Vanguard

Q1 2022

GLOBAL CREDIT BOND FUND

Quarterly update

LOW-COST ACTIVE FIXED INCOME

The Vanguard Global Credit Bond Fund is an actively managed fixed income solution investing primarily in a diversified portfolio of global investment-grade fixed income securities. The fund is managed by Vanguard's Fixed Income Group and aims to generate a diversified, consistent level of return and income over the long term.

Highlights

- Russia's invasion of Ukraine caused investors to broadly reduce risk in portfolios.
- Government bond yield curves flattened as shorter maturity bond yields rose.
- Credit spreads widened during the quarter, led by corporate high-yield bonds.
- The Vanguard Global Credit Bond Fund outperformed its index over the quarter.
- Opportunities to add value could arise more frequently as market volatility increases.

Market overview

Fixed income markets faced a challenging opening quarter of 2022. Russia's invasion of Ukraine combined with rising inflation and increasing expectations of interest rate rises by core developed market central banks continued to weigh on bond markets. The year began with concerns around inflation and tightening monetary policy as hawkish rhetoric from the US Federal Reserve (Fed) hit asset prices. Then, midway through the quarter, investors broadly reduced risk in their portfolios as markets reacted to Russia's invasion of Ukraine, the resulting sanctions imposed on Russia and the possibility of an escalation into a broader war between Western governments and Russia. Later in the period, the US Treasury yield curve briefly inverted, prompting concerns that the US could face a recession earlier than previously expected.

During the quarter, the Fed raised the federal funds rate by 25 basis points to a target range of 0.25% to 0.50% at its March policy meeting. It also signalled that further interest rate rises were likely throughout the rest of the year and suggested that it would soon begin reducing the size of its balance sheet. In Europe, the European Central Bank's (ECB's) Governing Council announced at its March meeting a quicker-than-expected reduction of its bond buying programme with its asset purchases potentially coming to an end if the medium-term inflation outlook does not weaken.

In government bond markets, less accommodative central banks as well as rising and more persistent inflation caused bond yields in many markets to move higher across the maturity spectrum and yield curves to broadly flatten as short-maturity bond yield rises outstripped those on longer maturities. This was especially the case in the US, where sharp rises in short-end yields flattened the curve. For example, US two-year Treasury yields rose 1.60% over the quarter. Similarly in Europe, two-year German Bund yields rose 0.56%, also leading to a flattening of the curve. In the UK, yields rose across the board, though curve flattening was less pronounced[1].

In corporate bond markets, spreads widened across credit markets over the quarter, reflecting the lower risk appetite, as average spreads for the Bloomberg Global Aggregate Credit index expanded by 0.23%. European and UK corporate bonds, which saw spread widening of 34 and 33 basis points respectively during the period, fared worse than US issues,

1 Vanguard and Bloomberg as at 31 March 2022.

where spreads widened by 0.24%. Spreads widened even further in higher-risk parts of the market, such as corporate high-yield and emerging market high-yield bonds, which witnessed widening of 47 and 45 basis points respectively[2].

Following several successive quarters of beating expectations, corporate earnings revisions turned negative in the first quarter of 2022. Before the invasion of Ukraine, most investment-grade corporates were showing rapid recovery from the pandemic, as evidenced by strong margin and profit growth throughout 2021. The war is expected to stall this recovery and put pressure on margins; most of the impact will likely come from rising prices in energy and raw materials. The geopolitical instability and the looming prospect of tougher economic conditions are eroding consumer confidence, weakening demand and limiting the ability of companies to pass on these increased costs.

In terms of technicals, the backdrop has been weakening, with policy support being withdrawn at a faster pace as central banks focus on curbing runaway inflation. Despite market volatility, we continue to expect that issuance in 2022 will at least be in line with that of 2021. The timing of market activity will continue to center around geopolitical headlines.

Fund performance and positioning

The Vanguard Global Credit Bond Fund returned -6.38% over the quarter. This compared with a return of -7.02% for its benchmark, the Bloomberg Global Aggregate Credit Index Hedged[3].

The fund's country selection within emerging markets, particularly underweight positioning in Russian credit and that of other Eastern European countries, positively contributed to performance. Security selection among North American investment-grade issuers, particularly within the industrial sector, also contributed to relative returns.

The fund's positioning in developed market government bonds detracted from relative returns. Positioning in European corporate bonds also weighed on returns during the period.

In terms of overall exposure, the fund entered 2022 defensively positioned. We have taken profit from a number of positions, including reducing our holdings of emerging market debt and increasing our exposure to higher-quality bonds. Amid the gradual removal of monetary easing by the Fed and other central banks, the fund continues to hold a larger liquidity position than usual, with enough available cash to access opportunities should additional volatility arise.

Outlook

Looking ahead, we remain cautious and expect further volatility as major central banks start to move away from the highly accommodative policy that has helped shape fixed income markets in recent years. Markets are anticipating that the Fed-led developed market central bank interest rate hiking cycle will likely take core government rates into restrictive territory over the next year. These tighter financial conditions could calm inflation but are still creating much uncertainty.

We remain constructive on the credit asset class, although many of the highest-quality issuers are now priced too richly, in our view, while lower-quality issuers are vulnerable to a change in market sentiment. As a result, we have maintained our reduced credit exposure of the last several months and are now focused on investment in credits that have upside potential based on improving fundamentals. Relative to more than a year ago, overweight positions in specific sectors, business models or credit-quality buckets offer little value in today's market.

In our view, this market is vulnerable to a number of potential shocks. We remain focused on identifying security-selection and relative-value opportunities, which we believe will arise more frequently as market volatility increases.

2 Vanguard and Bloomberg as at 31 March 2022.
3 Source: Bloomberg as at 31 March 2022.

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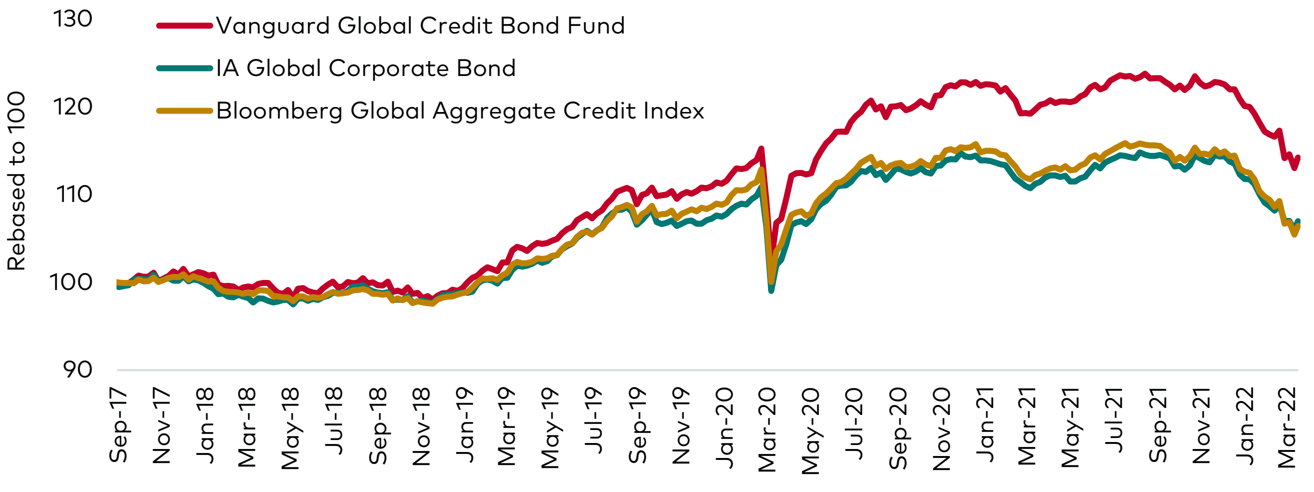
Key fund facts (as at 31 March 2022)

Investment manager: Vanguard Group
Inception date: 14 September 2017
Domicile: Ireland
Benchmark: Bloomberg Global Aggregate Credit Index
Ongoing charges figure[1]: 0.35%
Fund AUM: GBP 419m

Number of holdings: 1,349
Average coupon: 3.1%
Average maturity: 9.4 years
Average quality: A-
Average duration: 6.8 years
ISIN: IE00BYV1RG46

Fund performance since inception (as at 31 March 2022)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	-6.38	-6.38	-4.23	3.16	--	2.97
Peer Group	-5.35	-5.35	-3.29	1.04	0.94	0.80
Benchmark	-7.02	-7.02	-5.10	1.31	1.75	1.38

Year on year (%)	1 Apr 2017 - 31 Mar 2018	1 Apr 2018 - 31 Mar 2019	1 Apr 2019 - 31 Mar 2020	1 Apr 2020 - 31 Mar 2021	1 Apr 2021 - 31 Mar 2022
Fund	--	4.24	3.24	11.03	-4.23
Peer Group	-2.50	5.31	3.10	4.10	-3.29
Benchmark	1.55	3.29	1.99	7.44	-5.10

Past performance is not a reliable indicator of future results.
Source: Vanguard and Morningstar, as at 31 March 2022. Peer group is IA Global Corporate Bond. Performance figures include the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares. Basis of fund performance NAV to NAV. Basis of index performance is total return. All performance is calculated in GBP, net of fees, and the return may increase or decrease as a result of currency fluctuations.

[1]The Ongoing Charges Figure (OCF) covers the fund manager's costs of managing the fund. It does not include dealing costs or additional costs such as audit fees.

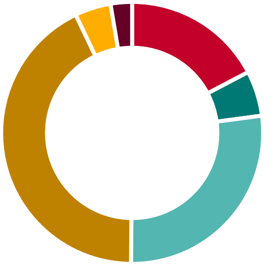
Fund breakdown (as at 31 March 2022)

Distribution by issuer (% of bonds)

	Fund %
Industrials	37.7
Financial institutions	33.3
Treasury/federal	19.2
Utilities	5.5
Sovereign	5.4
Agencies	1.5
Other	0.1
Provincials/municipals	0.0
Commercial mortgage-backed security	0.0
Asset-backed security	0.0
Cash	-2.9
Local authority	0.0
Supranational	0.0

The allocations are subject to circumstances such as timing differences between trade and settlement dates of underlying securities, that may result in negative weightings. The fund may also employ certain derivative instruments for cash management or risk management purposes that may also result in negative weightings. Allocations are subject to change. Cash includes physical cash on the account, cash like instruments (such as ultra-short term treasury bonds) and derivative instruments.

Distribution by credit quality (% of bonds)



AAA	18.3
AA	5.9
A	28.8
BBB	45.2
Less than BBB	4.7
NR	-2.8

Credit quality ratings for each issue are obtained from Bloomberg using ratings derived from Moody's Investors Service, Fitch Ratings, and Standard & Poor's. When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Source: Vanguard, as at 31 March 2022.

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.

Past performance is not a reliable indicator of future results.

Some funds invest in emerging markets which can be more volatile than more established markets. As a result the value of your investment may rise or fall.

Investments in smaller companies may be more volatile than investments in well-established blue chip companies.

Funds investing in fixed interest securities carry the risk of default on repayment and erosion of the capital value of your investment and the level of income may fluctuate. Movements in interest rates are likely to affect the capital value of fixed interest securities. Corporate bonds may provide higher yields but as such may carry greater credit risk increasing the risk of default on repayment and erosion of the capital value of your investment. The level of income may fluctuate and movements in interest rates are likely to affect the capital value of bonds.

The Vanguard Global Credit Bond Fund may use derivatives, including for investment purposes, in order to reduce risk or cost and/or generate extra income or growth. For all other funds they will be used 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 Funds net asset value. A derivative is a financial contract whose value is based on the value of a financial asset (such as a share, bond, or currency) or a market index.

Some funds invest in securities which are denominated in different currencies. Movements in currency exchange rates can affect the return of investments.

For further information on risks please see the "Risk Factors" section of the prospectus on our website at https://global.vanguard.com.

Important information

This is a marketing communication.

For professional investors only (as defined under the MiFID II Directive) investing for their own account (including management companies (fund of funds) and professional clients investing on behalf of their discretionary clients). In Switzerland for professional investors only. Not to be distributed to the public.

For further information on the fund's investment policies and risks, please refer to the prospectus of the UCITS and to the KIID before making any final investment decisions. The KIID for this fund is available in local languages, alongside the prospectus via Vanguard's website https://global.vanguard.com/

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