Vanguard

Retirement saving made easy: Vanguard Target Retirement Funds

Low-cost funds to help you meet your retirement goals

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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Vanguard Asset Management, Limited
As part of the Vanguard Group Inc, Vanguard Asset Management Limited draws on over 40 years of investing experience.

We aim to treat investors fairly and to offer exceptional value investments designed to help individual investors achieve their investment goals.

If you would like more information, please speak to your financial adviser.

You will find a glossary of key terms at the end of this guide.

Introducing Vanguard Target Retirement Funds

Making sure you have enough money for retirement can be a daunting prospect. It's difficult to get a grip on the increasing complexity of pension rules and legislation, and the different types of savings and investment strategies.

A Target Retirement Fund (also known as a Target Date Fund) helps take the complexity out of retirement. You and your adviser decide how much you want to save and when you want to retire, and the fund will automatically change the way your money is invested as you move through the different stages of life. With a Target Retirement Fund, your investment decisions are in the care of experienced investment professionals, giving you the best chance of meeting your retirement goals.

Making the complex world of retirement simple

When you're planning for retirement, there are so many challenging questions to answer. How much will you need? How much should you save? When should you start? What should you invest in? How long will it last? Faced by these and other questions, many investors simply give up and leave the decision to another day.

A Target Retirement Fund takes the complexity out of retirement by allowing you to focus on what you can control – how much to save and when you want to retire. You select your provisional retirement date, based on your date of birth; you decide how much you want to save and then you leave the rest to experienced investment professionals.

We've created the Vanguard Target Retirement Funds using several investment best practices to help you realise your retirement goals. These include asset allocation, diversification, transparency and a balance between risk, return and cost.

You can find definitions for these terms in the glossary.

How they work

You might have heard about the trade-off between risk and reward. Certain types of investments are more risky than other types, meaning their value can go down as well as go up. However, with risk comes the potential for higher investment returns.

Equities (also known as shares), which represent ownership of a listed public company, offer the potential for higher returns, but are also likely to be relatively volatile over the shorter 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 repay the sum borrowed at the end of that period. The long-term rate of return for bonds tends to be lower than for equities but they are also more stable, and therefore less risky, than equities.

Most portfolios will have a blend of equities and bonds. The percentage split between equities and bonds in a portfolio, known as asset allocation will depend on how much risk you want to take on.

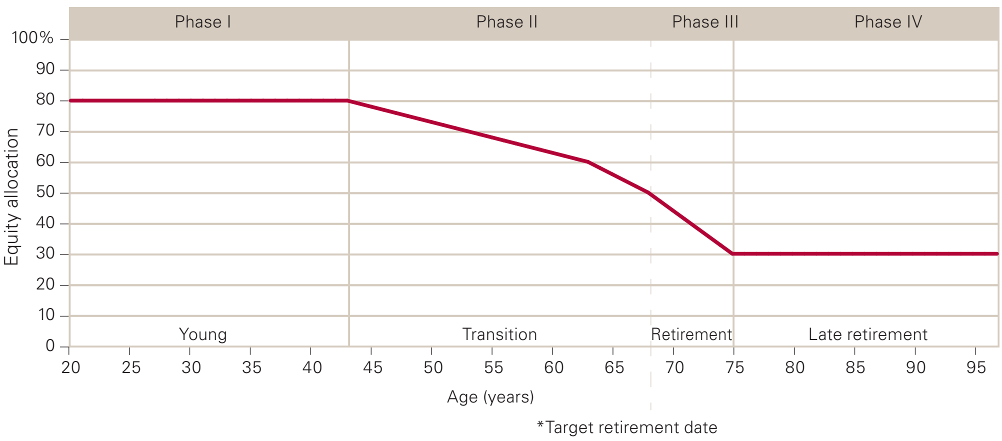
Generally speaking, the more appetite you have for risk, the more equities you will have in your portfolio, while a lower risk appetite will lead to more bonds in your portfolio. Based on our research and experience, we believe that the asset allocation in your retirement portfolio should change as you get older, gradually decreasing the percentage of equities and increasing the percentage of bonds. Target Retirement Funds are constructed so that they automatically change with you as you move towards retirement. The closer you are to retirement, the less risk the fund takes on. This change in assets over time is known as the glide path and is illustrated in Figure 1 for Vanguard's Target Retirement Funds.

When it comes to saving for retirement, a younger person is able to exchange a higher level of risk for higher potential growth, as their investing time horizon is relatively long. This gives them a greater chance of benefitting from higher returns and also an increased ability to make back any losses they may experience. For this reason, in the early years – marked as phase 1 in Figure 1 - a significant proportion of the fund is invested in equities.

Phase II begins at age 43. At this point the glide path gradually introduces more bonds in the portfolio to balance the portfolio's ability to grow with its ability to withstand any sudden market downturns. At age 68 (phase III in the glide path) half the portfolio is in equities and the other half is in bonds. The percentage of bonds then continues to increase until the glide path reaches its final phase.

Vanguard's Target Retirement Funds are designed to give you sufficient resources at retirement so that when the time comes, you have the flexibility to choose what you do with your money: take lump sums, draw a regular income or buy an annuity. The glide path maintains a modest allocation to equities throughout phases III and IV, giving the portfolio an element of growth to help offset withdrawals.

Figure 1: How it works – four distinct phases



*Target retirement date is the year stated in the fund name

Source: Vanguard.

Why Vanguard's Target Retirement Funds?

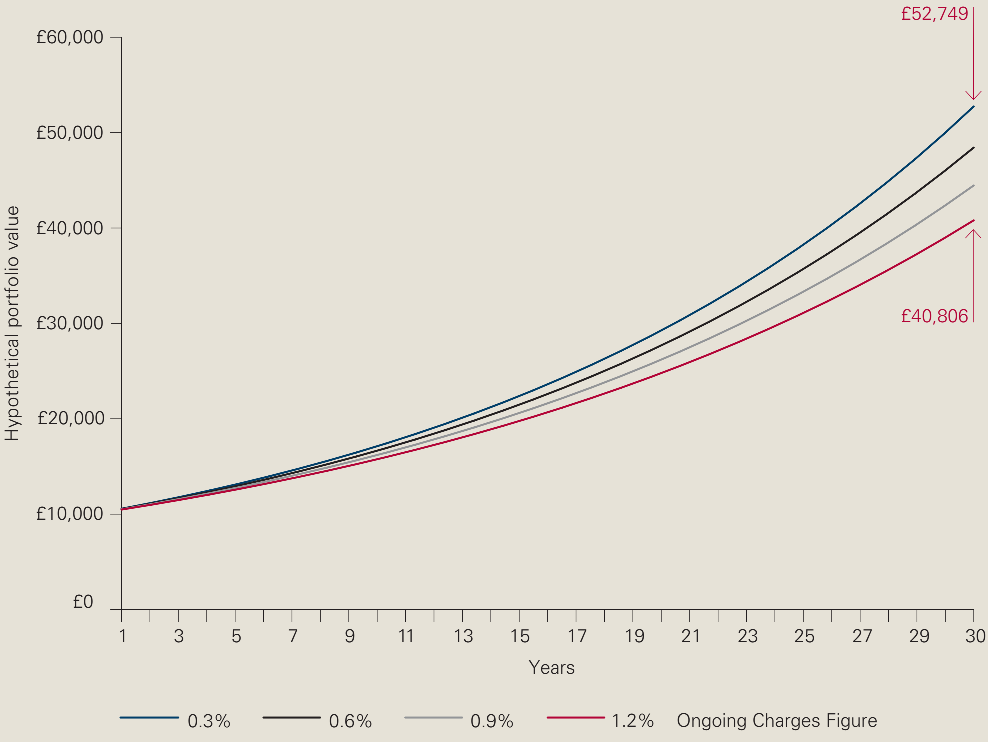
Low-cost investment solution

Our Target Retirement Funds use our low-cost index funds as the building blocks of the portfolio. Keeping costs low allows you to save more of your money, improving your chance of long-term success.

Using a hypothetical example (which does not represent any particular investment), figure 2 illustrates the potential impact of costs on an initial investment of £10,000 over a 30-year period. This graph assumes 6% average growth per annum which is compounded year on year. As this shows, an ongoing charges figure (OCF) of 0.3% compared to an OCF of 1.2% could potentially lead to savings of £11,943 over a 30-year period.

Figure 2: How costs eat into investment portfolios

Growth of a £10,000 initial investment over a 30 year period, assuming 6% growth per annum



This hypothetical example assumes an investment of £10,000 over 30 years. Annual compounding is used for both the assumption of 6% average growth p.a. and the investment costs. Costs are applied to average annual growth of 6% for each year. As it is a hypothetical, this example does not represent any particular investment.

Source: Vanguard

This example assumes a growth rate of 6%, but in reality returns may vary and you may get a lower return from a fund with lower investment costs

Designed for UK investors

We've created Vanguard's UK Target Retirement Funds specifically for UK investors like you. Vanguard's expertise as the US's largest provider of target date funds and extensive research into what will work best for UK investors has informed the design of these funds.

Strategic asset allocation which rebalances automatically

Vanguard's investment managers make the necessary adjustments to keep our Target Retirement Funds on the right glide path, allowing you to focus on what you can control, such as how much to save and when you want to retire.

Global retirement expertise

Vanguard is the leading provider of Target Retirement Funds in the US. Since we launched them in 2003, our index expertise coupled with rigorous investment and retirement research has helped grow our target retirement fund business.

Risks with Target Retirement Funds

Target retirement funds may not be suitable for all investors. They have been specifically designed to help people save for retirement.

Typically, retirement investors have a very long investment time horizon. Even when investors reach their retirement date, their savings still need to last through retirement for another 20 to 30 years, approximately. The long-term nature of the investment helps define the risk constraints within the fund, giving investors the ability to take on significant risk, especially in the early phases of retirement saving.

While Target Retirement Funds are designed for most investors saving for retirement, it does not take an individual's personal circumstances into consideration. It is possible that an investor's expectations may not be met when they retire. For example, an investor may have fewer assets than expected, especially if they have not saved a sufficient proportion of their earnings, or an investor may run out of savings while in retirement. This could happen if their spending level is higher than the sustainable growth rate of their portfolio.

At all times, the portfolio will be subject to investment risk. While exposure to this risk reduces as the investor approaches retirement, the portfolio's value will go up and down. This has timing implications for investors who wish to buy an annuity, take lump sums or draw a regular income.

Why Vanguard?

What sets Vanguard apart – and lets Vanguard put investors first around the world – is the ownership structure of The Vanguard Group, Inc. in the US.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard's US-domiciled funds. Those funds, in turn, are owned by their investors. This unique mutual structure aligns our interests with those of our investors and drives the culture, philosophy and policies throughout the Vanguard organisation worldwide. As a result, global investors benefit from Vanguard's stability and experience, low costs and client focus.

Transparency

We focus on being clear in everything we do – this means communicating to you clearly about costs and charges and how our products work – so you should always know where you stand.

Fairness

Vanguard takes a fair approach to costs – for example, how we manage our charges.

Putting you first

The Vanguard Group Inc.'s mutual structure and philosophy means we can focus on clients' needs over the long term.

Exceptional value

Vanguard aims to offer the lowest cost/highest value investments available and recognises that you deserve the best deal possible

Target Retirement Fund selector

Determining the right Target Retirement Fund for you will depend on your year of birth and expected retirement age.

Example: You were born in 1970 and plan to retire at 65. You should invest in the Vanguard Target Retirement 2035 Fund.

Your birth year	Your retirement age					
	55	60	65	68	70	75
1950	2005	2010	**2015**	2018	**2020**	**2025**
1951	2006	2011	2016	2019	2021	2026
1952	2007	2012	2017	**2020**	2022	2027
1953	2008	2013	2018	2021	2023	2028
1954	2009	2014	2019	2022	2024	2029
1955	2010	**2015**	**2020**	2023	**2025**	**2030**
1956	2011	2016	2021	2024	2026	2031
1957	2012	2017	2022	**2025**	2027	2032
1958	2013	2018	2023	2026	2028	2033
1959	2014	2019	2024	2027	2029	2034
1960	**2015**	**2020**	**2025**	2028	**2030**	**2035**
1961	2016	2021	2026	2029	2031	2036
1962	2017	2022	2027	**2030**	2032	2037
1963	2018	2023	2028	2031	2033	2038
1964	2019	2024	2029	2032	2034	2039
1965	**2020**	**2025**	**2030**	2033	**2035**	**2040**
1966	2021	2026	2031	2034	2036	2041
1967	2022	2027	2032	**2035**	2037	2042
1968	2023	2028	2033	2036	2038	2043
1969	2024	2029	2034	2037	2039	2044
1970	**2025**	**2030**	**2035**	2038	**2040**	**2045**
1971	2026	2031	2036	2039	2041	2046
1972	2027	2032	2037	**2040**	2042	2047
1973	2028	2033	2038	2041	2043	2048
1974	2029	2034	2039	2042	2044	2049
1975	**2030**	**2035**	**2040**	2043	**2045**	**2050**
1976	2031	2036	2041	2044	2046	2051
1977	2032	2037	2042	**2045**	2047	2052
1978	2033	2038	2043	2046	2048	2053
1979	2034	2039	2044	2047	2049	2054
1980	**2035**	**2040**	**2045**	2048	**2050**	**2055**
1981	2036	2041	2046	2049	2051	2056
1982	2037	2042	2047	**2050**	2052	2057
1983	2038	2043	2048	2051	2053	2058
1984	2039	2044	2049	2052	2054	2059
1985	**2040**	**2045**	**2050**	2053	**2055**	**2060**
1986	2041	2046	2051	2054	2056	2061
1987	2042	2047	2052	**2055**	2057	2062
1988	2043	2048	2053	2056	2058	2063
1989	2044	2049	2054	2057	2059	2064
1990	**2045**	**2050**	**2055**	2058	**2060**	**2065**
1991	2046	2051	2056	2059	2061	2066
1992	2047	2052	2057	**2060**	2062	2067
1993	2048	2053	2058	2061	2063	2068
1994	2049	2054	2059	2062	2064	2069

- Vanguard Target Retirement 2015 Fund
- Vanguard Target Retirement 2020 Fund
- Vanguard Target Retirement 2025 Fund
- Vanguard Target Retirement 2030 Fund
- Vanguard Target Retirement 2035 Fund
- Vanguard Target Retirement 2040 Fund
- Vanguard Target Retirement 2045 Fund
- Vanguard Target Retirement 2050 Fund
- Vanguard Target Retirement 2055 Fund
- Vanguard Target Retirement 2060 Fund
- Vanguard Target Retirement 2065 Fund

Source: Vanguard

We keep costs low so you keep more of your returns

Vanguard aims to give you the best chance of investment success. A key component of this success is offering low-cost investment solutions. Our Target Retirement Funds are one of the most cost-effective solutions available to UK investors.

When you invest with any fund manager, you will have to pay some costs. These may include the annual management charge (the fund manager's costs of managing the fund) as well as administration fees, audit fees, custody fees and other operational fees. To be transparent, we only charge one figure that covers all of these costs, known as the ongoing charges figure, making it easy for you to know how much you're paying.

In addition to our transparent charging structure, we also aim to keep our fund's running costs to a minimum. We do that by keeping tight control of all our expenses and overheads. The lower your cost of investing in a fund, the more you get to keep of any potential returns.

Vanguard Target Retirement Fund	Ongoing charges figure as at 1 January 2019
Vanguard Target Retirement 2015 Fund	0.24%
Vanguard Target Retirement 2020 Fund	0.24%
Vanguard Target Retirement 2025 Fund	0.24%
Vanguard Target Retirement 2030 Fund	0.24%
Vanguard Target Retirement 2035 Fund	0.24%
Vanguard Target Retirement 2040 Fund	0.24%
Vanguard Target Retirement 2045 Fund	0.24%
Vanguard Target Retirement 2050 Fund	0.24%
Vanguard Target Retirement 2055 Fund	0.24%
Vanguard Target Retirement 2060 Fund	0.24%
Vanguard Target Retirement 2065 Fund	0.24%

In summary

- Our Target Retirement Funds help take the complexity out of retirement saving
- We've created the funds specifically for UK investors like you based on the Vanguard Group Inc's expertise as the US's largest provider of target date funds and extensive research as to what will work best for UK investors
- They are one of the most cost-effective solutions available to UK investors

Key terms

Annuity: A form of insurance that converts a lump sum into regular annual income for the rest of a person's life.

Assets: A category of investments that exhibit similar characteristics. Examples include equities, bonds, cash or property.

Asset allocation: The combination of different kinds of asset categories such as equities, bonds and cash in a portfolio.

Bonds: Loan certificates issued by a government, public company or other body. The issuer agrees to repay the original amount borrowed after an agreed time (when the bond matures). Bonds usually repay a fixed interest rate (known as the coupon) over a specified time.

Equities: Stocks – also known as shares – or other securities representing an ownership interest in a company.

Diversification: A strategy for protecting against risk by spreading investments across different asset classes or sectors.

Rebalance: Periodically buying or selling investments to maintain a desired asset allocation. For example, if you have a portfolio that is split equally between equities and bonds, and equities perform strongly, equities will end up representing more than half of the portfolio. To rebalance, you would sell equities and buy bonds until the portfolio returned to an equal weight between the two.

Risk: The chance that an investment's return will be different than expected. Risk can come in many forms, such as market risk (day to day changes in a stock's price) and currency risk (changes in the value of a currency). An adviser can help you decide what your approach to risk is. This is known as your risk tolerance

Target Retirement Fund: Also known as a Target Date Fund. The fund managers gradually shift the fund's asset allocation to fewer stocks and more bonds so the fund becomes more conservative the closer you get to retirement at the selected target date.

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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.

The fund(s) may invest in financial derivative instruments that could increase or reduce exposure to underlying assets and result in greater fluctuations of the fund's Net Asset Value. Some derivatives give rise to increased potential for loss where the fund's counterparty defaults in meeting its payment obligations.

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.

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.

Investments in smaller companies may be more volatile than investments in well-established blue chip companies.

The Target Retirement Funds may invest in exchange traded fund (ETF) shares.

Important information

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