FUND PROFILE

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Our Research. Your Success.

VANGUARD ASSET MANAGEMENT

VANGUARD GLOBAL EQUITY INCOME

April 2023

RSMR RATED FUND

OUR RESEARCH. YOUR SUCCESS

CONTENTS

VANGUARD GLOBAL EQUITY INCOME

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 Income 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 an external fund manager, Wellington Management, who manage 65% of the portfolio, with the Vanguard Quantitative Equity Group managing the balance. Wellington focus primarily on the long-term fundamentals of large cap quality companies which are temporarily out of favour. Vanguard's Quantitative Equity Group is driven by purely quantitative analysis and financial modelling with a focus on stock characteristics. The nature of the process is such that they invest further down the market cap scale than Wellington.

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 for money.

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 EQUITY INCOME

The Vanguard Global Equity Income fund sits in the Global Equity Income sector. This sector comprises funds which invest at least 80% of their assets into global equities. Funds must be diversified by geographic region and intend to achieve a historic yield on the distributable income in excess of 100% of the MSCI World Index yield at the fund's year end on a 3-year rolling basis and in excess of 90% on an annual basis. The sector contains over 50 funds with over £22bn of assets under management as at February 2023. This includes a large variety of investment strategies and styles, including active, passive, and enhanced index funds.

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 Equity Income sector.

Although economic sentiment has remained fairly negative of late, there has been a shift in expectations with the 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 this continue throughout 2023 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 income investor remains uncertain in the short term but following the rotation in styles from growth to value in 2022 there is some optimism that investors will benefit more from holding income strategies 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 Amsterdam, Berlin, Dublin, Frankfurt, Milan, Paris, 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 INCOME

Manager	Wellington (65%) and Vanguard Quantitative Equity Group (35%)
Structure	UK Regulated OEIC UCITS compliant
IA Sector	IA Global Equity Income
Launched	25 May 2016
Fund Size	£262.5m as at 1 March 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. Within this fund, they combine the skill set of Wellington Investments (which manages 65% of the mandate) and their internal Quantitative Equity Group (which manages the balance of the portfolio) to deliver a core global equity income 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

Wellington Management

The Wellington Global Equity Income strategy is managed by Andre Desautels who leverages the skills of the wider team at Wellington which includes 50 global industry analysts, along with credit and technical analysts, macro analysts and traders.

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 it 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 15-20 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.

Andre Desautels, CFA, is a senior managing director and equity portfolio manager at Wellington Management. Prior to managing diversified equity portfolios he was a Global Industry Analyst, where he specialised in the banking and telecom services sectors, conducting research and fundamental analysis on companies based in EMEA (Europe, Middle East and Africa) and the Americas. He joined Wellington in 2006 and works closely with other senior members of the management team.

Vanguard Quantitative Equity Group (QEG)

The philosophy of Vanguard's Qualitative Equity Group (QEG) emphasises a rigorous and systemically consistent portfolio construction process, driven by in-depth analysis, to achieve highly risk-controlled and cost-effective results. QEG has been managing active portfolios since 1991 and the team comprises 30 investment professionals.

The disciplines employed by QEG enable them to build portfolios with risk profiles similar to that of a benchmark and the low cost approach also removes one of the key headwinds to active management. The process has been designed to generate returns over the longer term and consequently enable investors to ride out periods of market volatility.

Vanguard's Chief Investment Officer Greg Davis oversees all investment activity at Vanguard.

Sharron Hill is head of global and income alpha equity investments in Vanguard Quantitative Equity Group which manages the fund. Prior to joining Vanguard in 2019, she was head of equity quantitative research & analytics at Macquarie Investment Management. Earlier roles include programming fixed income applications at Bloomberg. She earned an M.S. and Ph.D. in mathematics from University of Connecticut and a B.S. in mathematics from City University of New York at Brooklyn College.

Fund Objectives & Targets

The fund is designed to meet two specific objectives:

- To provide an annual level of income (gross of fees) greater than the benchmark
- 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.

Investment Philosophy & Process

This fund combines two complementary skill sets – one from a traditional bottom-up fund manager (Wellington Management) and the other from a fund manager whose process is purely quantitative (Vanguard Quantitative Equity Group) – to deliver a core global equity income mandate.

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. All of the securities within the mandate must pay a dividend, and the aggregate yield of the portfolio will typically be meaningfully higher than that of the benchmark.

By focusing on higher quality companies which they believe are only temporarily out of favour, the team expect to capture a higher total expected return at a discount to the market, improving their chances of outperforming the market. Wellington's research resources combined with their disciplined investment process enable them to add value by differentiating between temporary events and permanent value erosion.

As value investors supported by a large team of global industry analysts, the scope of the team's investment universe is broad (approximately 2,000 stocks). They primarily evaluate large-cap companies (>US$2 billion) in developed and emerging markets with below-market valuation ratios where the stock price is currently depressed (approximately 600 stocks). The team focuses on solid companies that they believe are only temporarily out of favour and where they expect the valuation gap to narrow over time and enhance their opportunity to outperform the market. They tend to find investment opportunities in four areas:

- Misunderstood negative event
- Consolidating industry structures
- Low but improving return on capital
- New or capital-incentivised management

The portfolio is primarily constructed from bottom-up stock selection based on fundamental research. Secondary consideration is given to macroeconomic analysis in establishing country/regional or sector weightings. The portfolio will typically contain 40-60 stocks and position sizes at initial purchase are typically 1% - 3% with exposure to a single stock limited to 7%. Sector weightings are typically in a range of 10% above or below the benchmark and investment in emerging market companies will typically be limited to a maximum of 20%. The team's expectation is that turnover in normal market environments will be in the range of 20% - 40%.

Vanguard Quantitative Equity Group

Vanguard QEG is guided by the principle that a disciplined, objective and consistently applied approach can generate excess returns by taking advantage of market inefficiencies that result from systemic biases among investors and research analysts.

The stock selection process focuses on differentiation among peer groups of securities rather than trying to predict which stocks are going to outperform the market. They aim to identify the best stocks within each industry in order to capture more relative growth than similar stocks, leading to long-term outperformance. They do not believe it is systemically possible to forecast which industries or market capitalisation groups are going to outperform the benchmark, and therefore they remain neutral on a market capitalisation and industry level.

The investment process has two components: optimised portfolio construction and quantitative stock selection which concerns selecting the best stocks within each of the 24 GICS industry grouping without reference to investment themes or bias to a particular investment style. The primary tool for optimising portfolio construction is supplied by Axioma. It combines their own third-party risk model with Vanguard's assessment of the expected return of the securities in the investment universe and predetermined risk constrains to establish the optimal portfolio.

The investment universe is the MSCI World (with net dividends reinvested) Index. Securities are ranked across a spectrum ranging from attractive to unattractive, using a proprietary multi-factor quantitative model based on fundamental criteria. The criteria have four themes with multiple sub-factors within each theme:

- High quality: This theme seeks to identify stocks with healthy balance sheet that can generate strong, consistent cash flows. Markets tend to be late in identifying changes in underlying business activity and their effects on future earnings prospects.

- Capital needs to be used effectively and not squandered. Investment policies need to be in place to facilitate growth and dividends need to be sustainable. Companies that wisely deploy their shareholder equity and capital will likely generate higher future returns.

- Strong sentiment: They look for market (technical evidence) and analyst confirmation of their view. Markets tend to overreact to news in the short term while also failing to identify longer term fundamental changes in businesses; herding behaviour exists among investors and analysts.

- Valuations need to be reasonable to avoid overpriced stocks and value traps. Stocks in vogue eventually fall short of the market's high expectations and there can be very valid reasons why some stocks are lowly valued.

QEG rank around 4,500 stocks daily for each GICS peer group. Utilising the above themes, security alpha grades based on the relative attractiveness of stocks given their expected return are calculated for each stock, every night using a quantitative approach. The metrics that are typically consistent between region, country or sectors are included in the quantitative model. Metrics are also referred to as sub-themes in the process.

Inputs to the calculations of the quantitative model include (but are not limited to) financial statements and price time series that are sourced from external vendors such as Thomson Reuters. Security alpha grades are determined through the evaluation of sub-themes, which subsequently contribute to the four overarching themes set out above.

An optimiser process is applied to maximise alpha while controlling exposures to the benchmark with the aim of avoiding unintended factor risks during portfolio construction. The portfolio is designed to be industry neutral, and the optimiser factors in exposures at individual security level, country and factor level, in an effort to target tracking error of 2% to 4% per annum.

The portfolio optimiser's exposure constraints are subject to ongoing review and change with the aim of improving the outcome of the fund to achieve its objectives.

Portfolio expectations are:

- Target yield premium of 1.3x
- Stocks must be forecast to pay a dividend
- Active weight no greater than 1.25% at the stock level
- Minimum deviations in sector weights
- Maximum 150 holdings
- Turnover 50% – 100%

The security selection/alpha grading process and the portfolio construction process are independent of each other. The portfolio construction process applies a risk management framework through controlled exposures to achieve the fund's objective.

Vanguard's ranking and optimisation process is purely quantitative, but there is active portfolio construction. Any security changes from the process are reviewed by the portfolio manager. This review balances the cost versus the alpha added to the fund when determining the final trade list for execution. They use quantitative tools to pick individual securities that they believe will outperform their peers. Essentially, they engage in relative value trading as within each market capitalisation/industry group, they overweight those securities they believe will outperform their peers and underweight those that their quantitative models rank poorly, causing them to believe they will underperform.

All of the quantitative models were developed internally. They use data and consensus estimates of certain financial variables from IBES and Compustat in their modelling process. Other than the IBES and Compustat data feeds, they do not use any third-party research in the investment process. Their proprietary optimiser generates the information used in their portfolio construction and risk control processes.

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.

Three Vanguard bodies perform 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.

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.

Vanguard QEG

Vanguard see risk management as an integral part of the whole investment process. They have a separate Risk Management Group consisting of risk managers, quantitative researchers, financial analysts and data experts which works closely with portfolio managers and analysts.

Vanguard defines parameters for risk, tests assumptions and continually monitors the outcomes within the portfolio. Parameters include very tight ranges around the identified risk factors, such as weight deviations (versus the index), sector, industries and countries. Execution takes place at both qualitative and quantitative levels. The qualitative approach frames the goals and expectations for a portfolio at a high level. The quantitative approach imposes discipline, translating general expectations into concrete metrics.

ESG Integration and Engagement

Wellington Management

ESG considerations are important when evaluating the sustainability of a business, particularly over a long-term investment horizon. For the Wellington side of the portfolio, Wellington established an ESG research team in 2011 which sits within the broader investment research function at the business. The team provides proprietary ESG research on over 7,000 companies which are utilised by the fund managers when considering new holdings as well as monitoring the existing portfolio. Rather than utilising negative screens, the research team engage with company management to fully understand the ESG issues at each company. In 2018, Wellington forged a partnership with Woodwell Climate Research Centre, one of the world's leading independent climate research institutes.

Vanguard QEG

Vanguard's Quantitative Equity Group examines governance issues when evaluating earnings growth prospects to identify companies that could be over-managing their earnings or have a higher probability of earnings manipulation. More broadly, Vanguard has an Investment Stewardship team which evaluates proposals and utilises the firms proxy voting shares in line with internal guidelines designed to promote long-term shareholder value and good corporate governance practices.

PAST & CURRENT POSITIONING/STRATEGY

At the fund level, the largest overweights are to telcos, utilities and financial companies, with the largest underweights being consumer services, industrials, and technology. This positioning is primarily the result of bottom-up stock selection but is also due to the requirement for yield, with sectors such as technology often having a limited opportunity set of stocks that offer a sufficient yield for the fund to meet its objectives.

Wellington

Wellington manage 65% of the fund, aiming to combine higher dividend yields with capital appreciation. The idea being that these characteristics combined provide better returns than the broader market over the long-term. As the Wellington portfolio is primarily about stock selection, the shape of the portfolio will change over time as opportunities present themselves.

This portion of the fund is typically overweight to financials and telecommunications companies, areas where the fund manager can leverage his own extensive experience as a former analyst. Utilities and oil & gas weightings are also often higher than the benchmark. The fund manager, Andre Desautels prefers to hold high quality names with strong balance sheets and cash flows.

In the first quarter of 2022 this portion of the portfolio outperformed thanks to the overweight position to energy and underweight to technology, with the Russian invasion of Ukraine pushing up energy prices. At stock level, Rio Tinto did well after reporting record annual profits for 2021, boosted by high iron ore prices. Wellington believe that the firm has an advantage over competitors due to their low-cost base, as well as the industry as a whole benefiting from a supply-constrained marketplace. UK-listed defence company BAE Systems also did well as market participants anticipate increased spending on defence given the situation in Ukraine. Wellington expect strong free cash flow and an increase in the company's exposure to the US market. A holding in UK-listed steel producer Evraz, a company established by Roman Abramovich who was subsequently sanctioned by the UK government, was sold during the quarter.

Philip Morris, the tobacco firm, was a strong performer in the second quarter of 2022, a period where this portion of the portfolio outperformed a falling global index. The defensive nature of company aided relative performance, as did hopes the firm will benefit from changes in the US regulatory environment. Merck also did well after reporting positive first quarter results. Chubb Limited, an insurance provider, was sold following strong share price appreciation. Wellington initiated a position in global alternative investment manager Ares Management during the quarter. The team believe that the scale of the business and diversification across its investments, coupled with high visibility on earnings and a capital-light business model, puts the company in a good position to outperform in the future. The stock subsequently performed well in the third quarter.

Wellington dynamically change their positioning based on the shifting opportunity set and in Q3 sold a holding in Standard Chartered to fund a purchase of HSBC with the team believing that the shares are undervalued and that the bank is making good progress in restructuring and improving its return of equity. Wellington feel that this improved profitability will allow the firm to return to attractive and sustainable dividend levels.

Performance in the final quarter of 2022 was particularly strong with holdings such as Mitsubishi UFG, a Japanese financial conglomerate rising on the unexpected moves announced by the Bank of Japan regarding yield curve control. Qualcomm, a US-based semiconductor company, was added to the portfolio on share price weakness as the team believe the company has exceptionally strong returns on capital and free cash flow.

The Wellington team remains cautious moving into 2023 and expects divergence in fiscal and monetary policy, the likelihood of further economic slowdown, and negative earnings revisions to all suppress share prices in the short-term. The team continues to adjust the portfolio to ensure that it trades at a valuation discount to the broad market. The focus remains on investing in quality businesses capable of generating free cash flow, even during periods of macro-economic weakness.

Vanguard Quantitative Equity Group

Vanguard's Quantitative Equity Group, which manages the balance of the portfolio (35%), has a very different approach to Wellington, in that they are driven by quantitative analysis and focus on the characteristics of each stock.

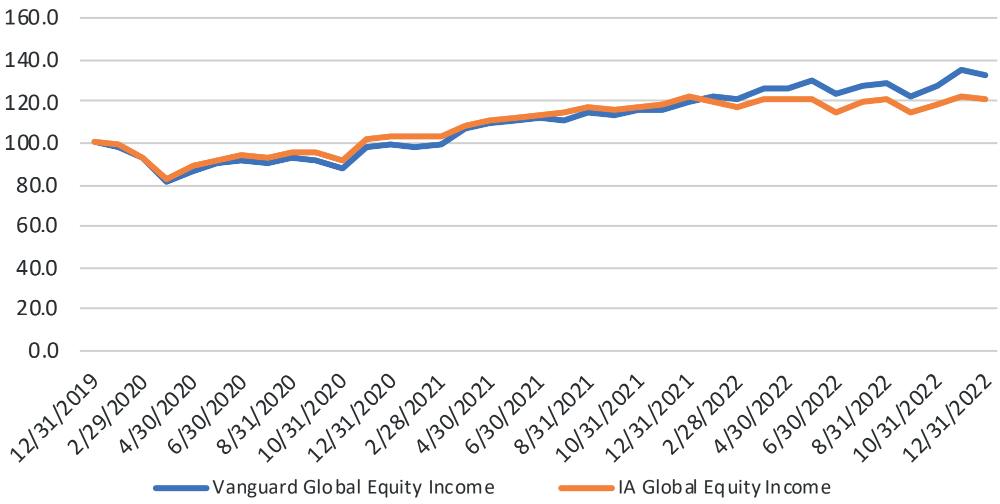
Despite QEG managing 35% of the portfolio, the number of stocks will usually be larger in this portion of the portfolio, to a maximum of 150. The process will often mean the portfolio has a slight bias towards smaller to medium sized businesses which can cause it to underperform during a large cap rally.

The QEG portfolio is designed to maximise alpha while controlling exposures to the benchmark with the aim of avoiding unintended factor risks. Factor investing has a significant role in investment management but being overweight to a specific factor, be it a specific investment style (value, growth, quality or momentum), size (mega, large, mid or small cap stocks) or taking a distinct view on the macro outlook (which could include thematic investment), can enhance risk because over time different factors can predominate or be out of favour and sometimes sentiment rather than fundamentals drives markets.

The portfolio construction optimiser used by Vanguard achieves these aims by applying limits on security selection to achieve the best combination of risk and return while maintaining the key risk characteristics of the benchmark. This provides investors with a portfolio that is industry group neutral which due to other constraints on exposures to individual securities, countries and factors will have an active risk (tracking error) level of between 2% and 4% per annum. Such is the rigor with which the models are constructed, no changes were made to the framework in response to the Covid-19 pandemic.

PERFORMANCE

3 year performance to 31 December 2022



Source: Vanguard Asset Management

The fund was launched in May 2016 and the underlying portfolio managers have long-term track records when it comes to managing equity income mandates. Wellington have been managing global equity income mandates for over 10 years and the Vanguard QEG team have managed a Global Enhanced Equity mandate for over 10 years which uses the same alpha model. Both have established credible track records over this timescale.

The fund has lagged slightly in markets that are driven by large growth stocks due to it having a value bias and an overweight position to companies with smaller market capitalisation. However, the fund significantly outperformed in 2022 and was the best performing fund in the IA Global Equity Income sector for that calendar year.

The combination of the Wellington Value approach and the Vanguard QEG has delivered relatively stable long-term returns for investors across a range of Vanguard equity income mandates. It results in a diversified portfolio which delivers returns from a broad opportunity set.

All active funds experience periods of underperformance and Vanguard Global Equity Income is of course no different. It is intended as a long-term core investment for those with a preference for active management and a requirement for income.

SUMMARY & EVALUATION

Vanguard Global Equity Income is a low cost, core global equity income 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 an external fund manager, Wellington Management, who manage 65% of the portfolio with the balance managed by the Vanguard Quantitative Equity Group. Wellington focus primarily on the long-term fundamentals of large cap quality companies which are temporarily out of favour. Vanguard's Quantitative Equity Group is driven by purely quantitative analysis and financial modelling with a focus on stock characteristics. The nature of the process is such that they invest further down the market cap scale than Wellington.

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 for money.

The Ongoing Charges Figure of 0.48% ensures that the fund has a significantly lower changing structure than actively managed global equity income 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 80 – 85%.

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.

NOTES

RSMR

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