for hedging purposes.

You can find more details in our **target market documentation**. Your clients should go through a risk profiling process to determine their attitude to risk and capacity for loss, culminating in a risk-reward profile. The LifeStrategy MPS model portfolio solution selected should be appropriate for the client's risk-reward profile. Clients should be fully and clearly informed of the risks associated with investing: asset-backed risk, credit risk, foreign investment risk, liquidity risk, market risk, model risk and specific product risks (please refer to the Glossary at the end of this document for a full description of these risks). You should clearly inform clients that a lower risk category does not imply a risk-free investment and their investments can lose and gain in value.

Vanguard is not privy to the details of your clients' individual investment situations. You are better placed to provide financial advice to your clients on the suitability of Vanguard LifeStrategy MPS, and whether its model portfolio solutions align with their objectives.

How are the Vanguard LifeStrategy MPS invested?

The LifeStrategy MPS invest in Vanguard's low-cost index funds (see listing below). We use these funds as building blocks to construct portfolios with a mix of equities and bonds for a range of risk profiles.

The LifeStrategy Classic and LifeStrategy Global MPS ranges use the same index funds. The LifeStrategy Classic MPS range of MPS will have a higher allocation to UK equities and UK bonds.

Fund listing:

1. Vanguard FTSE U.K. All Share Index Unit Trust GBP Acc
2. Vanguard U.S. Equity Index Fund GBP Acc
3. Vanguard FTSE Developed Europe ex-U.K. Equity Index Fund GBP Acc
4. Vanguard Pacific ex-Japan Stock Index Fund GBP Acc
5. Vanguard Japan Stock Index Fund GBP Acc
6. Vanguard Emerging Markets Stock Index Fund GBP Acc
7. Vanguard Global Bond Index Fund GBP Hedged Acc
8. Vanguard U.K. Government Bond Index Fund GBP Acc
9. Vanguard U.K. Investment Grade Bond Index Fund GBP Acc
10. Vanguard U.K. Inflation-Linked Gilt Index Fund GBP Acc
11. Vanguard Euro Government Bond Index Fund GBP Hedged Acc
12. Vanguard Euro Investment Grade Bond Index Fund GBP Hedged Acc
13. Vanguard U.S. Government Bond Index Fund GBP Hedged Acc
14. Vanguard U.S. Investment Grade Credit Index Fund GBP Hedged Acc
15. Vanguard Japan Government Bond Index Fund GBP Hedged Acc

Glossary

Clients should be fully and clearly informed of the risks associated with investing:

1. **Asset-Backed Risk**
   Investments in asset-backed securities, which are financial instruments backed by pools of assets such as mortgages, car loans, student loans or credit card receivables. The primary risk is borrowers defaulting on their loans, leading to investments losing value.
2. **Credit Risk**
   This is the risk that a borrower or counterparty will default on their financial obligations, leading to a loss for the lender or investor. It is essentially the risk of not being repaid. Creditworthiness and economic conditions influence credit risk.
3. **Foreign Investment Risk**
   This includes political risk (changes in government policies or instability), currency risk (foreign currency exchange rates) and economic risk (differences in economic conditions and policies). All these can affect the value and performance of overseas investments.
4. **Liquidity Risk**
   This is the risk of not being able to convert an investment into cash without a significant loss. Because the asset is illiquid, it is difficult to sell quickly. This hinders minimizing investment loss. Liquidity risk can be influenced by market conditions and the specific nature of the investment. Examples include real estate, private assets and emerging markets.
5. **Market Risk**
   This is the potential for loss from market price movements. These include changes in interest rates, stock prices, currency exchange rates and commodity prices.
6. **Model Risk**
   This is the potential for errors in the model's design, incorrect inputs, or misinterpretation of results.
7. **Specific Product Risks**
   These are unique risks associated with financial products or instruments, such as derivatives, which carry risk of leverage (small movements in the underlying asset can lead to large gains or losses).

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.

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 the model portfolio risks please see the "Risk Factors" section for the prospectus of the underlying funds on our website at https://global.vanguard.com.

Important information

This is directed at professional investors and should not be distributed to, or relied upon by, retail investors.

For further information on the investment policies and risks of the model portfolio(s), please refer to the prospectus and KIID of the underlying funds before making any final investment decisions. The KIID for each 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.

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.

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