

GLOBAL EMERGING MARKETS FUND

Quarterly update

LOW-COST ACTIVE
EQUITY

Vanguard Global Emerging Markets Fund is an actively managed fund. Three traditional, bottom-up active managers, each with a complementary style, are blended together to deliver long-term capital growth in a core emerging markets fund. Pzena is a deep value manager, Oaktree is a core manager and Baillie Gifford is a growth manager.

Highlights

- Emerging equity markets fell and lagged developed markets.
- Cyclical sectors recorded a strong performance.
- Value stocks led growth stocks in emerging markets.
- The Vanguard Global Emerging Markets Fund underperformed its benchmark index.
- Pzena outperformed the benchmark.

Market overview

Global equity markets had a turbulent quarter with the FTSE Developed World Index finishing in positive territory while the FTSE Emerging Market Index posted a negative return.

Developed equity markets were strong throughout much of the quarter before selling off into quarter-end. Sentiment deteriorated as the Covid-19 Delta variant continued to spread, high inflation readings in some economies (including the US) began to look as if they might persist for a while, and worries surfaced about contagion from debt issues in the Chinese property sector.

Emerging markets were weak throughout the quarter. China and Brazil detracted from the emerging equities index, while India and Russia contributed positively. In terms of investment styles globally, growth stocks outperformed value in the third quarter for developed markets, but value roared back (relative to growth) during the September market sell-off. In emerging markets, value led growth over the quarter driven primarily by a sell-off in Chinese technology and consumer discretionary stocks due to regulatory concerns.

Performance and positioning

The Vanguard Global Emerging Markets Fund returned -5.65% over the quarter and underperformed its benchmark, the FTSE Emerging Net Tax (UK UCITS) Index, which returned -4.42%¹.

Pzena's portfolio outperformed, while the Oaktree and Baillie Gifford portfolios trailed the benchmark.

Pzena's outperformance was driven by security selection in technology and an underweight position in China.

Oaktree's underperformance was driven by security selection in financials, which was partially offset by its underweight position in the technology sector. The team's exposure to value stocks contributed positively to performance and further offset overall security selection.

Security selection was also the main driver behind the underperformance of Baillie Gifford's portfolio, led by materials and financials, as well as an overweight exposure to consumer discretionary.

The top contributors held in the portfolio this quarter were Russian companies Lukoil and Sberbank. The largest detractors were Chinese firms Galaxy Entertainment and Ping An.

¹ Source: Vanguard, as at 30 September 2021.

Shares of financial services firm Sberbank rose as a beneficiary of Russia's economic growth as well as robust operational performance. The company posted strong revenue and profit growth in the third quarter. The firm also disclosed its first environmental, social and governance (ESG) policy and plans to start installing solar-energy panels at branches to cover more than 20% of its electric consumption. By 2030, Sberbank aims for its branches to become carbon neutral.

Lukoil's share price increased as the price of energy remained high, benefitting from elevated oil prices.

Shares in Galaxy, a Macau casino operator, fell after a new regulatory framework was announced in September. Although there were no major surprises in the announcement, the entire sector came under significant pressure as investors worried about increased regulation. Covid-19 travel restrictions also weighed on the shares.

Leading Chinese insurer Ping An's share price has been weak for much of the year, weighed down by negative sentiment surrounding the Chinese real estate sector. Looking at fundamentals, the company continues to execute well, reporting financial results ahead of expectations and increasing its dividend payout.

Activity

Pzena initiated a position in Chinese online retailer Alibaba, citing the stock's recent weakness as an opportunity to buy at what it believes to be an attractive price. Meanwhile, the team sold its position in China Resources Power Holdings to fund more attractive opportunities elsewhere.

Oaktree and Baillie Gifford both participated in the initial public offering of Brazilian firm Raizen, which produces sugar, ethanol and biofuels, with related businesses in fuel distribution and retail.

Oaktree sold its position in Chinese appliances manufacturer Gree on the grounds of poor governance after the firm completed an acquisition of a company that is partially owned by the board chair.

Oaktree saw that as a meaningful ESG violation and, as a result, divested from the asset.

Baillie Gifford sold its position in Indian life insurer ICICI Prudential to increase its position in domestic rival HDFC Life, which the team believes has better scale and benefits from its relationship with parent company HDFC Group and its distribution channels.

Outlook

Pzena's team expects value-driven opportunities to materialise in response to short-term controversies and associated market panics, namely moves by Chinese regulators in response to developments at embattled domestic property company Evergrande. The team sees attractive fundamental valuations in the cheapest quintile of stocks, and is highly energised by its portfolio and opportunities in its research pipeline.

Oaktree believes inflation may persist above target levels for longer than the market expects, in part because of shortages in supply chains caused by years of under-investment, which have been exacerbated by Covid-19 disruptions. Additionally, the price of Brent oil is back above pre-pandemic levels at more than \$80 per barrel of oil. As such, the team remains overweight in the cyclical sectors, including materials, financials and energy, while it maintains its belief that countries like Brazil and Russia will benefit from high commodity prices.

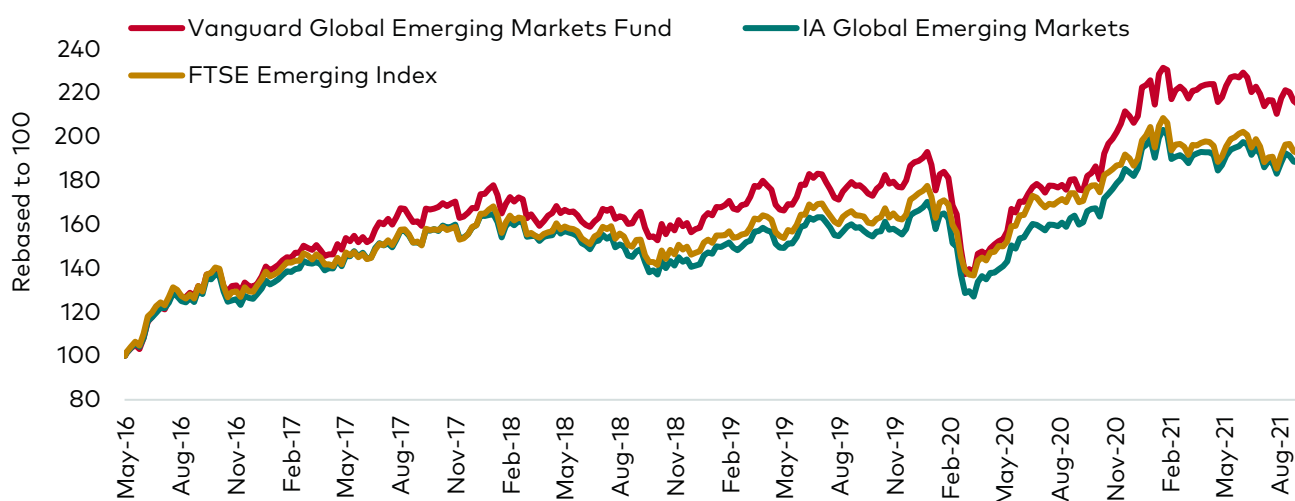
Baillie Gifford's team believes recent interventions by the Chinese regulators signal a more proactive response to dealing with the global challenge of regulating the highly innovative digital sector. The country's shifting focus towards 'common prosperity' and sustainable growth means that some companies will see their prospects dimmed (perhaps temporarily, perhaps permanently), while new opportunities could also emerge in areas like semiconductors, advanced materials and alternative energy, for example. Ultimately, the team still sees China as an opportunity for thoughtful, long-term investors.

Key fund facts (as at 30 September 2021)

Investment manager: Baillie Gifford Overseas Ltd.
Oaktree Capital Management, L.P., Pzena Investment Management, LLC
Inception date: 25 May 2016
Domicile: United Kingdom
Benchmark: FTSE Emerging Index
Ongoing charges figure¹: 0.78%

Fund AUM: GBP 305m
Number of holdings: 172
Median market cap: GBP 25.1B
PE ratio: 11.3X
Equity yield (dividend): 2.8%
ISIN: GB00BZ82ZY13

Fund performance since inception (as at 30 September 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	3.09	-5.65	22.73	9.20	10.69	15.47
Peer group	0.31	-5.44	15.79	8.38	8.16	12.73
Benchmark	2.26	-4.42	13.73	8.26	8.45	13.20

Year on year (%)	1 Oct 2016 - 30 Sep 2017	1 Oct 2017 - 30 Sep 2018	1 Oct 2018 - 30 Sep 2019	1 Oct 2019 - 30 Sep 2020	1 Oct 2020 - 30 Sep 2021
Fund	22.72	4.00	7.00	-0.84	22.73
Peer group	18.33	-1.76	6.14	4.16	15.79
Benchmark	16.24	1.70	6.84	4.42	13.73

Past performance is not a reliable indicator of future results.

Source: Vanguard and Morningstar, as at 30 September 2021. Peer group is IA Global Emerging Markets. 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.

¹The 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.

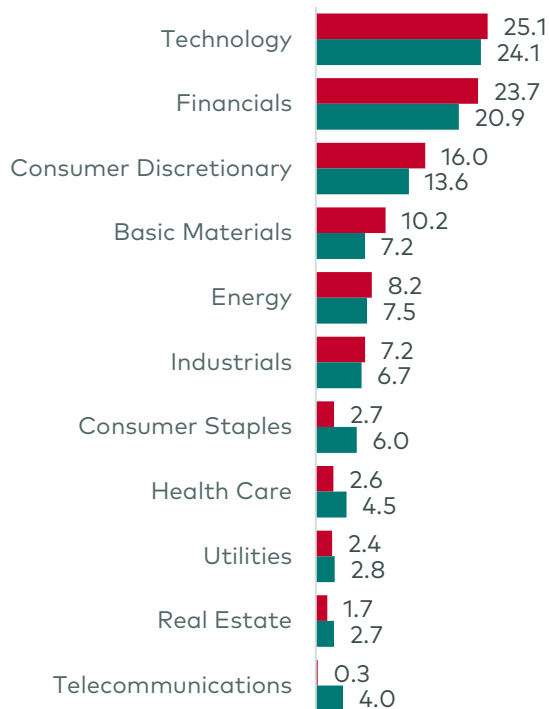
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Top 10 fund holdings (% exposure, as at 30 September 2021)

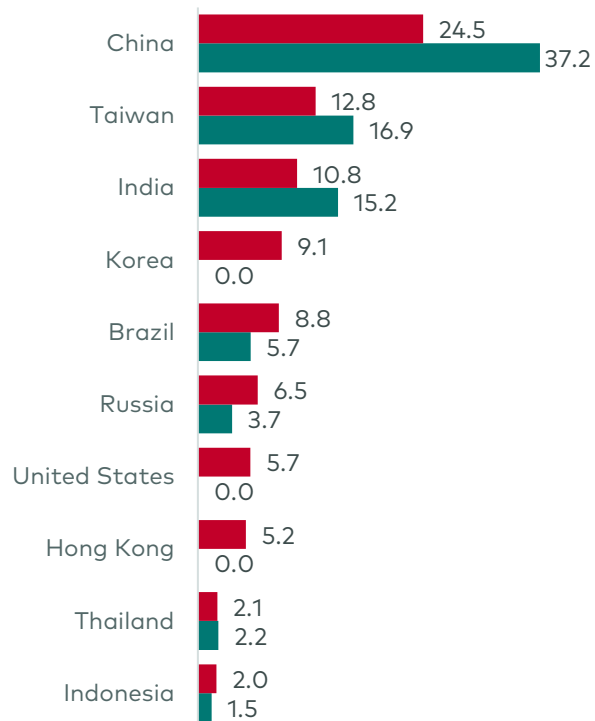
Company	%
Taiwan Semiconductor Manufacturing Co. Ltd.	6.3
Alibaba Group Holding Ltd.	2.8
Reliance Industries Ltd.	2.6
Samsung Electronics Co. Ltd.	2.4
LUKOIL PJSC	2.4
Sberbank of Russia PJSC	2.3
Petroleo Brasileiro SA	2.1
Tencent Holdings Ltd.	1.9
Hon Hai Precision Industry Co. Ltd.	1.7
ICICI Bank Ltd.	1.4

Breakdown (as at 30 September 2021)

Sector exposure (%)



Region exposure (%)



■ Fund ■ Benchmark

Source: Vanguard, as at 30 September 2021.

Performance analysis

Top contributors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Tencent Holdings Ltd.	1.9	5.0	-19.2	0.60
Alibaba Group Holding Ltd.	2.8	3.7	-33.9	0.50
Vale S.A.	0.0	0.8	-29.0	0.30
Sberbank Russia PJSC	2.3	0.7	15.8	0.30
Oil Co. LUKOIL PJSC	2.4	0.0	8.5	0.30

Top detractors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Galaxy Entertainment Group Limited	1.2	0.0	-34.2	(0.50)
Vale S.A.	1.0	0.0	-31.0	(0.40)
Ping An Insurance (Group) Company of China Ltd.	0.9	0.7	-27.1	(0.20)
SK hynix Inc.	0.9	0.0	-21.3	(0.20)
Public Joint-Stock Company Gazprom	0.0	0.7	37.1	(0.20)

Top contributors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Alibaba Group Holding Ltd.	2.8	3.7	-50.7	2.60
Tencent Holdings Ltd.	1.9	5.0	-13.7	0.90
ICICI Bank Limited	1.4	0.2	84.5	0.80
Sberbank Russia PJSC	2.3	0.7	74.3	0.60
Oil Co. LUKOIL PJSC	2.4	0.5	63.7	0.60

Top detractors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Galaxy Entertainment Group Limited	1.2	0.0	-26.5	(0.60)
Public Joint-Stock Company Gazprom	0.0	0.7	124.3	(0.40)
Ping An Insurance (Group) Company of China Ltd.	0.9	0.7	-33.6	(0.40)
AngloGold Ashanti Limited	0.6	0.1	-40.5	(0.30)
Wuxi Biologics (Cayman) Inc.	0.0	0.8	92.1	(0.30)

Past performance is not a reliable indicator of future results.

The portfolio attribution data shown above is provided by FactSet based on information provided by Vanguard about the fund's daily portfolio holdings as of the market close. Because the fund buys and sells stocks throughout the trading day and not necessarily at the market close, the attribution data shown above is an estimate and may not precisely reflect actual attribution information.

Source: FactSet, as at 30 September 2021. FactSet is a holdings-based attribution tool. Portfolio transactions are valued at closing price, which may cause some slight deviations with the fund return (based on NAV).

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.

Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only.

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

The Funds may use derivatives in order to reduce risk or cost and/or generate extra income or growth. The use of derivatives could increase or reduce exposure to underlying assets and result in greater fluctuations of the Fund's net asset value. A derivative is a financial contract whose value is based on the value of a financial asset (such as a share, bond, or currency) or a market index.

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

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

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For further information on the fund's investment policy, please refer to the Key Investor Information Document ("KIID"). The KIID and the Prospectus for the fund(s) is available from Vanguard via our website <https://global.vanguard.com/>

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