

VANGUARD 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. Baillie Gifford in Edinburgh seeks to identify market leading companies with above-average cash flow and earnings growth. Schroders uses a research-based approach to identify their best ideas with a consistent focus on out-of-favour companies.

Highlights

- UK equities rose over the quarter.
- The real estate sector led the market.
- Performance across growth- and value-oriented sectors was mixed.
- The Vanguard Active U.K. Equity Fund underperformed its benchmark.
- Amid market volatility, the fund managers remain focused on the long term.

Market overview

Global equity markets experienced significant volatility in the fourth quarter of 2023. They continued to lose ground early on, amid concerns that interest rates might remain elevated for an extended period. Equity markets went on to post strong gains, however, as inflation remained on a downward trend and economic growth softened. These factors led markets to anticipate that interest rates had reached their peak and that cuts were likely not too far down the road.

In the UK specifically, inflation moderated and sterling performed strongly against a weak US dollar. Over the quarter, real estate rebounded from weakness earlier in the year to lead market performance. UK technology companies also performed well compared to global and emerging market peers.

Performance

The Vanguard Active U.K. Equity Fund returned +2.73% over the quarter, underperforming its benchmark, the FTSE All-Share Index in GBP, which returned +3.23%¹.

Baillie Gifford outperformed while Schroders underperformed. At the overall fund level, stock selection within the technology and

consumer discretionary sectors detracted from returns. Meanwhile, an underweight allocation to consumer staples and an overweight to consumer discretionary contributed positively.

At the individual manager level, Baillie Gifford's outperformance was driven by a lack of exposure to the energy sector, as well as an overweight allocation to technology. However, selection in the consumer discretionary and technology sectors weighed on returns.

Schroders' stock selection within the consumer discretionary and materials sectors detracted from performance, while an underweight exposure to consumer staples and selection in health care contributed positively.

At the individual stock level, the largest detractors from performance were Burberry and 4imprint. The top positive contributors were Wise and Auto Trader.

The share price of Burberry, the luxury fashion designer and retailer, fell as management flagged that a slowdown in the global luxury market could weigh on its ability to meet revenue guidance in 2024, despite an encouraging half-year trading update that was in line with management expectations.

¹ Source: Vanguard, as at 31 December 2023.

The share price of 4imprint, the distributor of promotional merchandise, fell after management struck a cautious tone on the macro-economic outlook, despite an upgrade to the company's full-year revenue and profit guidance. Baillie Gifford remains enthusiastic about the company's ability to continue to take market share in a highly fragmented market.

In terms of top performers, Wise, the international money transfer company, announced a strong six-month trading update. Customer growth continues to compound at more than 30% year on year and the company has bolstered its operational team to meet accelerating demand.

The share price of Auto Trader rose as the company attracted a record number of buyers to its platform, while simultaneously increasing the average revenue per customer. The company also made progress on scaling its Deal Builder product, which streamlines the customer experience.

Activity

Schroders added a new position in British Land, the domestic commercial real estate business. The share price has dropped in recent years as interest rates have risen sharply, and Schroders likes the company's diverse portfolio of high-quality business segments.

Schroders sold its position in Tesco, the food retail company. The share price had performed strongly as a beneficiary of Covid-19 and sector consolidation. Despite the higher leverage of peers, like ASDA and Wm Morrison, the food retail industry remains highly competitive, and Schroders believes this may limit the inflation-proofing of the business moving forward.

Baillie Gifford added to its position in Spirax-Sarco, the global engineering business, on share price weakness. The company has faced cyclical headwinds, partially due to customers running down inventory instead of placing

new orders due to a slowdown in demand following the pandemic. The team believes long-term prospects for both biopharmaceutical and semiconductor investment remain compelling.

Baillie Gifford sold its position in Farfetch, an online luxury platform. While the business has seen revenue growth, the fund managers have become increasingly concerned that the company will not capitalise on its potential.

Outlook

The Baillie Gifford team remains focused on identifying companies that will deliver superior earnings growth and holding on to them long enough for their strengths to emerge as the dominant influence on their share prices. The team is focused on analysing the fundamental characteristics of the businesses it invests in and continues to see opportunities as UK-listed companies trade at discounts to global peers. The team believes the key to generating attractive long-term returns is striking the right balance between growth, quality and resilience. Its approach remains one of patient investment in a portfolio of growing companies with strong competitive positions, run by sensible management teams.

Schroders maintains a focus on constructing a portfolio that is well diversified and consists of its highest conviction stock picks, which it believes will outperform over the long term. The team notes that inflation across the US and UK has moderated more quickly than expected, leading to significant falls in bond yields as markets priced in cuts to interest rates by central banks. Against this backdrop, Schroders continues to conduct in-depth research into new potential investments and assesses their risk-reward compared to the existing portfolio.

Key fund facts (as at 31 December 2023)

Investment manager: Baillie Gifford Overseas Ltd,
Schroder Investment Management North America Inc.

Inception date: 15 October 2019

Domicile: United Kingdom

Benchmark: FTSE All-Share Index

Ongoing charges figure¹: 0.45%

Fund AUM: GBP 36 m

Number of holdings: 78

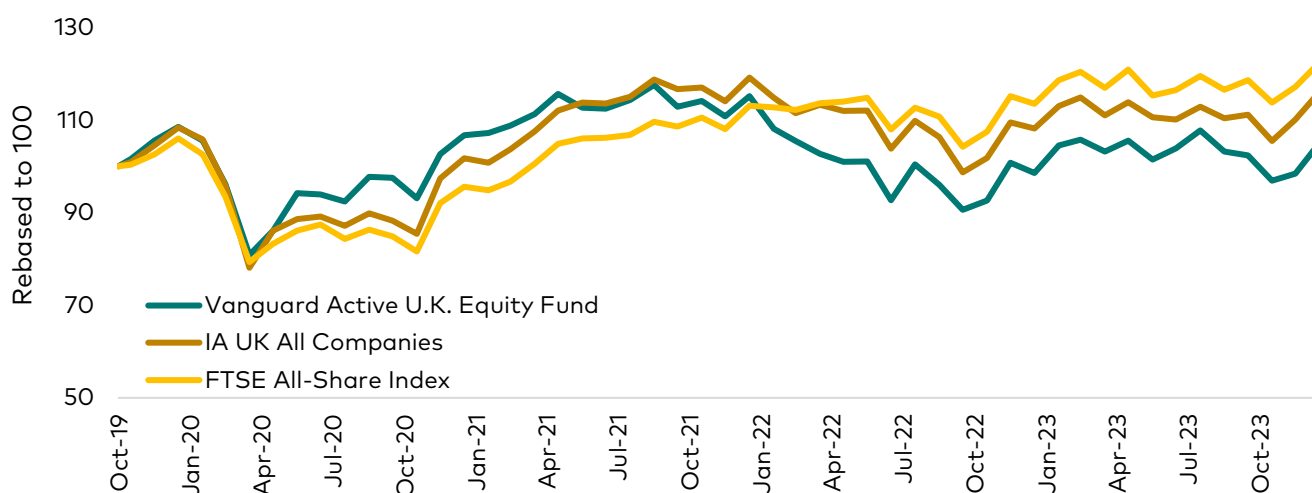
Median market cap: GBP 6.6B

PE ratio: 14.1X

Equity yield (dividend): 3.0%

ISIN: GBO0BK1XRK60

Fund performance (Cumulative % growth, GBP, 15 Oct 2019 to 31 December 2023)



Cumulative (%)	YTD	3 month	1 year	3 yr (ann.)	5 yr (ann.)	Since inception (ann.)
Fund	6.67	2.73	6.67	-0.49	--	1.21
<i>Baillie Gifford</i>	7.74	3.60	7.74	-6.70		-1.25
<i>Schroders*</i>	6.07	2.36	6.07	--	--	7.57
Peer group	7.36	4.50	7.36	4.51	5.56	3.62
<i>Fund relative to peer group</i>	-0.69	-1.77	-0.69	-5.00	--	-2.41
Benchmark	7.92	3.23	7.92	8.61	6.61	4.94
<i>Fund relative to benchmark</i>	-1.25	-0.50	-1.25	-9.10	--	-3.73

Year on year (%)	1-Jan-19 to 31-Dec-19	1-Jan-20 to 31-Dec-20	1-Jan-21 to 31-Dec-21	1-Jan-22 to 31-Dec-22	1-Jan-23 to 31-Dec-23
Fund	--	-1.62	7.87	-14.37	6.67
Peer group	22.37	-6.17	17.14	-9.23	7.36
Benchmark	19.17	-9.82	18.32	0.34	7.92

Past performance is not a reliable indicator of future results.

Source: Vanguard and Morningstar, as at 31 December 2023. 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. Note that small daily changes to cash balances and manager weights mean the fund return is not a simple average of the subadvisor returns over the quarter. *Performance is calculated from 5 September 2022 when the subadvisor mandate was transferred to Schroders.

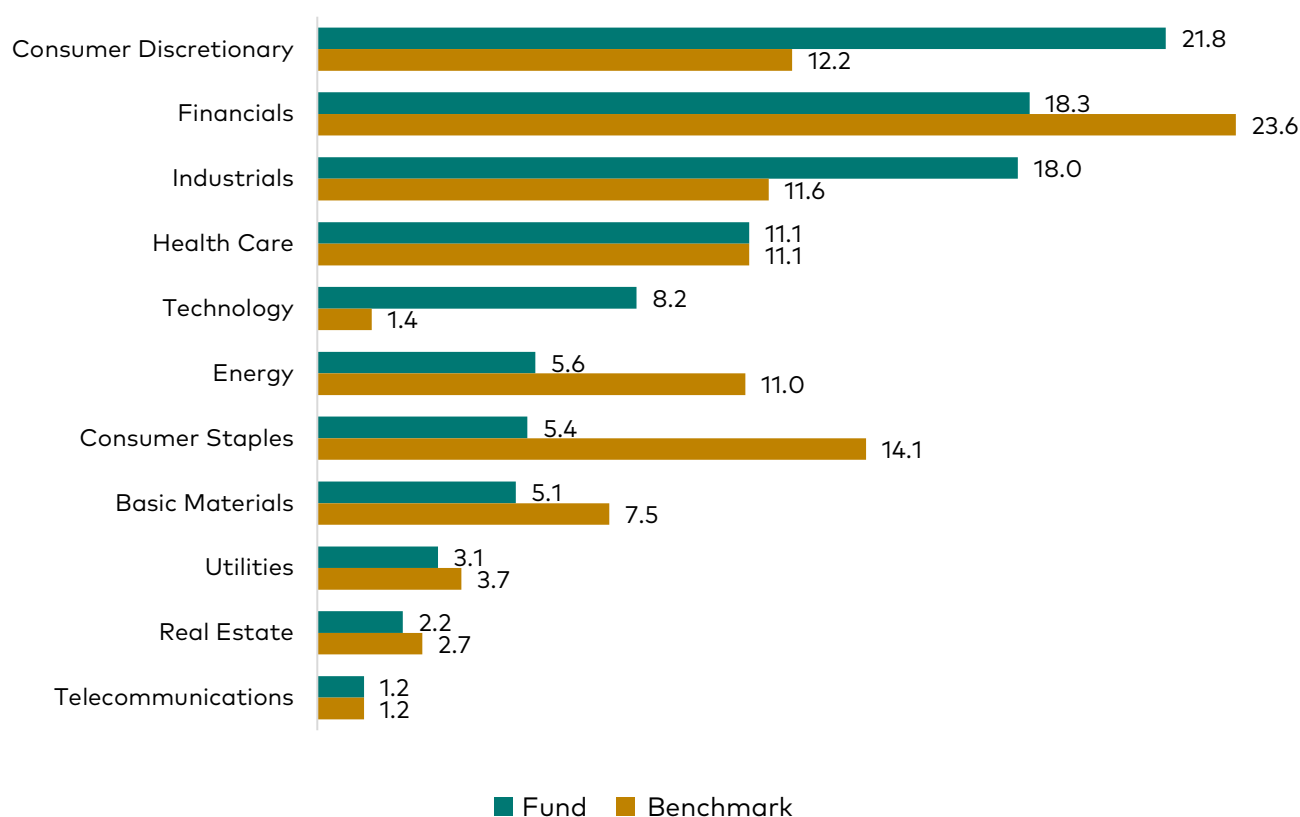
¹The Ongoing Charges Figure (OCF) covers the fund manager's costs of managing the fund. It does not include dealing costs or additional costs such as audit fees.

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Top 10 fund holdings (% exposure, as at 31 December 2023)

Company	%
Shell plc	3.7
Games Workshop Group plc	3.5
Auto Trader Group plc	3.3
AstraZeneca plc	3.2
Experian plc	3.2
4imprint Group plc	2.9
Wise plc	2.4
Standard Chartered plc	2.4
Prudential plc	2.1
GSK plc	2.0

Sector exposure (% exposure, as at 31 December 2023)



Source: Vanguard, as at 31 December 2023.
Benchmark: FTSE All-Share Index

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Performance analysis¹

Top contributors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
Wise plc	2.5	0.0	27.5	0.5
AstraZeneca	3.3	6.8	-4.5	0.3
British American Tobacco p.l.c.	0.0	2.2	-8.7	0.3
Auto Trader Group plc	3.3	0.3	16.8	0.3
BP p.l.c.	1.5	3.4	-11.2	0.3

Top detractors 3-month (%)

Company name	Portfolio weight	Bench weight	3-month return	Total effect
4imprint Group plc	3.0	0.1	-13.0	-0.6
Burberry Group plc	1.5	0.2	-24.9	-0.6
Games Workshop Group PLC	3.6	0.1	-6.6	-0.4
Rolls-Royce Holdings plc	0.0	1.1	35.7	-0.3
Standard Chartered PLC	2.5	0.6	-12.1	-0.3

Top contributors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
British American Tobacco p.l.c.	0.0	2.2	-23.5	1.0
Wise plc	2.5	0.0	55.3	0.8
Abcam plc	0.0	0.0	45.8	0.7
Auto Trader Group plc	3.3	0.3	42.0	0.7
Diageo plc	1.7	2.7	-19.9	0.5

Top detractors 12-month (%)

Company name	Portfolio weight	Bench weight	12-month return	Total effect
HSBC Holdings Plc	1.6	5.4	32.1	-0.8
Burberry Group plc	1.5	0.2	-27.9	-0.8
Rolls-Royce Holdings plc	0.0	1.1	221.6	-0.8
Kainos Group plc	1.4	0.1	-25.8	-0.6
Genus plc	1.5	0.1	-26.3	-0.6

Past performance is not a reliable indicator of future results.

¹Weights are as at the end of the reporting period, but the total effect is based on positions held over the full period.

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 December 2023. 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).

Benchmark: FTSE All-Share Index.

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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.

Past performance is not a reliable indicator of future results.

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

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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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