

ACTIVE U.K. EQUITY FUND

Quarterly update

LOW-COST ACTIVE
EQUITY

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 seek to identify market leading companies with above average cash flow and earnings growth. Marathon Asset Management look for companies with strong capital discipline in industries with attractive supply and demand dynamics.

Highlights

- UK equities generated positive returns.
- Energy stocks drove the market.
- High beta stocks outperformed the market.
- The Vanguard Active U.K. Equity Fund underperformed its benchmark index.
- Both managers of the sub-portfolios remain focused on company fundamentals.

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.

Performance

The Vanguard Active U.K. Equity Fund returned 0.40% in the third quarter of 2021 and underperformed its benchmark, the FTSE Developed Index (in GBP), which returned 2.23%¹.

Marathon outperformed the benchmark while Baillie Gifford underperformed and security selection was ultimately a detractor for both. However, Baillie Gifford offset some of the negative effect from its security selection with positive sector allocation.

For Marathon, which invests in both growth and value stocks, its outperformance was driven by financial and industrial sector exposures.

In the case of Baillie Gifford, which invests in growth stocks, its underperformance was led by security selection in the consumer discretionary space.

The largest detractors in the portfolio were ASOS and Ocado, while the top held contributors were Trainline and Rightmove.

¹ Source: FTSE and Vanguard, as at 30 September 2021.

ASOS, the online fashion business, is now running into comparisons with last year, when a fall in product returns during lockdown helped improve revenues and profits. There have also been a few minor issues for ASOS around well-documented cost pressures in freight, shipping and general supply chains. Broadly speaking, the business has continued to perform well and deliver growth in what remains a very large market globally in younger online fashion.

Ocado has also been running into hard comparisons with the exceptional period at the height of lockdown conditions last summer, which will tend to distort year-on-year growth rates for a while. On the whole, the business has continued to perform well throughout the pandemic, and importantly it has been rolling out its international licensing agreements.

Baillie Gifford has been engaged with management at Trainline since the UK government's surprise announcement in May of its intention to establish a new centralised, publicly-owned ticketing system under a new 'Great British Railways' brand. Whilst there is still considerable uncertainty as to how this will play out, the news on Trainline has improved. Evidence of a recovery in volumes and a significant jump in the sales of e-tickets has been encouraging as consumer demand starts to normalise. There are also welcome signs that the company could be involved in assisting the systems set-up for the new government venture.

Shares in Rightmove continued to climb higher boosted by the strong UK real estate environment. The fund's underweight position to HSBC contributed positively to relative returns while an underweight to Royal Dutch Shell detracted.

Activity

Both portfolio teams employ low-turnover strategies. During the period, Baillie Gifford initiated a new position in marketing firm 4imprint and exited its holding in engineering multinational Wood Group. Both managers initiated a position in Baltic Classifieds Group, an advertising software company. Marathon did not make any significant sells in the quarter.

4imprint distributes logo-printed promotional products used by businesses as a form of advertising or as gifts to customers and employees. It operates primarily in the US with a smaller position in the UK. The market is large and highly fragmented and 4imprint has consistently grown faster than the market by taking business from its smaller competitors. Baillie Gifford believes that this growth is set to continue, which, combined with strong financial characteristics, makes it an attractive investment.

Baltic Classifieds Group (BCG) is an online classifieds group operating in the Baltics - mainly Lithuania and Estonia. BCG is the dominant online advertising portal in important categories such as property and car sales. Because its advertising rates start at very low levels compared to most other developed classifieds businesses, BCG has the potential to deliver attractive revenue growth for many years, whilst the financial traits of the business - such as margins and returns - are also very striking.

Baillie Gifford sold its position in Wood Group owing to the firm's challenging demand backdrop, while it continues to carry sizeable leverage (despite some asset disposals) and has faced a number of rounds of restructuring and divisional reorganisations.

Outlook

Marathon does not engage in economic forecasting or pay a great deal of attention to the forecasts of others, but it is paying attention to rising inflation, the price of gas, and the knock-on effects it is having on other industries. This includes companies cutting production and in a few cases even shutting down, as the energy input costs squeeze margins.

Baillie Gifford is humbled by the recent underperformance and does not believe it reflects the encouraging underlying progress of the portfolio holdings. It maintains its belief that the portfolio is populated with some exciting growth businesses with large market opportunities, strong competitive positions and, importantly, the cultural adaptability to succeed in a rapidly changing world.

Key fund facts (as at 30 September 2021)

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 44 m

Number of holdings: 102

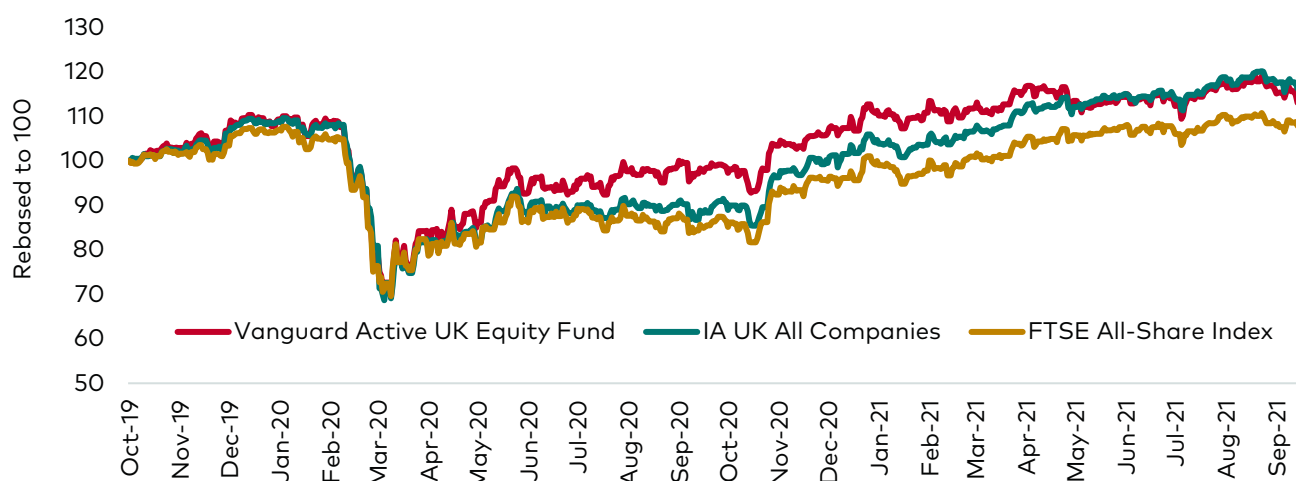
Median market cap: GBP 6.7B

PE ratio: 18.6X

Equity yield (dividend): 2.2%

ISIN: GB00BK1XRK60

Fund performance since inception (as at 30 September 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	5.79	0.40	15.82	--	--	6.40
Peer Group	14.34	2.63	32.14	4.54	6.42	15.90
Benchmark	13.56	2.23	27.89	3.08	5.36	4.29

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	--	--	--	--	15.82
Peer Group	13.68	5.68	0.49	-13.11	32.14
Benchmark	11.94	5.87	2.68	-16.59	27.89

Past performance is not a reliable indicator of future results.

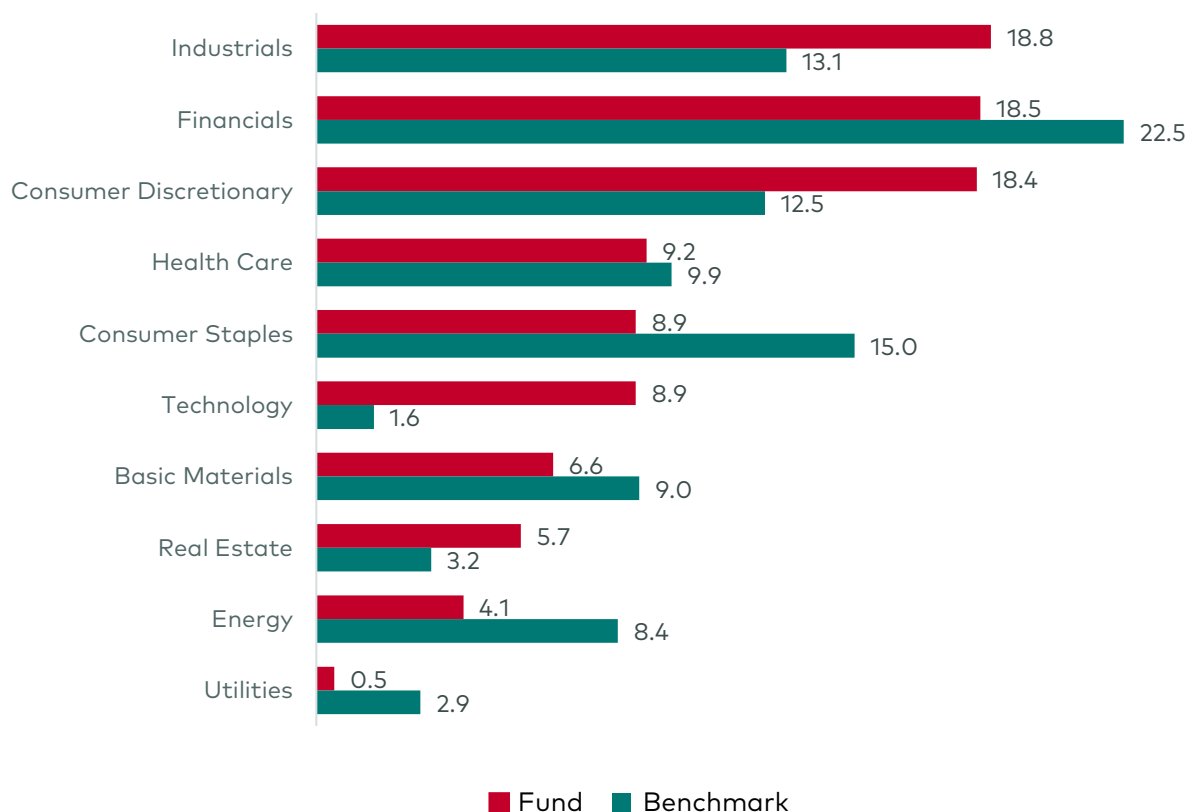
Source: Vanguard and Morningstar, as at 30 September 2021. Peer group is IA UK All Companies. Performance figures include the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption 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 30 September 2021)

Company	%
Rightmove plc	5.3
Diageo plc	3.2
Auto Trader Group plc	3.2
AVEVA Group plc	2.8
HomeServe plc	2.6
Experian plc	2.5
Ocado Group plc	2.5
Rio Tinto	2.3
BP plc	2.2
Abcam plc	2.1

Sector exposure (% , as at 30 September 2021)



Source: Vanguard, as at 30 September 2021.

Performance analysis

Top contributors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
HSBC Holdings Plc	0.0	3.3	-5.3	0.30
Trainline Plc	1.8	0.1	19.7	0.30
Rightmove Plc	5.2	0.2	5.7	0.20
Unilever Plc	0.8	4.3	-4.5	0.20
Rathbone Brothers Plc	1.6	0.1	12.7	0.10

Top detractors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
ASOS Plc	1.0	0.0	-39.5	(0.70)
Ocado Group Plc	2.4	0.3	-17.0	(0.50)
Royal Dutch Shell Plc	1.2	5.3	19.3	(0.50)
Auto Trader Group Plc	3.1	0.2	-6.3	(0.30)
Intertek Group Plc	2.0	0.3	-9.4	(0.20)

Top contributors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
Unilever Plc	0.8	4.3	-13.1	1.30
AstraZeneca Plc	0.0	5.7	8.8	1.00
GlaxoSmithKline Plc	0.9	2.9	2.4	0.60
British American Tobacco p.l.c.	0.0	2.5	7.8	0.60
LONDON STOCK EXCHANGE	0.0	1.1	-15.2	0.50

Top detractors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
HomeServe Plc	2.6	0.1	-24.9	(1.80)
Royal Dutch Shell Plc	1.2	5.3	82.8	(1.40)
ASOS Plc	1.0	0.0	-41.7	(1.20)
Intertek Group Plc	2.0	0.3	-19.9	(1.10)
Renishaw Plc	2.0	0.1	-15.3	(1.00)

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.

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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