FUND PROFILE

RSMR

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VANGUARD ASSET MANAGEMENT

VANGUARD GLOBAL EQUITY

April 2023

RSMR RATED FUND

OUR RESEARCH. YOUR SUCCESS

CONTENTS

VANGUARD GLOBAL EQUITY

OUR FUND PROFILES provide an in-depth review of our leading rated funds and are designed to give advisers, paraplanners and analysts an 'under the bonnet' view of the fund. In providing more detailed commentary than a standard fund factsheet we believe our fund profiles set the standard for the next generation of research notes, aiding in fund selection and in meeting the ongoing suitability requirements expected by the FCA, and helping ensure firms deliver good client outcomes.

All of our rated funds are subject to rigorous and ongoing scrutiny on both a qualitative and quantitative basis. Our fund methodology is available for download from the RSMR Hub – www.rsmr.co.uk

Vanguard Global Equity is a low cost, core global equity fund with a long-term focus, offering access to specialist external fund managers whose interests are aligned with their clients.

The fund combines the skill sets of Baillie Gifford's Global Alpha team and Wellington's Global Opportunistic Value team with each manager responsible for investing half of the total portfolio. The Baillie Gifford team are long-term growth investors whilst the Wellington team use a value-orientated approach. Both firms have solid long-term track records investing in global equities.

The combination of these two managers, with different but complementary investment styles, helps widen the opportunity set and results in a well-diversified core holding for investors, offering good value

Richard O'Sullivan – Investment Research Manager, RSMR

Richard began his career in financial services in 2012 working for national IFA Chase de Vere before moving to Lift-Financial. Richard joined RSMR in May 2020, immediately prior to which he worked for independent wealth manager Torevell & Partners (formerly Dewhurst Torevell) across several roles including Head of Investment Research. This involved conducting face-to-face meetings with fund managers, carrying out investment research and contributing to asset allocation and fund selection as part of the Investment Committee. He also has extensive experience as a paraplanner and a pension transfer specialist, building bespoke investment solutions for high net worth individuals, trusts and charities.

Richard is a Chartered Financial Planner, a Fellow of the Personal Finance Society and holds the Investment Management Certificate. He graduated from the University of Manchester with a master's degree in Mathematics.

IA GLOBAL

The sector comprises funds which are geographically diversified with at least 80% of their assets invested in global equities, typically with a primary objective of achieving long term capital growth. There are around 530 funds within the sector with over £162bn of assets under management as at February 2023.

The wide variation in the sector can make it difficult to draw meaningful comparisons between different strategies, particularly over the short-term. It is important to recognise this when looking at both absolute and relative performance numbers for funds in the IA Global sector.

Although economic sentiment has remained fairly negative of late, there has been a shift in expectations with a focus now firmly on whether we will enter a recession in 2023 and if we do, what depth of recession it may be. Central banks will be hopeful that any recession caused by their policies will be shallow and short, but this is very difficult to control. The complexity of the global economy and rising political tensions also make these effects difficult to gauge and therefore manage effectively. It was, for example, unexpected at the beginning of 2022 that the strongest sectors for investment would be energy and commodities. The shortage of supply following the pandemic and the Russian invasion of Ukraine were the key factors in pushing up prices and the cost of energy, leading to a cost-of-living crisis in many economies around the globe. The UK and Europe were particularly vulnerable to this with a reliance on Russian gas for industry and heating. The result was higher levels of inflation in the UK and Europe than in other regions less exposed to energy supply shortages.

Markets reacted with higher volatility and greater negativity as 2022 progressed, and bond markets were often more negative than equity markets with rising yields taking hold. This correlation of asset pricing was worrying for lower risk investors whose portfolios fell by as much if not more than some balanced and higher risk portfolios. Towards the end of the year, we saw a more positive response from investors, with the fourth quarter providing an overall positive return for many.

The core themes of persistently high inflation and supply chain constraints are likely to continue well into 2023, especially with the war still raging in Ukraine. Should the war continue all year then next winter may again prove difficult for European countries. The re-opening of the Chinese economy provides some optimism, although in the very short term the spread of the virus will impact on the speed of recovery.

The outlook for the global equity investor remains uncertain in the short term but following the challenging environment in 2022 there is some optimism that investors will benefit from a recovery in valuations in 2023 and beyond.

VANGUARD ASSET MANAGEMENT

Vanguard Asset Management was founded in 1975. It is a mutual company i.e. it is owned by its US domiciled funds, which are owned by their shareholders. Vanguard's mutual structure aligns the shareholders' interests with those of their investors and drives the culture, philosophy and policies throughout the Vanguard organisation across the globe. The mutual structure also means that clients need not be concerned about the company being acquired by another investment management group.

As at 31 December 2022 total assets under management stood at $7.2 trillion. The company employs over 18,800 people across the globe and is one of the world's largest investment management companies, with a presence in Australia, Europe, Asia and the Americas.

In the UK, Vanguard leverages the scale, experience and resources of their global business. A key aspect of the Vanguard philosophy is their desire to keep costs low to enable them to return profits to investors through lower costs and, as assets under management have increased globally, they have been able to reduce expense ratios for investors in their funds.

Despite being more well known in the UK for their range of index funds, Vanguard have been managing active funds since the firm was founded. At the outset, their fund range comprised entirely active funds, but they established the world's first index mutual fund for individual investors in 1976 and have been a leader in low-cost index investing ever since.

Vanguard established its UK business in June 2009, with a UK domiciled range of index funds, having already established a range of Ireland-domiciled UCITS funds for European institutional investors in 1998. In 2011, they consolidated their European operations in London, launching Vanguard Asset Management Limited (VAM). The European business also has offices in Paris, Amsterdam and Zurich.

Vanguard serves institutional and retail investors. The retail funds are available on most of the major wraps and retail platforms and are predominantly made available to retail investors via independent financial advisers, private wealth managers and fund platform providers.

VANGUARD GLOBAL EQUITY

Manager	Baillie Gifford (50%) and Wellington (50%)
Structure	UK Regulated OEIC UCITS compliant
IA Sector	IA Global
Launched	25 May 2016
Fund Size	£373.3 as at 28 February 2023

Fund Manager

In their active fund range, Vanguard often make use of the skills of external portfolio managers who they believe are capable of generating strong long-term investment returns versus benchmarks and peers. In this fund, they have paired two traditional bottom-up managers with different but complementary styles – one growth orientated (Baillie Gifford) and one value orientated (Wellington) – to deliver a core global equity mandate.

Vanguard's Portfolio Review Department (PRD) has responsibility for implementing the manager selection process, which includes evaluating external managers for potential mandates, as well as internal portfolio managers, such as the Quantitative Equity Group and the Fixed Income Group. Internal portfolio managers are subjected to the same level of scrutiny as external fund managers.

When evaluating current and prospective managers, Vanguard's PRD use a framework focusing on quantitative and qualitative criteria, not short-term performance. Sometimes the process results in the selection of internal fund management teams, otherwise Vanguard uses the expertise of external portfolio managers, provided they are philosophically aligned with Vanguard. Using external managers gives Vanguard access to a much broader talent pool than they would otherwise have in an area where skill is critical. Investment mandates are only awarded to external fund managers if the PRD has conviction in their ability to generate long-term outperformance.

Baillie Gifford

Baillie Gifford is one of the UK's largest private investment managers. The firm was founded in 1908 in Edinburgh where it continues to have its headquarters. The firm is a private partnership wholly owned by the current partners who all work full time in the business. The partnership structure affords the company significant stability and independence, which means they focus on the best interests of their clients. Their sole business is investment management with more than half of funds under management in international and global portfolios. Vanguard has been using Baillie Gifford as a sub-adviser since 2003.

Baillie Gifford's Global Alpha team are responsible for managing 50% of the fund through a long-term global equity growth strategy. The team consists of investment managers Spencer Adair, Malcolm McColl, and Helen Xiong, all of whom have significant experience of global investing. Spencer and Malcolm have been involved in the Global Alpha strategy since its inception in May 2005 and alongside Helen they have full ownership and accountability for all portfolio decisions. Helen Xiong has been added to the team following the retirement of Charles Plowden in April 2021. Succession planning is an important aspect that Vanguard look for when selecting investment partners and this is an area in which Baillie Gifford are particularly strong.

Spencer Adair graduated with a BSc in Medicine from the University of St Andrews in 1997, followed by two years of clinical training in Edinburgh. He joined Baillie Gifford in 2000 and spent time working in fixed income, Japanese, European and UK teams, before becoming an investment manager for the Global Alpha strategy. Spencer is a CFA Charterholder and became a partner in 2013.

Malcolm MacColl graduated with a MA in Economics & History in 1998 and an MLitt in Economics, Politics & Management in 1999 both from the University of St Andrews. He joined Baillie Gifford in 1999 and has spent time working in the UK small cap team and the North American team. He has been an investment manager in the Global Alpha team since its inception and he became a partner in 2011. He is a member of the UK Society of Investment Professionals (UKSIP).

Helen Xiong graduated with a BSc (Hons) in Economics from Warwick University in 2007 and an MPhil in Economics from the University of Cambridge the following year. She joined Baillie Gifford in 2008 and spent time working on their developed Asia, UK, North America, Emerging Markets, and Global Equity teams prior to becoming an investment manager in the US Equities team whilst working closely with the Global Alpha team. Before coming to live and work in the UK, Helen has lived in China, South Africa, and Norway.

The managers can draw on the wider capabilities of over 90 research analysts and the firm's other investment teams.

Wellington Management

Wellington's Global Opportunistic Value team are responsible for managing 50% of the fund's portfolio with the strategy being managed by a senior and experienced team led by portfolio manager David Palmer who is supported by 8 senior equity analysts. In addition, the team draws on over 50 global industry analysts, as well as credit and technical analysts, macro analysts and traders.

David Palmer graduated from Stanford University with a BA in English 1993 and obtained an MBA in Finance from the University of Pennsylvania in 1998. He is a CFA Charterholder. He joined Wellington in 1998 and his investment management responsibilities include both US domestic and global value mandates. While his research is primarily focused on the energy sector, he also follows other industries including automotive, education, and IT services for a number of specialised portfolios. Prior to joining Wellington, he worked in equity sales, trading, and research at Cantor Fitzgerald.

Wellington Management is a private partnership, and every partner is a full-time participant in the activities of the firm. This structure aligns the firm's interests with those of their clients. It also provides stability to ownership and management. Wellington believes that it enables them to attract and retain talent and mitigate key-person risk. They place an overarching emphasis on maintaining a fiduciary mind-set that incorporates multiple layers of risk management.

Wellington is purely an investment management company. It has no other business interests which minimises any potential conflicts of interest that might otherwise arise. Wellington is committed to producing independent research across a broad spectrum of investment disciplines, and they have allocated significant resources to building and supporting experienced research teams. Analysis is a career path at the firm with many analysts becoming partners. Many of their analysts have been following the same companies and industries for 15 to 20 years or more. This depth of experience over many market cycles gives them a solid foundation on which to build.

The firm's investment culture revolves around the free exchange of ideas and healthy debate. It has a relatively flat management structure, and one which separates investment management functions from business/operations functions, allowing investment professionals to focus on delivering investment returns.

Fund Objectives & Targets

The fund is designed to provide an increase in the value of investments over the long-term (more than 5 years).

The fund's benchmark is the FTSE Developed Index, and it has a target tracking error of between 2.5 and 4.5%. The fund's active share will be in the region of 85 – 90%.

Investment Philosophy & Process

The fund pairs two traditional, bottom-up complementary managers – one growth orientated, and one value orientated – to deliver a core global equity mandate. Vanguard seek deep, committed relationships with investment managers to focus on long-term returns.

Baillie Gifford

Baillie Gifford's core investment philosophy is that share prices ultimately follow earnings. They therefore look to make long term investments in well-managed businesses which enjoy sustainable, competitive advantages.

Baillie Gifford's Global Alpha strategy is a long-term equity growth proposition. The key source of long-term outperformance is stock selection. A thorough fundamental analysis is carried out on all stocks that are considered for inclusion in the portfolio and the main focus is to establish whether each company has a sustainable competitive advantage that will allow management to deliver above average growth in earnings and cashflow. Geographic and sector exposures are a function of this selection process and not an overt expression of any strong macro-economic views.

This approach leads to a portfolio which looks very different from the index and an active share (defined as the percentage of the portfolio that does not directly overlap the index) of around 90%. As long-term investors, another characteristic of the portfolio is that turnover will normally be low, in the range of 20-33% (since inception, it has been towards the lower end of this range), implying an average stock holding period of 3-5 years.

Baillie Gifford believe that companies can grow at different rates for several reasons, with some being more cyclical than others and many being at different stages in their corporate life cycles. By looking to capture growth from several sources, Baillie Gifford will consider companies in a range of industries that other growth investors may overlook, differentiating them from their peers. They categorise stocks into one of three types: compounders, disrupters, and capital allocators.

Compounders have durable franchises which deliver robust profitability in most macroeconomic environments. Their competitive advantages include dominance in particular markets, customer loyalty and strong brands.

Disrupters are early-stage businesses with vast growth potential. They tend to be innovators attacking existing profit pools or creating new markets.

Capital allocators are companies subject to macroeconomic and capital cycles with significant structural growth prospects. In this category they look for strong management teams who are highly skilled and disciplined at allocating capital.

The portfolio typically has a high weighting of around 70% to the first two 'buckets' of compounders and disrupters.

The Global Alpha team spend the majority of their time analysing stock ideas and they draw on the experience the wider Baillie Gifford regional equity teams and global sector research specialists, taking into account stock ideas generated by these teams. Ideas are debated in a global context, and if more work is required, it is carried out by the Global Alpha team themselves or the regional investment team/global sector research specialist, whichever is most appropriate.

All research at Baillie Gifford is done internally, using a wide range of sources, including the companies themselves. They undertake an extensive programme of company meetings, and they aim to see all their major holdings at least once a year. The global universe of around 10,000 stocks is screened for liquidity and market capitalisation (c. $2bn) which reduces the universe down to around 3,000 stocks. The discovery part of the process involving the wider Baillie Gifford team reduces the universe to a more focused list of 750 stocks. There then follows ongoing fundamental research and debate which eventually generates buy and sell ideas.

Typically, there are three broad groups of holding size: c.0.5% holdings, c.1% holdings and c.2% holdings, based on levels of conviction and risk. There will typically be between 70 and 120 stocks in the portfolio.

Sell decisions are based on the results of a frequent re-examination of existing holdings. Particular attention is paid to any adverse changes in fundamentals, a loss of confidence in management or valuations where the managers believe the market fully reflects their long-term view. Their analysis enables them to question whether a company is performing in line with their expectations and, if not, whether a sale is appropriate.

Wellington Management

Wellington use a value-orientated approach focused on longer term fundamentals. They aim to create a portfolio that generates an attractive total return through income and capital growth. Wellington favour shares trading at a deep discount to the market where they believe there is significant upside.

The Global Opportunistic Value team selects stocks from a broad universe of equity securities with market capitalisations typically greater than US$500 million. The main criteria for evaluating stocks within the Global Opportunistic Value universe is based on determining a company's normalised long-term earnings power and relative PE ratio based upon the team's assessment of long-term earnings growth, cash flow, dividend yield, financial strength and other qualitative characteristics. This evaluation is supplemented by additional valuation measures in order to identify stocks priced at a significant discount to their total return potential.

Proprietary, bottom-up fundamental research is the cornerstone of the Global Opportunistic Value investment process. Equity research is divided along industry lines with each team member responsible for providing fundamental research and stock recommendations on companies within his/her defined industries. David Palmer, the fund manager, is responsible for buy and sell decisions and portfolio construction.

Wellington Management encourages a team-orientated approach across its investment management teams, through a collegial and transparent investment culture. The Global Opportunistic Value team supplements their research efforts with support from the broader investment team, including the firm's global industry analysts, who are more specialised with respect to industry coverage and are able to offer a more granular perspective. The collaborative dialogue between the portfolio manager, global opportunistic value analysts, global industry analysts, and other portfolio managers and team analysts in other investment groups in the firm, provides the opportunity for the team's view to be pressure tested and regularly challenged.

Direct contact with company management (in Wellington's offices or on site), suppliers, customers, and competitors are also an important part of the research process.

The portfolio will typically hold 85 to 120 stocks and individual stocks are conviction-weighted based upon upside potential relative to downside risk. Market capitalisations are unconstrained but will generally be greater than US$500 million. Regional weights are unconstrained and sector weights may be as much as 15% above or below the benchmark position.

External Manager Selection Process

Vanguard's sub-adviser selection and monitoring process is led by Chief Executive Tim Buckley, with all appointments individually approved by the Vanguard board of directors.

Vanguard's Portfolio Review Department (PRD) identifies investment managers who they believe are able to deliver strong long-term investment returns for clients and with whom they can develop and maintain long-term relationships. In doing this, they look for firms which have a similar culture to Vanguard. A number of tools are used to identify manager candidates, including the PRD's proprietary database, external databases and Vanguard's existing network of sub-advisers. Each year, Vanguard conducts hundreds of meetings with potential investment advisers from around the world.

The factors taken into account include:

- The Firm – Is it stable? What is the ownership structure? Does this align with client interests? What are its financial and asset trends? How does it incentivise its employees?
- The People – What is the firm's staff tenure and experience? Does it have depth and stability of talent?
- The Investment Philosophy – Does it have an enduring, easily articulated philosophy shared by its investment professionals?
- The Investment Process – Is it stable/proven? Does it generate a portfolio consistent with stated philosophy?
- The Investment Portfolio – Does the investment portfolio clearly reflect its philosophy and process? Does it have consistent characteristics over time?
- Performance – Does the firm have a history of competitive results versus benchmarks and peers over the long term? Has it demonstrated success in different market environments?

If an investment manager is worth pursuing as a candidate to run a mandate, PRD members meet the firm's executives, portfolio managers, traders and other essential personnel to gather more data and insight. The information they seek includes organisational and ownership structure, succession plans, history, code of ethics, written compliance practices and trading-allocation procedures.

The PRD analyses the data on all the candidates and narrows down the list, summarising the pros and cons of each choice. One more level of evaluation takes place – a final candidate review by the Global Investment Committee (GIC) chaired by Tim Buckley and including a number of Vanguard managing directors. The GIC meets with each candidate and then selects the manager(s) to recommend to the Vanguard Board of Directors.

Using qualitative and quantitative metrics, Vanguard aim to combine managers who offer different investment styles and characteristics, such as combining small firms with large firms, and concentrated portfolios with diversified portfolios. Each individual manager must possess a different investment process and source of long-term outperformance. They combine managers who complement one another in style and seek to reduce short-term volatility whilst still capturing the outperformance of each sub-adviser.

Vanguard has been employing a multimanager approach since 1987. All funds, whether managed internally or externally, are entirely under Vanguard's control. Having conducted extensive due diligence on the sub-adviser and mandated them to run the funds, Vanguard are not involved in the day-to-day decision making (e.g. stock selection) on the fund.

Vanguard's oversight operations aim to ensure that each fund stays true to its mandate, and that each external manager continues to have the traits and processes that prompted Vanguard to hire them in the first place. With several layers of scrutiny, they monitor all fund portfolios across multiple criteria, with three Vanguard bodies performing fund / portfolio monitoring:

- Vanguard Board of Directors (which provides fiduciary oversight of funds and final approval of decisions about funds and advisers)
- Global Investment Committee (which undertakes ongoing fund oversight and decision making)
- Portfolio Review Department (which has full time responsibility for fund oversight and manager research)

Risk Management

Risk management responsibilities for the traditional active funds lie both with Vanguard, and with the external sub-advisers. Ultimately, Vanguard assumes the responsibility for the risk management of the fund but the combination of the Vanguard risk management team and those of the external fund managers provides more than one level of risk control.

Within Vanguard's Portfolio Review Department (PRD), the Oversight & Manager Search team is primarily responsible for adviser oversight and for ensuring that a fund's managers maintain their stated strategy on behalf of Vanguard's Board and Global Investment Committee (GIC). The team comprises over 20 experienced investment professionals with academic and professional investment experience including 10 CFA Charterholders. The PRD applies the same oversight to Vanguard's internally managed mandates as it does to those managed by third parties. The PRD meets weekly, and their work is reviewed by the GIC and the Board.

Baillie Gifford

Bailie Gifford's dedicated Investment Risk Team is entirely independent of the global equity investment managers. The team uses a range of tools and measures to analyse the risk within portfolios including 'active share', delivered tracking error and the spread of stock specific risk. Importantly, their investment risk team is also experienced in assessing the methodology and limitations of the different tools, and how to interpret their output in different market conditions. Overall, Baillie Gifford believes that these tools can add value to the investment monitoring process if used intelligently and pragmatically. The Investment Risk Team reports formally every quarter to the investment managers, client service team and Baillie Gifford's Investment Risk Committee (chaired by an investment partner).

Wellington Management

Responsibility for analysing and managing risk in individual client portfolios rests with the portfolio manager, together with oversight by functional line management. Portfolio managers report to line management in each investment area and are further subject to the oversight provided by the firm's investment review groups. Review groups are organised by investment approach and are supported by analytics relating to portfolio composition, product integrity, performance, and risk characteristics.

It is the responsibility of the global relationship group to ensure that the expectations of each client are being met in the management of the client's account and to provide the client with regular reporting on its portfolio.

From an investment standpoint, risk is monitored and managed at the security, sector and total portfolio levels. For each portfolio position, the Global Opportunistic Value team assesses company specific risks, including (but not limited to) balance-sheet risks, debt ratios and debt maturity, volatility, industry concentration and factor risks. Supplementing the portfolio team's work, portfolio level analysis and performance attribution is performed by the product management group and reviewed with the portfolio manager on a regular basis, generally quarterly. This analysis is an integral part of the investment management process and allows the team to understand the marginal contribution to risk, style characteristics and the proportion of risk attributed to different factors.

The team look to understand the key performance drivers for each stock and overlay this with sector and industry insights in order to fully grasp the impact of any changes at company, industry and country level, as well any macroeconomic factors.

While the product management group works closely with the portfolio manager, they are an independent resource with an objective of monitoring and maintaining the integrity of each investment approach.

Portfolio risk is also measured by comparing a portfolio to its benchmark and universe of peers, specifically in the form of risk characteristics including tracking risk, standard deviation, Sharpe ratio and information ratio. Key financial ratios and Barra risk factor exposures are also monitored. Importantly, multiple technologies are employed – both in-house software and third-party programs – thereby ensuring a more holistic approach is taken.

ESG Integration and Engagement

Baillie Gifford

Baillie Gifford became signatories of the UN Principles for Responsible Investing in 2007 and ESG considerations are built into the investment process to ensure the long-term investment case remains robust in the face of an ever-changing background. Baillie Gifford actively engage with their investee companies on issues such as sustainability, board structure and environmental impact. There is also a dedicated Governance and Sustainability team who work alongside the fund managers on these issues and assist them in utilising proxy voting to effect change.

Wellington

The team do not screen out stocks based on their ESG score and it is sometimes the case that controversy surrounding one of these factors contributes to a share price fall and an attractive entry point. The team seeks to understand the ESG issues surrounding a stock and believe that value can be added by picking up stocks that have an improving ESG profile, rather than those at the end of the journey. Wellington's dedicated ESG team help the managers to identify issues, and also to engage with investee companies.

PAST & CURRENT POSITIONING/STRATEGY

At fund level the sector exposure is relatively similar to the benchmark due to the differing strategies employed in each half of the portfolio. At the end of December 2022, the fund had overweights in healthcare, financials and consumer discretionary, with underweights in consumer staples, energy and technology. Given that deviations from the benchmark are relatively small at sector level, a lot of the long-term outperformance can be attributed to stock selection.

Baillie Gifford

Baillie Gifford manage 50% of the fund and look to make long term investments in well-managed businesses which enjoy sustainable, competitive advantages. They are growth orientated investors but categorise different types of growth with a view to investing in stocks that more traditional growth orientated investors could miss.

The long-term nature of the investment philosophy at Baillie Gifford means that overall positioning is unlikely to change drastically from year to year. Individual names are bought on the basis of strength in the underlying fundamentals and typically only sold due to a weakening in these fundamentals rather than as a direct reaction to macro-economic changes.

Performance throughout 2022 was hampered by the tilt towards growth, and sectors such as technology detracted from returns. For example, in the first quarter, global internet company Prosus weighed on returns due to increasing regulatory concerns impacting its investment in Chinese internet company Tencent, as well as a small holding in Russian name VK Group and Avinto. The holding was retained in the face of share price weakness as the managers believe that the company provides access to a unique portfolio of exciting growth investments.

Stocks like UK-listed miner Rio Tinto are not typically associated with the growth style of investment but helped relative performance for the portfolio in the first quarter of 2022 thanks to commodity prices increasing due to the conflict in Ukraine. The team initiated a position in Analog Devices, a company specialising in high performance semiconductors, on the belief that the company will benefit from trends such as digitisation.

The managers also sold out of US online real estate portal Zillow during the quarter due to the outlook for real estate looking less attractive.

Throughout 2022 the managers added several holdings such as Royalty Pharma, the largest buyer of biopharmaceutical royalties in the US, as they believed that the company's scale and flexibility and expertise uniquely positions the firm to benefit from innovation in the industry. MercadoLibre is a Latin American e-commerce, payments and logistics platform which the team feel is well placed to fend off threats posed by rivals such as Amazon. US industrial manufacturer Eaton was added to the portfolio in the fourth quarter with the team believing the company has positioned itself as a significant player in its market, ready to capitalise on the increase in digitalisation and electrification as the global economy transitions to a low-carbon world. These stocks are all examples of companies that the fund managers believe have built sustainable competitive advantages and have an attractive runway for growth in the coming years.

Strong management is a focus for the team at Baillie Gifford and they sold Pelaton in the first half of 2022 due to poor decision making from management team. They will also exit a position if they feel the investment case is no longer compelling, such as selling out of US-based online car sales platform Carvana as the company was likely to struggle to deliver on their full potential in a challenging funding environment. Similarly, Oscar Health, a US health insurer, was sold on concerns that the company may struggle for profitability if the economic environment weakens further, as well as the potential for a future equity raise which would dilute existing shareholdings. Some companies also exited the portfolio due to being subject to a takeover, which was the case with Abiomed which was bought out by Johnson & Johnson.

The Baillie Gifford team believes their portfolio is well positioned to perform in a more challenging environment and they have shifted the holdings towards steady and resilient companies whilst reducing the amount held in early-stage companies.

Wellington

Wellington manage the other 50% of the fund, and they aim to provide better returns than the broader market over the long-term by investing in companies they believe are relatively undervalued.

The manager employs an opportunistic approach to value investing and typically looks to purchase companies that would otherwise be regarded as high quality but have a depressed share price due to the market focusing on short-term concerns. The style is different from the majority of peers as the manager's entry point into stocks is typically other investors' exit point.

This portion of the fund performed well throughout 2022 with both sector allocations and stock selection adding value at different points in the year. Early in the year their holding in Canadian Natural Resources performed very strongly following the increase in oil prices following Russia's invasion of Ukraine. Markets were particularly volatile during this time and the team added Unilever after the share price had fallen back to an attractive level. US software and hardware company Cisco Systems had performed well since its addition to the portfolio and was sold in order to recycle the proceeds into more compelling ideas.

Seagen, the biotechnology company, was added to the portfolio in the third quarter of 2021 on the basis that the team was excited about Seagen's suite of three approved oncology drugs along with their pipeline of drugs in trial. The stock added significant value to the fund in the second quarter of 2022 when reports emerged that Merck were interested in pursuing a takeover, and even if this did not come to fruition there would be other collaborative avenues that could be accretive for both parties.

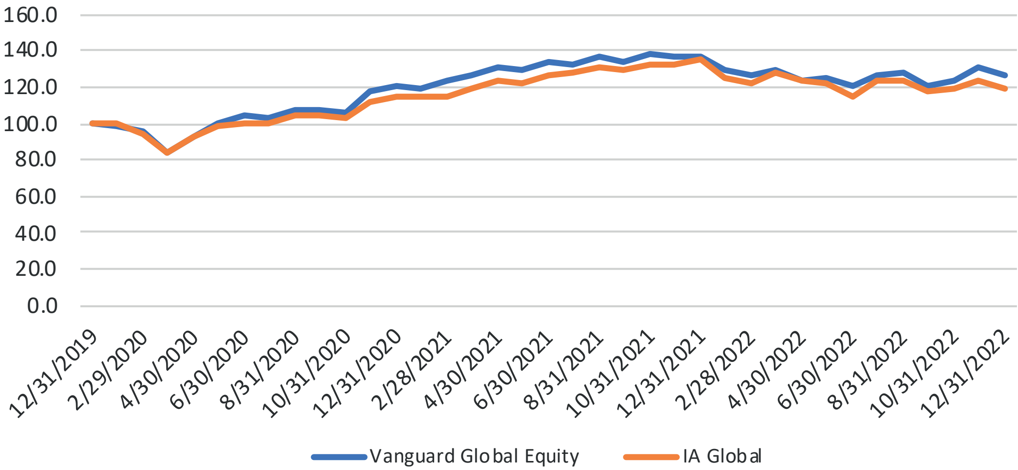
The opportunistic nature of the fund management team can be seen in their purchase of Meta, the parent company of Facebook, in the second quarter of 2022. The share price reduced significantly, offering the opportunity to initiate a position in a company that Wellington feels was trading at a discount to its intrinsic value. The company had announced plans to grow the virtual and augmented reality portion of its business without hampering the profitability of the existing core business, mitigating some of the downside risk that markets had priced into the valuation. Profits were taken in defence company Raytheon after the share price rallied strongly.

Oil services company Haliburton was added to the portfolio in Q3 as Wellington believed that strong cash flow generation and good capital discipline, coupled with a tailwind from the imbalance between the supply and demand of energy being supportive of oil prices, could drive the share price of the company higher. Japanese pharmaceutical company Daiichi Sankyo was sold after the share price rallied following a favourable arbitration outcome against a competitor, reducing the future upside in owning the shares.

Haliburton performed well in the final three months of 2022 and was one of the strongest performers, alongside oilfield services group Schlumberger. Google parent company Alphabet was purchased as the Wellington team felt that the company could continue to compound growth at an attractive rate throughout the economic cycle and recent share price declines had offered a good entry point. US real estate firm VICI Properties was sold after the company had done well on a relative basis in 2022 and the fund managers felt the capital could be put to better use elsewhere in the portfolio.

PERFORMANCE

3 year performance to 31 December 2022



Source: Vanguard

The fund was launched in May 2016 and the underlying portfolio managers have long-term track records managing global equity mandates, albeit in very different styles.

For the most part, the fund has outperformed the IA Global sector average and performed in-line with its benchmark. It has done so over a period when the growth style of investing has had a greater degree of success than the value style which has lagged significantly.

The fund has performed well, and it outperformed the benchmark during the highly volatile first quarter of 2020. 2022 was a good year for the fund on a relative basis and it outperformed its peers in the IA Global sector, providing better downside protection.

All active funds experience periods of underperformance and despite its strong record so far, Vanguard Global Equity is of course no different. It is intended as a long-term core investment for those with a preference for active management.

SUMMARY & EVALUATION

Vanguard Global Equity is a low cost, core global equity fund with a long-term focus, offering access to specialist external fund managers whose interests are aligned with their clients.

The fund combines the skill set of Baillie Gifford's Global Alpha team and Wellington's Global Opportunistic Value team. Both firms are partnerships in which all of the partners work on a day-to-day basis. In addition, neither firm has any business interests other than investment management.

The combination of these two managers with contrasting but complementary investment styles helps to widen the opportunity set and results in a well-diversified core holding for investors, offering good value for money. Both teams have established credible track records through the consistent application of their investment processes over time.

Baillie Gifford's Global Alpha strategy is a long-term equity growth proposition. Stock selection, based on fundamental analysis, is the key source of outperformance and the management team focus on companies that can achieve sustainable levels of above average growth in earnings and cashflow.

Wellington use a value-orientated approach focused on longer term fundamentals. They aim to create a portfolio that generates an attractive total return through income and capital growth by favouring shares trading at a deep discount to the market.

The Ongoing Charges Figure of 0.48% ensures that the fund has a significantly lower changing structure than actively managed global equity funds which are typically 20 basis points (or more) higher. Through compounding, the effect of lower charges on performance can be significant in the longer-term. This fund will typically have an active share of 85-90%.

Vanguard Global Equity is designed to carefully manage the balance between value and growth. Both of the managers have demonstrated the ability to contribute long term outperformance through bottom-up fundamental analysis above and beyond that achieved simply by their style being in favour.

ABOUT US

RSMR
Our Research. Your Success.

Established in 2004 RSMR provides research and analysis to firms working across the UK's personal financial services marketplace.

Our work is completed with total impartiality, without any conflict of interest and delivered to a high professional standard by a team of experienced and highly qualified people.

Working with advisers

We provide specialist research, analysis and support to a diverse range of financial advisers and planners helping them to deliver sound advice to their clients, backed by rigorous and structured research and due diligence.

The main regulatory body in the UK, the FCA, states that personal recommendations made by advisers should be 'based on a comprehensive and fair analysis of the relevant market' and this has led to closer scrutiny of the whole advice process. Our solutions are designed to help advisers meet these challenges whilst recognising that advisory firms require a range of flexible options that best meet their own business needs and those of their clients.

Working with providers

We work with all the leading fund groups, life and pension companies and platform operators across the financial services sector offering straight forward and pragmatic advice to help add value and improve their business performance and efficiency whilst treating customers fairly in line with FCA requirements.

Ratings

Our innovative ratings are now recognised as market leading and cover a broad area of investment solutions including single strategy funds, SRI funds, Multimanager and multi-asset funds, DFMs and investment trusts. Our familiar 'R' logo is now recognised as a trusted badge of quality by advisers and providers alike and a 'must-have' when selecting funds. Our ratings are founded on a strict methodology that considers performance and risk measures but places a greater emphasis on the ability of fund managers to continue to deliver performance in the years ahead. based on our in-depth face-to-face meetings with fund managers across the globe.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your clients and your business.

Our research. Your success.

RSMR

Our Research. Your Success.

Number 20
Ryefield Business Park
Belton Road
Silsden
West Yorkshire
BD20 0EE

Tel: 01535 656 555
Email: enquiries@rsmgroup.co.uk
www.rsmr.co.uk

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