Vanguard

Q1 2024

Global Sustainable Equity Fund

SUSTAINABILITY AND ENGAGEMENT REPORT

At Vanguard, we think about environmental, social and governance (ESG) risks and opportunities in the context of delivering long-term value to our investors and helping them to meet their investment objectives. We recognise that material[1] risks, including ESG risks, can erode shareholder value over time.

The portfolio managers of the Vanguard Global Sustainable Equity Fund manage the fund in accordance with its Sustainability Policy, as outlined in the fund prospectus, which incorporates: stewardship, a net-zero[2] commitment, a carbon footprint target and ESG risk avoidance.

1. **Stewardship**

   The portfolio managers define stewardship as the way companies balance the interests of all stakeholders (customers, employees, communities and firms in the supply chain) in the pursuit of profits, as well as how they incorporate material environment, social and governance (ESG) risks and opportunities into their corporate strategy. This approach means the fund favours companies that demonstrate leadership in managing ESG risks and opportunities, with established competitive positions, a history of continuous improvement and innovation and a record of sustainable financial returns.

2. **Net zero commitment (based on science-based targets)**

   A net zero commitment in alignment with the Paris Agreement[3].

3. **Carbon footprint**

   The portfolio managers' expectation is to have a carbon footprint target for the fund of at least 50% less than the global economy by 2050.

4. **ESG risk avoidance**

   The portfolio managers exclude companies involved in and/or deriving revenue (above certain thresholds, as determined by the portfolio managers) from tobacco, thermal coal, oil sands and nuclear/controversial weapons.

The path to net zero is a journey of transition to a low-carbon economy. This report shows the three metrics that we report on a quarterly basis: carbon analysis, science-based targets and the number of engagements with company management, to provide a view on how the fund is tracking against the sustainability[4] criteria.

Carbon analysis

Carbon accounting plays a key role in understanding the overall exposure of the fund's portfolio to climate change-related risk.

Two carbon metrics for the fund are provided below. For each metric, we offer comparison against a benchmark.

The metrics used and how they are measured are explained below. Tons of carbon dioxide equivalent, or tCO2e, is a standard unit for measuring carbon. It includes several different greenhouse gases (GHG) and is expressed as a single number.

	Portfolio	Benchmark
Carbon footprint (tCO2e/ $M invested)	13	54
Weighted Average Carbon Intensity (tCO2e/$M sales)	44	128

Source: MSCI | Benchmark: FTSE All-World Index. Data as at 31 March 2024.

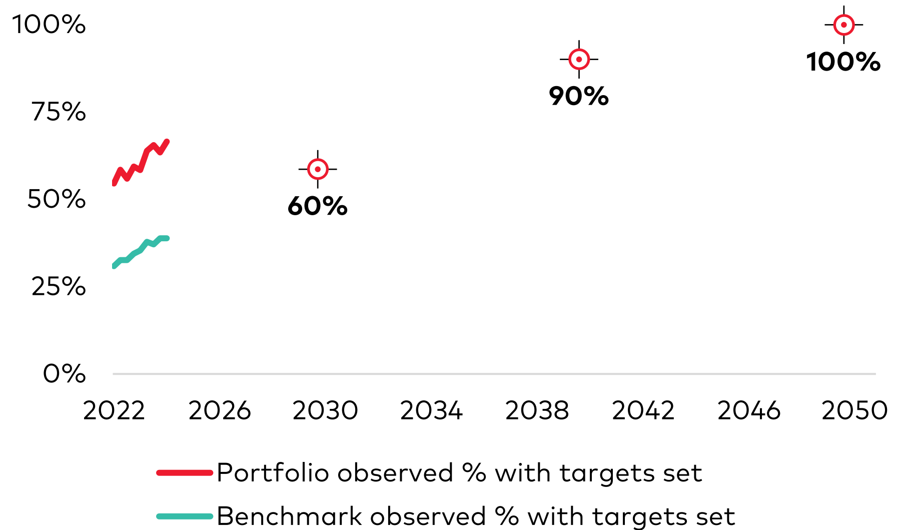
Metric	Definition	Purpose
Carbon footprint	Total carbon emissions for a fund normalised by the market value of the fund, expressed in tons CO2e/$M invested.	To understand how much carbon emission the fund is responsible for per USD 1 million invested. This metric allows investors to compare funds of different sizes. Example: To provide a sense of scale, carbon footprint of 100 tCO2e is equivalent to the emissions of approximately 22 passenger vehicles per year[5].
Weighted Average Carbon Intensity (WACI)	Fund's exposure to carbon-intensive companies, expressed in tons CO2e/$M revenue. This metric is calculated as a weighted average of each company holding's carbon intensity according to its market value in the fund.	To understand exposure to companies that are involved in carbon-intensive activities. Example: When comparing two funds, the fund with a higher WACI is more susceptible to climate change-related risk, e.g. increased regulation (companies that are big carbon emitters could see their costs raised by regulations either via taxation or the need to comply with stricter pollution control which results in capital expenditure).

[1] Risks that are recognised as having the potential to impact a company's share price.
[2] Net zero refers to the balance between the amount of greenhouse gas (GHG) produced and the amount removed from the atmosphere.
[3] The Paris Agreement is a legally binding international treaty created in 2015 that set long-term goals to reduce greenhouse gas emissions and limit global temperature increases; 192 nations and the EU have joined the agreement.
[4] The portfolio managers manage the fund in accordance with its named objectives and sustainability policies.
[5] Source: Greenhouse Gas Equivalencies Calculator | US EPA.

Science-based targets

Science-based targets (SBTs) are considered best practice in providing companies with a defined pathway to reduce emissions in line with the Paris Agreement goals. The pathway represents how companies within a given sector should reduce their emissions intensity and align with the global, annual emissions reduction rate that is required to meet a 1.5˚C target.

This chart shows the percentage of holdings with net zero science-based targets versus the benchmark.

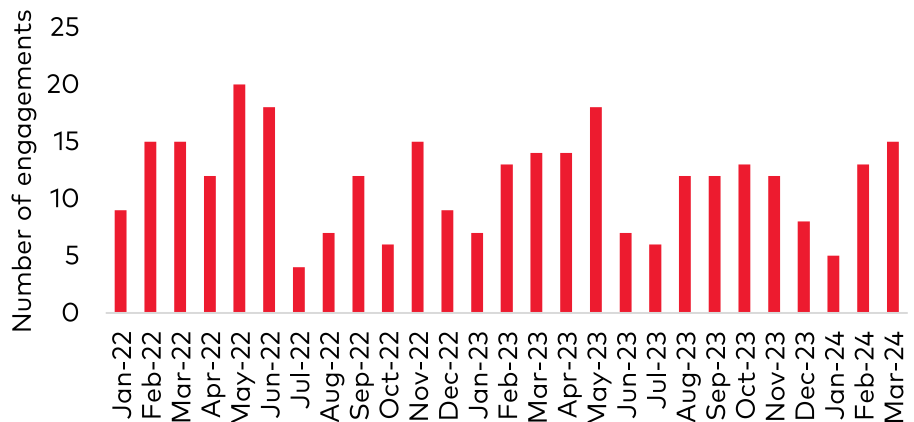


Source: Vanguard, from 1 January 2022 to 31 March 2024.

Engagements

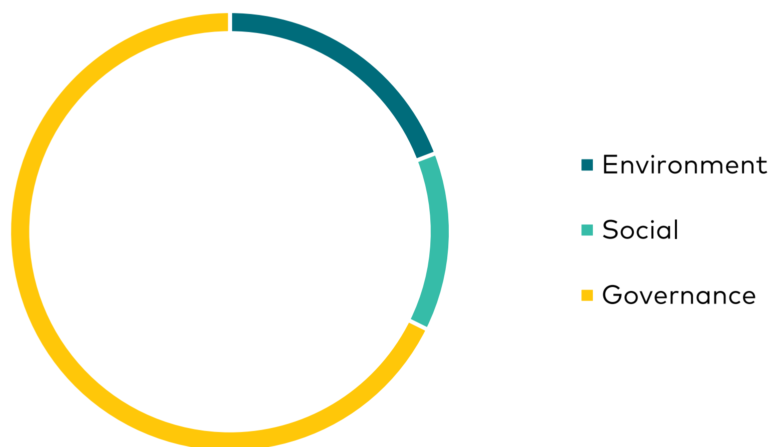
Regular conversations between portfolio managers and company management open the door for this to be a two-way dialogue. These exchanges help the portfolio managers to assess companies for their corporate culture, adaptability, responsiveness and an alignment of incentives with sustainable long-term targets.

From 1 January 2024 to 31 March 2024, 33 engagements with the fund's held names were conducted on a broad range of ESG topics.



Source: Vanguard, from 1 January 2022 to 31 March 2024.

Number of quarterly ESG engagements



Source: Vanguard, from 1 January 2024 to 31 March 2024.

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.

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

Important information

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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