Vanguard

Q3 2021

GLOBAL EQUITY INCOME FUND

Quarterly update

LOW-COST ACTIVE EQUITY

Vanguard Global Equity Income Fund is an actively managed core fund. Its two independent sub-advisers follow distinct, yet complementary approaches in managing the Fund's assets. Wellington is a traditional bottom-up manager, while Vanguard's Quantitative Equity Group utilises a quantitative approach to find securities with an attractive combination of quality, valuation and yield.

Highlights

- Developed equity markets moved higher.
- Growth stocks retained leadership over value stocks.
- High yielding dividend stocks underperformed the broader market.
- The Vanguard Global Equity Income Fund underperformed its benchmark index.
- Both managers continue to find investment opportunities.

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. The US, Japan and the UK contributed the most to the developed equity markets index. China and Brazil detracted from the emerging markets equities index. In terms of investment styles, growth stocks outperformed value in the third quarter for developed markets, but value roared back (relative to growth) during the September market sell-off. Value led growth in emerging markets over the course of the review period.

Fund performance

The Vanguard Global Equity Income Fund returned 1.68% over the quarter but underperformed its benchmark, the FTSE Developed Net Tax Index (in GBP), which returned 2.16%[1].

As an income-focused fund, the underperformance this quarter was not surprising as high-dividend stocks trailed the broader market.

The fund's overweight exposure to high-yielding and value stocks detracted from performance. Security selection also had a negative effect, led by holdings in consumer discretionary and technology. An overweight position and strong security selection in financials contributed positively to performance. Both managers underperformed this quarter.

In terms of individual stocks held by the fund, Sands China, a Macau-based resort developer and operator, and ENN, a Chinese gas firm, were the largest detractors. French insurer AXA and US pharmaceuticals company Pfizer were the top contributors.

[1] Source: Vanguard, as at 30 September 2021.

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Shares of Sand China ended the period lower as the company's path to recovery continued to be hindered by Covid-19 and related restrictions. The shares also reacted to an announcement by China's government regarding general guidelines around the renewal of gaming licenses. The Wellington portfolio manager, Andre J. Desautels, believes the market has overacted to these new guidelines, which they do not expect to materially alter the profitability and growth of the firm's operations.

ENN's share price fell as liquified natural gas (LNG) prices skyrocketed amid a growing global supply shortage, putting some short-term pressure on utility margins. The stock was also affected by the broader drop in Chinese markets. Desautels continues to like ENN as he believes that China's transition from coal to gas offers a long runway of high and stable earnings growth. In addition to being strategically placed in the gas value chain and leading energy efficiency improvements in China, the ENN management team continues to demonstrate excellent execution. The manager believes that this should help position the company to succeed as part of China's long-term energy transition plan.

An underweight position to Apple relative to the benchmark detracted from returns while an underweight position to Amazon contributed positively to fund performance.

Activity

Wellington, which runs a low-turnover portfolio, added to its existing position in US pharmaceutical group Merck. The team made no sizeable sales in the quarter.

Wellington's decision to increase the portfolio's holding in Merck stems from its belief that the pharmaceutical sector is attractively valued, given short-term concerns over drug price reform in the US. The investment team expects regulatory outcomes to be quite manageable for the industry and more benign than feared. Merck has a robust portfolio of pharmaceutical products, which help it to drive strong sales growth as it expands to maturity with an increased international presence. The firm's management team has also demonstrated a very disciplined approach to acquisitions that can gradually supplement its current pipeline of drugs.

Vanguard's Quantitative Equity Group's activity is driven by technical analysis of individual stocks in its model. The team added property developer and manager Hongkong Land Holdings and technology conglomerate Samsung Securities to its portfolio, while positions in financial firms Nordea Bank and Aviva were sold out entirely.

Outlook

Desautels' team believes broad equity market valuations remain elevated and reflect the market's complacency towards certain risks that, in combination, could see inflation readings persist at elevated levels. The team identifies supply chain bottlenecks and high levels of debt globally as reasons to be more cautious on inflation.

The market's belief that inflation pressures are transitory, based on the notion that current supply chain bottlenecks and labour shortages will be short-lived, is especially optimistic, according to Desautels. His team remains more cautious and believes current inflation levels might be here for longer than the market has been accustomed to over the past 40 years. Several factors have led them to this view: firstly, that changing demographics resulting from the unfortunate effects of the Covid-19 pandemic has led to a labour pool shrinkage that could drive more lasting upward wage pressures. Secondly, current bottlenecks and geo-politics will encourage more regional diversification and buffers to be built in corporate supply chains. Thirdly, Europe is emerging from a decade-long, post debt-crisis period of deflation pressures back to a higher inflation environment and facing acute energy costs spikes. In combination, these factors could lead to more persistent levels of inflation, driving interest rates higher and increasing pressure on corporate margins, particularly on businesses that don't have enough pricing power to counteract rising input costs.

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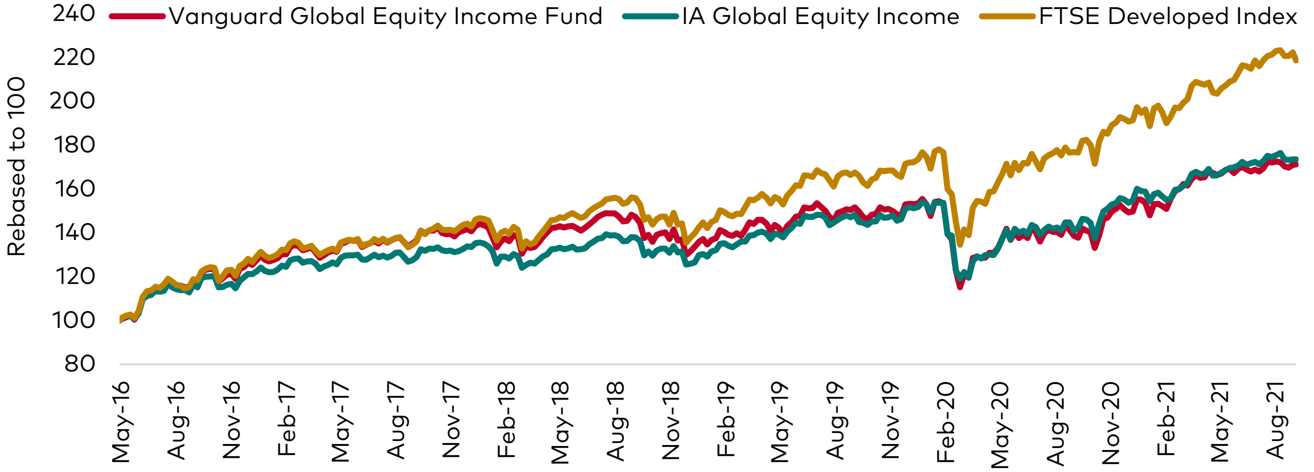
Key fund facts (as at 30 September 2021)

Investment managers: Vanguard Quantitative Equity Group, Wellington Management Company LLP
Inception date: 25 May 2016
Domicile: United Kingdom
Benchmark: FTSE Developed Index
Ongoing charges figure[1]: 0.48%

Fund AUM: GBP 81m
Number of holdings: 132
Median market cap: GBP 55.5B
PE ratio: 13.3X
Equity yield (dividend): 3.5%
ISIN: GB00BZ82ZW98

Fund performance since inception (as at 30 September 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	14.42	1.68	24.21	5.17	7.67	10.57
Peer group	11.99	1.44	21.25	7.62	8.40	10.60
Benchmark	14.23	2.16	23.53	11.96	13.08	15.74

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	15.47	7.75	2.97	-9.05	24.21
Peer group	12.44	7.93	6.87	-2.92	21.25
Benchmark	15.12	14.45	7.62	5.56	23.53

Past performance is not a reliable indicator of future results.
Source: Vanguard and Morningstar, as at 30 September 2021. Peer group is IA Global Equity Income. 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.

[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.

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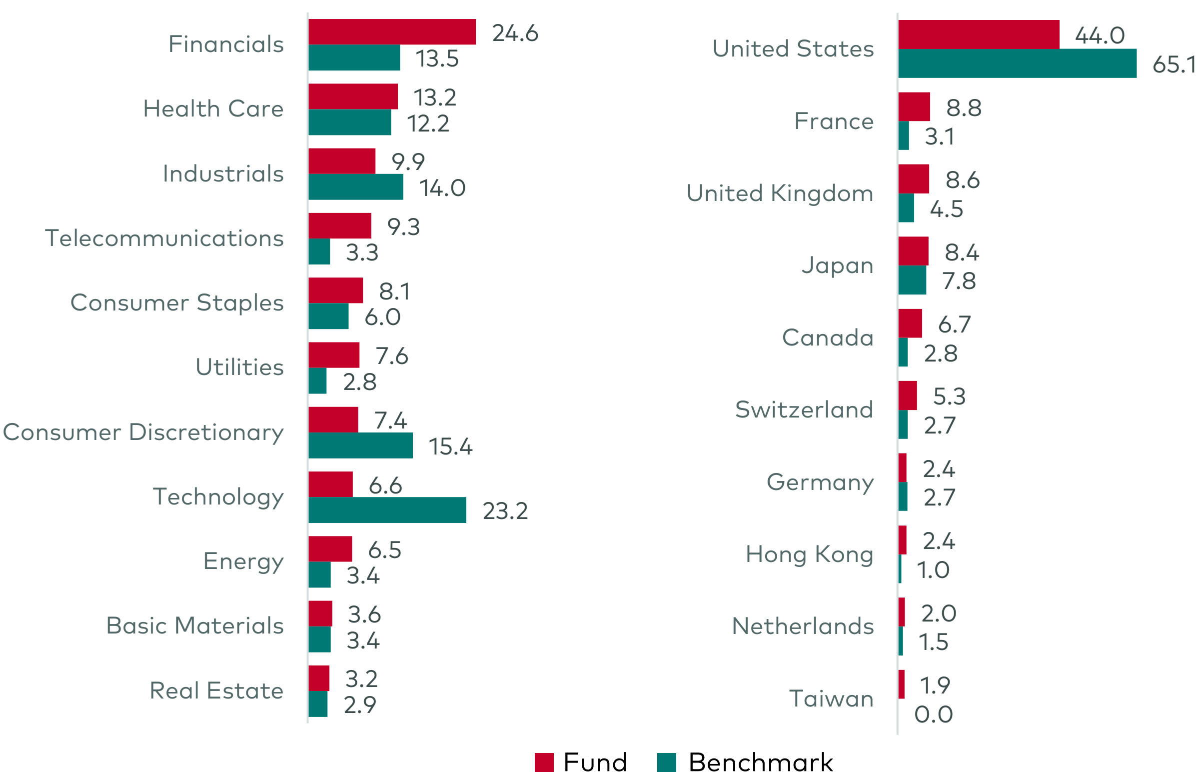
Top 10 fund holdings (% exposure, as at 30 September 2021)

Company	%
Philip Morris International Inc.	2.3
Pfizer Inc.	2.2
Bank of America Corp.	2.2
Bank of Nova Scotia	1.9
AstraZeneca plc	1.9
AXA SA	1.9
Verizon Communications Inc.	1.9
Taiwan Semiconductor Manufacturing Co. Ltd.	1.8
UBS Group AG	1.7
Royal Bank of Canada	1.6

Breakdown (as at 30 September 2021)

Sector exposure (%) **Region exposure (%)**



Source: Vanguard, as at 30 September 2021.

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Performance analysis

Top contributors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Pfizer Inc.	2.3	0.4	13.6	0.20
AXA SA	1.9	0.1	12.8	0.20
Tokio Marine Holdings Inc.	1.5	0.1	22.3	0.20
Hellenic Telecommunications Organization SA	1.1	0.0	14.8	0.10
Amazon.com Inc.	0.0	2.4	-2.2	0.10

Top detractors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Sands China Ltd.	0.4	0.0	-50.0	(0.40)
Alphabet Inc.	0.0	2.6	10.6	(0.20)
ENN Energy Holdings Limited	0.9	0.0	-11.2	(0.10)
Rio Tinto Plc	1.2	0.1	-11.5	(0.10)
Apple Inc.	0.0	3.7	6.0	(0.10)

Top contributors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Amazon.com Inc.	0.0	2.4	0.0	0.60
Bank of America Corporation	2.2	0.5	72.4	0.60
Bank of Nova Scotia	2.0	0.1	50.0	0.40
DNB Bank ASA	1.4	0.0	70.1	0.40
AXA SA	1.9	0.1	53.8	0.40

Top detractors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Alphabet Inc.	0.0	2.6	74.5	(0.90)
Sands China Ltd.	0.4	0.0	-48.8	(0.60)
Verizon Communications Inc.	1.9	0.4	-9.1	(0.50)
Progressive Corporation	1.3	0.1	-3.7	(0.40)
Novartis AG	1.4	0.3	-5.7	(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).

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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.

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.

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.

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 Vanguard Global Equity Income Fund - Charges are deducted from capital (not income). Whilst this may increase the level of income paid, it will result in capital erosion and will constrain growth

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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