

VANGUARD ACTIVE U.K. EQUITY FUND

LOW-COST ACTIVE
EQUITY

Quarterly Update

Vanguard Active U.K. Equity Fund is an actively managed fund. Two traditional, bottom-up active managers, each with a complementary style, are blended together to create a core mid-cap UK equity holding in a well-constructed, long-term investment portfolio. Ballie Gifford in Edinburgh seeks to identify market leading companies with above-average cash flow and earnings growth. Marathon Asset Management looks for companies with strong capital discipline in industries with attractive supply and demand dynamics.

Highlights

- UK equities generated positive returns.
- Energy and materials led the UK market.
- Value outperformed growth.
- The Vanguard Active U.K. Equity Fund underperformed its index.
- Both managers of the sub-portfolios remain focused on company fundamentals.

Market overview

Volatility surged as Russia's invasion of Ukraine and rising inflationary pressures dominated global equity markets in the first quarter of 2022. In January, rising prices and the prospect of less accommodative monetary policy were already weighing on market sentiment. By the end of February, Russia's invasion of Ukraine had injected substantial uncertainty into global equity markets. Energy prices soared, helping to push consumer prices to multi-decade highs across much of the world. Some central banks, including those in the US and UK, raised short-term interest rates. The European Central Bank (ECB) continued to reduce its bond purchases, and financial markets expected the ECB to raise interest rates later this year. Global stocks regained some ground in March but finished the quarter in negative territory, with European and emerging market stocks among the laggards. The UK equity market was a beacon, finishing in positive territory due to its exposure in cyclical sectors, such as materials and energy, as well as high dividend-paying stocks. The rising interest rate environment helped value stocks to largely outperform growth stocks.

Performance

The Vanguard Active U.K. Equity Fund returned -10.76% over the quarter and underperformed its benchmark, the FTSE All-Share Index (in GBP), which returned +0.49%¹.

Security selection was the main detractor, led by Baillie Gifford. At the fund level, security selection in health care was the largest detractor, while security selection in materials was the largest contributor. An overweight to technology and the fund's smaller cap and growth bias also detracted.

Marathon's underperformance was driven almost equally by sector allocation and security selection. An overweight allocation to consumer discretionary detracted as well as security selection in financials and technology. This was partially offset by security selection in materials and industrials, which contributed positively.

At the individual stock level, the largest held detractors were UK real estate portal Rightmove and online classifieds site Baltic Classifieds. The top held contributors were Australian metals, mining and petroleum firm BHP and an underweight position in UK consumer goods conglomerate Unilever.

¹ Source: FTSE and Vanguard, as at 31 March 2022.

After a strong run since the start of the pandemic, shares in Rightmove fell during the quarter. Baillie Gifford has been carefully reviewing the outlook for the business and believes Rightmove will need to continue to innovate to provide value-add for customers over the long term. Taking this into account, Baillie Gifford decided to reduce the holding size to better reflect the team's conviction in Rightmove's long-term outlook.

Shares in Baltic classifieds have struggled in 2022 to date owing to the conflict in Ukraine. The company is based in Latvia and there was a concern that Russia's military campaign could expand and impact the business's key markets, which spooked investors.

The portfolio's more economically sensitive assets held up well during the quarter, such as BHP. The company noted record annual profits, driven by soaring commodity prices as industrial activity returned to all regions of the world following pandemic-induced lockdowns.

Unilever is an underweight position in the portfolio and its fall was a relative benefit to the portfolio's performance. The business, in common with peers, is struggling to deal with the current spike in input inflation.

Activity

Both portfolio teams employ low-turnover strategies.

There were no significant purchases or sales by Marathon in the quarter.

Baillie Gifford initiated a position in UK online fashion retailer Boohoo, which has a multi-brand strategy targeting different consumer demographics. Baillie Gifford believes the company's brands benefit from the group's nimble, test-and-repeat business model, which ensures leading selection and newness, as well as its core skill set in marketing and attractive pricing. Over the past couple of years, Boohoo has significantly strengthened its management of environmental, social and

governance risks and, in some areas, is now industry-leading. Baillie Gifford sees scope for continued strong market-share gains in the large and fragmented global fashion market and believes the shares are attractively valued.

The team at Baillie Gifford sold its position in UK chemicals and sustainable technologies company Johnson Matthey. Baillie Gifford cited increased long-term risks around the company's future growth prospects given the disruptive changes within the automotive industry. The team is also less convinced by the likelihood of success and growth of the other business divisions, including its process technologies division (catalysts for a broad range of industrial processes).

Outlook

Given the uncertainties brought about by the pandemic, Marathon believes forward-looking expectations are less reliable than normal. Inaccuracy and uncertainty are part of the reason that Marathon does not engage in economic forecasting, or pay a great deal of attention to the forecasts of others.

A central tenet to Baillie Gifford's investment approach is that, over the long term, growth ultimately drives share price performance. While acknowledging sentiment has moved against their holdings and the market's time horizon has shortened, the team believes it must remain steadfast in its long-term, bottom-up investment approach.

Key fund facts (as at 31 March 2022)

Investment manager: Baillie Gifford Overseas Ltd,
Marathon Asset Management LLP

Inception date: 15 October 2019

Domicile: United Kingdom

Benchmark: FTSE All-Share Index

Ongoing charges figure¹: 0.45%

Fund AUM: GBP 41 m

Number of holdings: 119

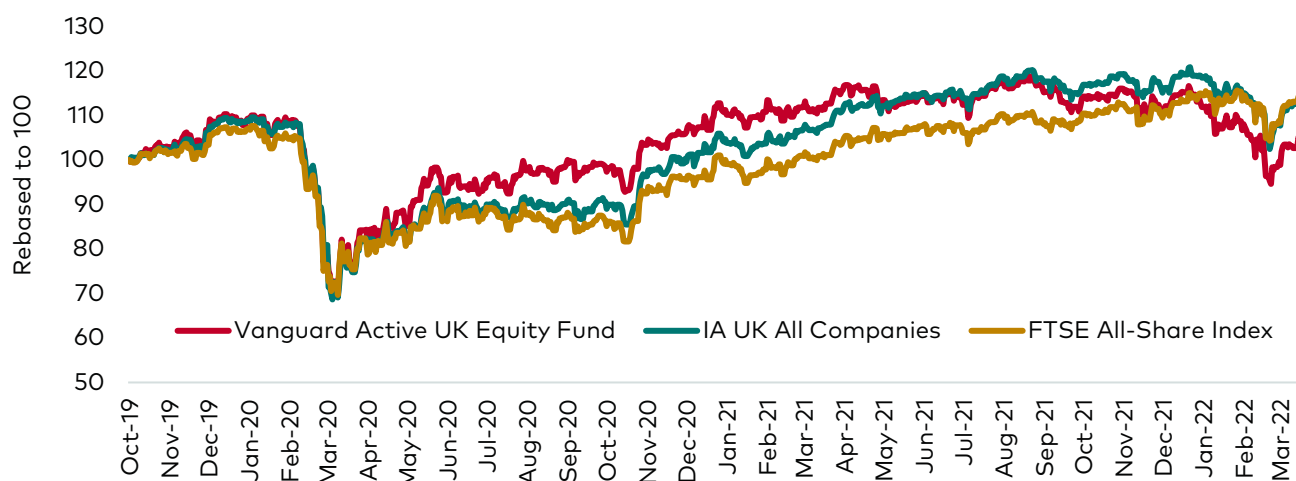
Median market cap: GBP 6.8B

PE ratio: 14.6X

Equity yield (dividend): 2.7%

ISIN: GB00BK1XRK60

Fund performance since inception (as at 31 March 2022)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	-10.76	-10.76	-7.70	--	--	1.11
Peer Group	-4.96	-4.96	5.13	5.09	4.11	12.19
Benchmark	0.49	0.49	13.03	5.31	4.69	5.36

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	--	--	--	37.69	-7.70
Peer Group	2.72	3.40	-19.08	38.11	5.13
Benchmark	1.25	6.36	-18.45	26.71	13.03

Past performance is not a reliable indicator of future results.

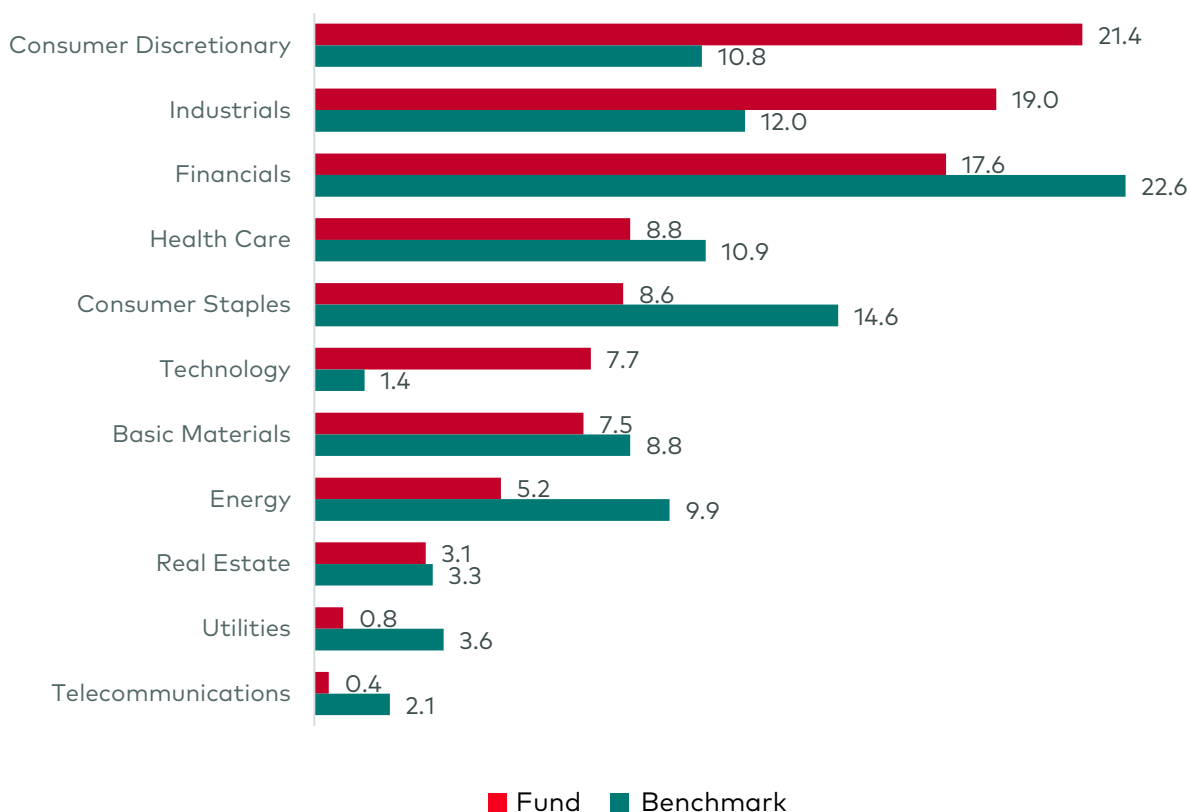
Source: Vanguard and Morningstar, as at 31 March 2022. Peer group is IA UK All Companies. Performance figures include the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption of 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.

Top 10 fund holdings (% exposure, as at 31 March 2022)

Company	%
Diageo plc	3.2
Rightmove plc	2.8
Experian plc	2.8
Rio Tinto	2.7
BP plc	2.6
HomeServe plc	2.5
Glencore plc	2.2
Auto Trader Group plc	2.1
Games Workshop Group plc	2.0
BHP Group Ltd.	1.9

Sector exposure (% , as at 31 March 2022)



Source: Vanguard, as at 31 March 2022.

Performance analysis

Top contributors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
BHP Group Limited	1.9	0.0	31.7	0.4
Unilever PLC	0.8	3.6	-11.6	0.4
Scottish Mortgage Investment Trust PLC	0.0	0.6	-23.3	0.2
Ferguson Plc	0.0	0.9	-20.3	0.2
CRH Plc	0.0	1.0	-19.3	0.2

Top detractors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Shell plc	1.8	6.6	31.7	-1.10
Rightmove plc	3.0	0.2	-20.4	-1.00
Baltic Classifieds Group Plc	1.3	0.0	-45.3	-1.00
AstraZeneca PLC	0.0	6.4	18.7	-0.90
HSBC Holdings Plc	0.0	4.4	20.5	-0.70

Top contributors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Prudential plc	0.7	1.3	-23.3	0.60
BHP Group Limited	1.9	0.0	31.7	0.40
Associated British Foods plc	0.0	0.2	-29.7	0.10
Mondi plc	0.0	0.3	-17.2	0.10
Bunzl plc	1.3	0.4	30.7	0.10

Top detractors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Johnson Matthey Plc	0.4	0.1	-36.0	-0.60
Baltic Classifieds Group Plc	1.3	0.0	-30.4	-0.60
HSBC Holdings Plc	0.0	4.4	29.4	-0.50
Games Workshop Group PLC	2.0	0.1	-24.8	-0.50
Schroders plc	0.0	0.0	-18.3	-0.40

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 31 March 2022. 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.

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 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, alongside the prospectus via Vanguard's website <https://global.vanguard.com/>

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