

**Vanguard**

**Guide to Vanguard's  
LifeStrategy®  
model portfolios**

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

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## Introduction

At Vanguard, we believe investing does not need to be complicated. That's why we designed our LifeStrategy® model portfolios as a straightforward and easy-to-understand way to invest.

A model portfolio is a collection of different investments, usually designed to meet a specific goal such as long-term growth. Model portfolios normally invest in a broad range of investments, known as diversification. It can be time-consuming to build and maintain a portfolio from scratch, which is why Vanguard offers ready-made portfolios to get you started.

When you invest in a LifeStrategy® model portfolio from Vanguard, your money will be invested in a range of low-cost Vanguard funds that in turn invest in global share and bond markets.

Your adviser will help you select the LifeStrategy® model portfolio that best matches your attitude to risk and personal circumstances. We'll take care of the rest.

In this brochure, we aim to give you an understanding of Vanguard's LifeStrategy® model portfolios to help you make an informed investment decision. This information is designed to be used alongside key fund documents such as the fund prospectus and the Key Investor Information Document (KIID) for the underlying funds, which are available through your adviser.

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### What you will learn from this document:



#### 1. What

Vanguard offers a range of LifeStrategy® model portfolios.



#### 2. Why

This brochure aims to help you make an informed decision.



#### 3. How

Use this brochure with the prospectus and Key Investor Information Document (KIID).

# Why model portfolios?

## 1 Broad global mix of investments keeps your portfolio diversified

Diversification means spreading your investments across a wide range of assets (such as shares and bonds) as well as across different countries and industries. The aim is to reduce risk by reducing your reliance on any one part of your portfolio. Through diversification, better-performing investments can help to offset those that are not performing as well.

Vanguard's LifeStrategy® model portfolios give you access to thousands of shares and bonds in one straightforward package, to help smooth out the ups and downs of investing.

## 2 Expert team of fund managers maintaining your portfolio

Vanguard's investment experts monitor our model portfolios to ensure they don't drift from their investment objectives – also known as rebalancing. You can be assured that your portfolio will remain in line with your investment goals and tolerance for risk.

## 3 Low cost means you keep more of your investment returns

At Vanguard, we've been delivering value for investors since 1975. Our portfolios are built using Vanguard's own low-cost index funds. By keeping costs low, our investors keep more of their investment returns.

# Vanguard's principles for investing success

At Vanguard, we think four simple principles can improve your chances of investment success. Our model portfolios, like all our products and services, are built on these principles.



### Think about your goals

Having a goal in mind can help when it comes to choosing a portfolio with the right blend of investments for you. Knowing what you are investing for can keep you focused on selecting a portfolio that's right for your needs.



### Stay balanced

Investing in the right mix of shares and bonds could have a bigger impact on returns than anything else you do.

It's all about finding the right level of risk and reward for you. Shares have typically given a higher return over the long term, while bonds have been more stable but have historically offered lower returns. A mix of both can help even out the ups and downs of investing, although remember that the value of investments can rise and fall and you may get back less than you put in.



### Keep costs low

Investing is, by its nature, unpredictable. While you can't control the markets, you can control your investment costs. Every pound you pay in costs and charges comes directly out of your potential returns. By keeping your costs low, you keep more of your returns.



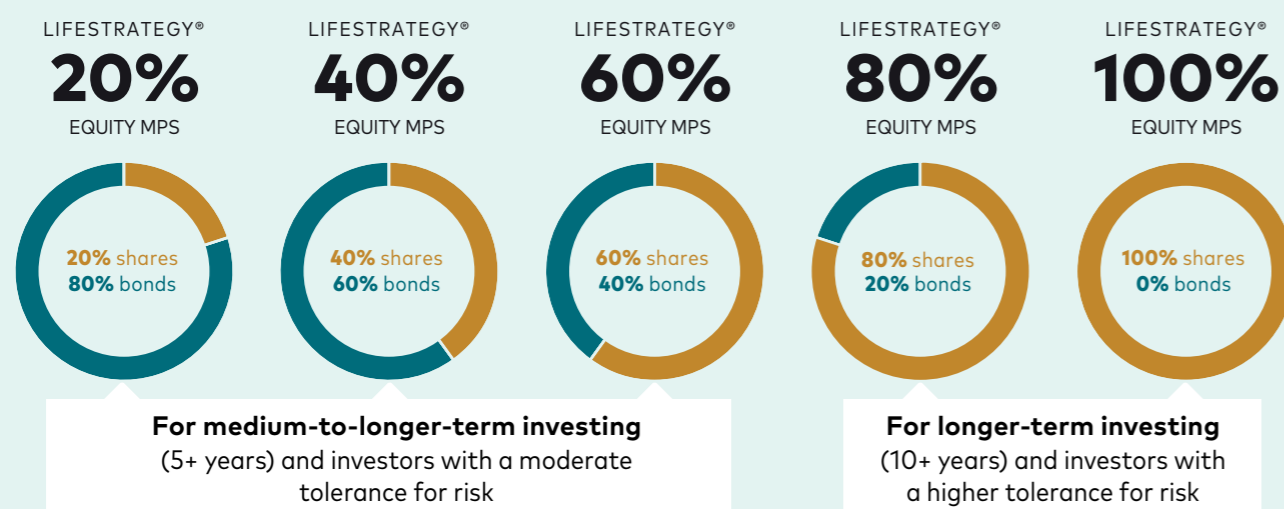
### Be disciplined

Sometimes our emotions can lead us to make simple mistakes when investing, like buying the latest hot investment when prices are high and panic-selling when prices drop.

However, the most successful investors are often the most disciplined. They invest for the long term and don't tinker with their portfolios too much.

# What does Vanguard offer?

## LifeStrategy® model portfolios



We do not design our model portfolios for investors with less than a five-year time horizon.

LifeStrategy® model portfolios are available as a range of five individual portfolios with varying levels of potential risk and return based on their mix of shares and bonds: 100% shares and 0% bonds; 80% shares/20% bonds; 60% shares/40% bonds; 40% shares/60% bonds and 20% shares/80% bonds<sup>1</sup>. Your financial adviser will help you select the most appropriate model based on your personal investment goals and risk preferences.

We build our LifeStrategy® model portfolios using Vanguard's own low-cost index funds, which, in turn, invest in the underlying shares and bonds of the market indices they track. (Where this is not possible, they hold a representative sample of the shares or bonds that make up the index.) This gives you exposure to thousands of different shares and bonds across a broad range of global markets in many countries and currencies.

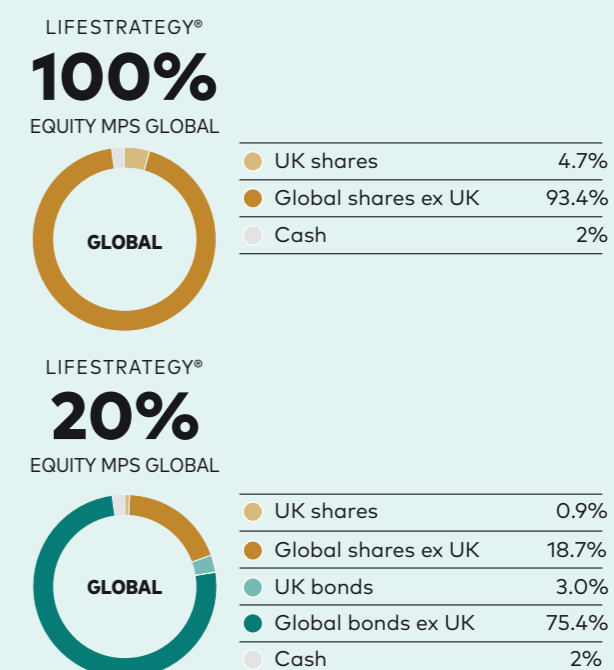
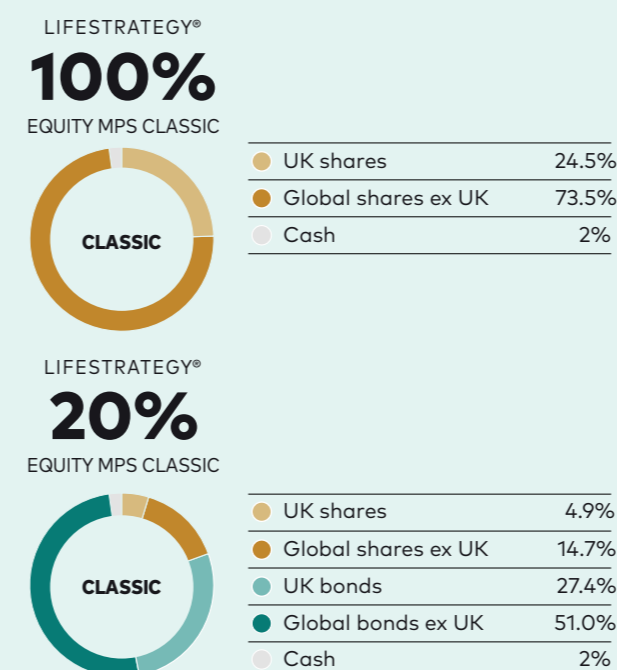
There are two options within our LifeStrategy® model portfolios: LifeStrategy® MPS Classic and LifeStrategy® MPS Global. The difference between the two is the proportion of the portfolio invested in UK shares and bonds.

The Global portfolios invest in the UK in line with its share of global share and bond markets. The Classic portfolios, however, feature a higher proportion in UK shares (up to 25%) and UK bonds (up to 35%) than the Global portfolios. This means that the UK forms one of the largest single countries in the portfolio and investors are more exposed to developments in the UK economy and markets.

The charts below explain this in more detail. As the chart in the top right shows, the LifeStrategy® 100% Equity MPS Global portfolio had 4.7% of the portfolio in UK shares, which was roughly in line with the UK's share of the global stock market<sup>2</sup>. However, the LifeStrategy® 100% Equity MPS Classic model portfolio (top left) had 24.5% of the portfolio in UK shares.

As the chart in the bottom right shows, the LifeStrategy® 20% Equity MPS Global had 0.9% in UK shares and 3.0% in UK bonds as at the same date – again roughly in line with the UK's share of global markets. However, the LifeStrategy® 20% Equity MPS Classic portfolio

(bottom left) had a higher weighting of 4.9% in UK shares (roughly 25% of the portfolio's share holdings) and 27.4% in UK bonds (roughly 35% of the portfolio's bond holdings).



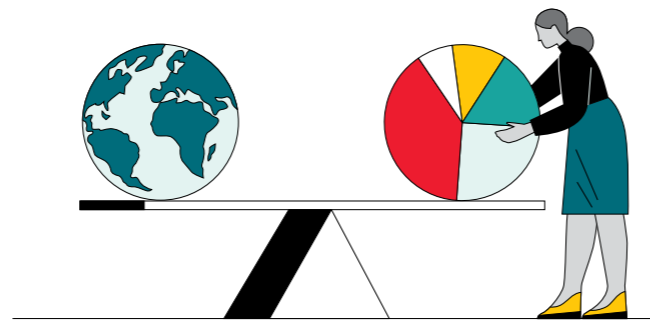
Notes: Model portfolio compositions are as at 30 June 2023. Percentage figures are rounded to the nearest tenth.  
Source: Vanguard.

<sup>2</sup> Source: Vanguard, as at 30 June 2023.

<sup>1</sup> While LifeStrategy® model portfolios take a similar investment approach to Vanguard's LifeStrategy® funds, they have a different structure. With LifeStrategy® funds, the investor sees a single fund on their statement. With LifeStrategy® model portfolios, all the 15-18 underlying Vanguard funds are listed on the statement.

# Striking the right balance

All of our LifeStrategy® model portfolios invest in a mix of shares and bonds, although the exact proportion will depend on the model you choose.



Why is it so important to blend shares and bonds? It's all about helping you achieve your long-term financial goals by balancing the trade-off between risk and reward and finding the correct balance for your personal circumstances.

First, let's look at what shares and bonds are before explaining how blending them can help manage risk in your portfolio.



## About shares and bonds:

Shares—also known as equities—represent a stake in the ownership of a company. They can be bought and sold on stock exchanges and their prices can move up and down quite significantly (in other words, they can be quite volatile) – particularly over the short term.

Bonds, on the other hand, represent a promise by a government or company to pay a certain amount of interest over a given period, and to repay the sum borrowed at the end of the period.

Shares have typically offered higher long-term returns than bonds, but they've also typically carried more short-term risk. The chart on the opposite page shows this in action, with shares providing bigger gains in some years but also suffering bigger losses. It's worth remembering that past returns are not necessarily a reliable guide to the future and you may get back less than you invested.

The performance of different investments, 2001-2022



Notes: The chart shows the historical annual total returns of the following indices: Bonds: Bloomberg Global Aggregate Total Return index (hedged in GBP); Shares: FTSE All-World Total Return index (in GBP). Data are for the period 29 December 2000 to 31 December 2022.

The performance of an index is not the exact representation of any particular investment. As you cannot invest directly into an index, the performance shown in this chart does not include the costs of investing in the relevant index. Basis of performance NAV to NAV with gross income reinvested.

**Past performance is not a reliable indicator of future returns.**

The chart shows why it's important to diversify across shares and bonds, so that returns from more defensive investments such as bonds can help to offset higher-risk investments such as shares when they aren't performing so well.

Even within shares and bonds, our portfolios diversify across different countries and industries as there will be periods when some areas perform better or worse than others. In a recession, for example, a luxury-goods manufacturer might not perform as well as a manufacturer of essential goods (and vice versa when the economy is strong). There is no particular asset class or investment that consistently outperforms which is why diversification across asset classes and regions is an important part of portfolio construction.

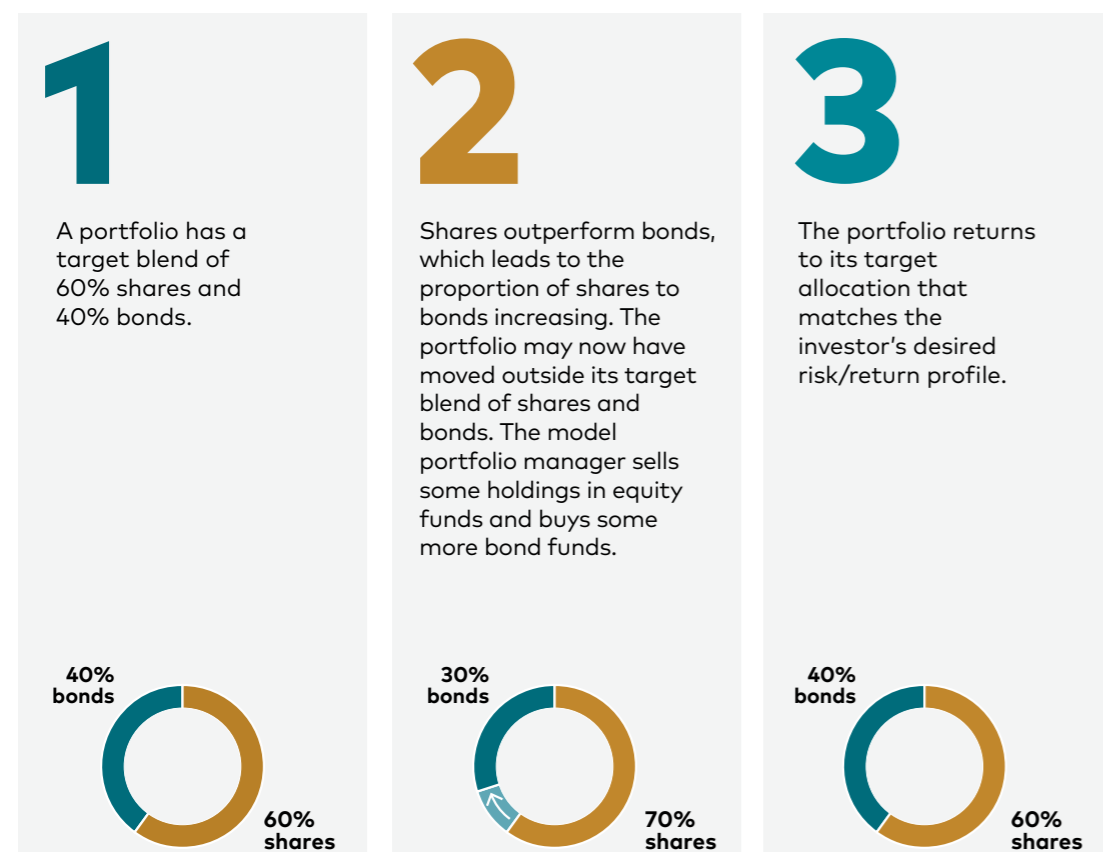
The mix of shares and bonds that are most appropriate will depend on how much risk you're willing to take. And that in turn depends on the reasons why you're investing as well as when in the future you are likely to need your money. Everyone is different, so think about how much investment risk you are willing and able to take and still sleep at night.

# Keeping your portfolio on track

As we have seen, assets perform differently to one another over time. Investments that perform well will grow as a proportion of your portfolio, while those that do not perform as strongly will reduce as a proportion. Left uncorrected, this 'drift' may mean your portfolio ends up with more (or less) risk than originally intended. To avoid this drift, Vanguard periodically rebalances its model portfolios back to their target mix of shares and bonds.

Our model portfolio team regularly monitors and maintains all of the LifeStrategy® model portfolios; they are rebalanced every three months<sup>3</sup>.

## How rebalancing works



Note: This is an illustrative example of rebalancing and does not reflect any particular model portfolio. Source: Vanguard.

<sup>3</sup> By contrast, Vanguard's LifeStrategy® funds are rebalanced daily.

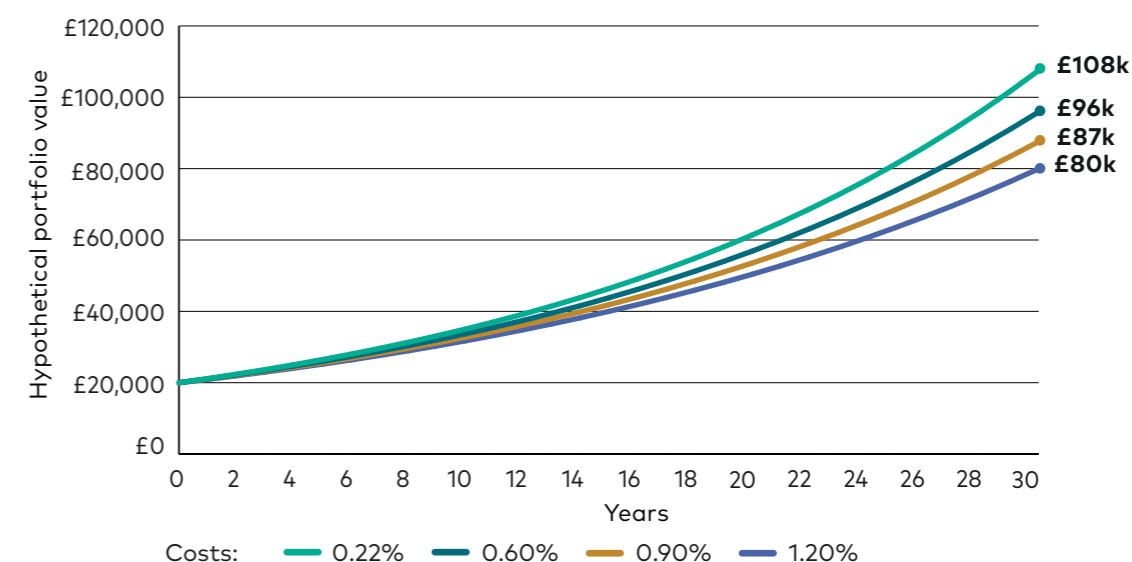
# The importance of costs

Costs are an important factor in **long-term investing**. That's because every pound **you pay in charges comes out of your investment returns**. The **lower the charges the more you get to keep** of your investment.

Using a hypothetical example (which does not represent any particular investment), the graph below illustrates the potential impact of costs on an initial investment of £20,000 over a 30-year period. The example assumes that the investment grows 6% per year. With investment costs of 0.22% a year, the £20,000 initial investment would grow to approximately £108,000 over 30 years, compared to only around £80,000 if the costs were 1.2% a year – a difference of £28,000.

## Low investment costs mean you keep more

Hypothetical growth of a £20,000 investment over a 30-year period, assuming 6% growth a year



Notes: The hypothetical example assumes an investment of £20,000 over 30 years with an annual growth rate of 6%. Costs are for illustrative purposes only and do not represent any particular investment. Annual compounding is used for both the annual growth and annual costs. Future portfolio values are rounded estimates of the projected values.

Source: Vanguard.

This is a hypothetical example. Actual investment returns may vary. Your investment costs may differ from those featured in this example.

## LifeStrategy® model portfolio fees

At Vanguard, we focus on providing simple, low-cost investment options that give investors the best chance of achieving their investment goals. That's why we aim to provide the best-value model portfolios in the market for an all-in portfolio fee<sup>4</sup> of 0.20%-0.23% for all of the LifeStrategy® models.

The all-in portfolio fee consists of an annual ongoing charges figure (OCF) for the underlying funds of 0.10%-0.13% combined with our low annual LifeStrategy® model portfolio charge of 0.10%.

<sup>4</sup> The all-in portfolio fee includes the ongoing charges figure (OCF) and the annual model portfolio charge. The OCF is the weighted sum of the annual ongoing charges for the underlying funds in the model portfolio and include management fees and other costs incurred by the individual funds. The annual model portfolio charge includes Vanguard's ongoing costs related to running our model portfolio service. It does not include dealing costs or other additional costs such as adviser and platform fees. All fee data as at 30 June 2023.

## Glossary

### Active fund management

This is an approach to investing that sees an investment manager select shares and other assets in accordance with the fund's investment objectives.

### Asset, asset class

A category of investment that displays similar characteristics, for example, shares, bonds or property.

### Bonds

This is a loan issued by a government, public-sector body or company. Bonds usually pay a fixed rate of annual interest—hence why they are also known as fixed-income assets—while the original sum borrowed is typically repaid at a specific future date.

### Diversification

This is a strategy designed to reduce the risk in an investment portfolio by holding a wide range of assets. This helps to manage risk because better-performing investments can help to offset those that perform less well, over time.

### Equities

Another word for ordinary company shares, which represent an ownership stake in the business.

### Fund

An investment product that pools the money of many investors to buy shares and/or other assets.

### Fund manager

This is the person or company who manages a fund. In an active fund, they will make the investment decisions. In an index fund, they will make sure the fund is closely tracking the index.

### Index

An index typically measures the performance of a basket of investments that are intended to replicate a certain area of the market. Indices are often used as benchmarks against which to evaluate the performance of an investment, such as a fund.

### Index fund

An investment fund that aims to closely match the returns of a specified market index. The fund may hold all of the constituents of the particular index or purchase a sample of constituents so that its performance is as close as possible to the index.

### Index provider

An index provider is a company that designs and calculates indices (as defined above). They set the rules on what is included in the index, how it is managed and how constituents will be added or removed over time.

### Portfolio

This is a collection of individual investments or funds that is usually created to meet specific goals, such as long-term capital growth. A model portfolio is a pre-built collection of investments, where a model portfolio manager or financial adviser selects the investments (usually funds) within the model portfolio.

### Risk

The likelihood that the return on an investment will differ from what is expected. There are different types of risk, including market risk (the chance that returns will fluctuate) and shortfall risk (the possibility that a portfolio will fail to meet its longer-term objective). Different investors have different tolerances for risk based on factors such as their personal circumstances and their investment timeframe.

### Volatility

The extent to which investment values fluctuate over time. When investors are uncertain about the economic environment or geopolitical events, short-term volatility tends to increase.

## 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.

Funds investing in fixed interest securities carry the risk of default on repayment and erosion of the capital value of your investment and the level of income may fluctuate. Movements in interest rates are likely to affect the capital value of fixed interest securities. Corporate bonds may provide higher yields but as such may carry greater credit risk increasing the risk of default on repayment and erosion of the capital value of your investment. The level of income may fluctuate and movements in interest rates are likely to affect the capital value of bonds.

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 the model portfolio risks please see the "Risk Factors" section for the prospectus of the underlying funds on our website at <https://global.vanguard.com>.

## Important information

### **If you have any questions related to your investment decision or the suitability or appropriateness for you of the product[s] described in this document, please contact your financial adviser.**

For further information on the investment policies and risks of the model portfolio(s), please refer to the prospectus and KIID of the underlying funds before making any final investment decisions. The KIID for each fund is available, alongside the prospectus via Vanguard's website <https://global.vanguard.com/>.

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The Manager of the Ireland domiciled funds may determine to terminate any arrangements made for marketing the shares in one or more jurisdictions in accordance with the UCITS Directive, as may be amended from time-to-time.

For investors in UK domiciled funds, a summary of investor rights can be obtained via <https://www.vanguard.co.uk/content/dam/intl/europe/documents/en/Vanguard-InvestorsRightsSummaryUKFUNDSJan22.pdf> and is available in English.

For investors in Ireland domiciled funds, a summary of investor rights can be obtained via <https://www.ie.vanguard/content/dam/intl/europe/documents/en/vanguard-investors-rights-summary-irish-funds-jan22.pdf> and is available in English, German, French, Spanish, Dutch and Italian.

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