

Vanguard Emerging Markets Bond Fund

QUARTERLY UPDATE

LOW-COST ACTIVE
FIXED INCOME

The Vanguard Emerging Markets Bond Fund is an actively managed fixed income solution investing primarily in emerging market sovereigns. The fund is managed by Vanguard's fixed income group and aims to generate a diversified, consistent level of return over the long term.

Highlights

- Emerging market bonds returned a solid gain over the quarter.
- The US Federal Reserve's tone turned more hawkish and was a headwind.
- The Vanguard Emerging Markets Bond Fund performed better than its benchmark.
- Country selection, specifically positions in Ecuador, Turkey and Brazil added value.
- Despite a challenging backdrop, emerging market bonds offer pockets of value.

Market overview

Emerging market (EM) bonds enjoyed solid performance in April and May, underpinned by a supportive macroeconomic backdrop and favourable supply and demand dynamics. However, in June, concern regarding discussions on the withdrawal of US Federal Reserve (Fed) support for US bond markets caused sentiment to begin weakening. Nevertheless, over the quarter as a whole, EM bonds, as measured by the JPM EMBI Global Diversified Index, returned 4%¹.

In the early part of the quarter, high-yield bonds led performance but as sentiment on US growth, inflation and likely monetary policy responses shifted, high-quality bonds came to lead. The top-performing high-yield issuers of April and May, such as Ecuador and Argentina, weakened later on in the quarter, despite an absence of any obvious negative news flow.

As the market priced in tighter US monetary policy and its potential to increase US dollar funding costs for EM countries, yield curves steepened across the EM bonds asset class.

The technical backdrop for EM bonds also became less favourable in June, as heavier issuance resumed after a quiet period. Even though investment flows into the market were robust, at US \$6.8 billion, this was not enough to offset the US \$11.5 billion in net new sovereign supply in June². New issuance was dominated by high-yield issuers.

Turkey—one of the largest issuers this year—was among those returning to the market. There was also new supply from Kenya and Cameroon, which may have contributed to Africa's relative underperformance.

EM currencies struggled as exchange rates shifted in favour of the US dollar. The Brazilian real was one of the few currencies that bucked the trend and strengthened against the dollar, aided by positive fiscal news, strong growth and a hike in the country's benchmark interest rate.

¹ Source: Bloomberg as at 8 July 2021.

² Source: J.P. Morgan, as at 30 June 2021.

Strategy, performance and positioning

The Vanguard Emerging Markets Bond Fund recorded a positive absolute return and marginally outperformed its benchmark over the quarter, returning 4.18% compared with a return of 4.02% for its benchmark, the JPM EMBI Global Diversified Index³.

Factors contributing to performance this quarter included country selection. Specifically, the fund benefitted from overweight positions in Ecuador and Turkey as well as an underweight position in Brazil. The largest contributor to performance was Ecuador, where bonds rallied after market-friendly candidate Guillermo Lasso won the presidential election.

The largest detractor from relative performance was the allocation to developed market government bonds. The fund was slightly underweight duration in this segment of assets and this had a detrimental effect on performance as US treasuries rallied.

In terms of the portfolio's positioning, going into the seasonally illiquid summer months, we maintain an underweight exposure to expensive, higher-quality countries. Recent volatility has reinforced our view that investment-grade spreads (the difference in yields between US Treasury bonds and bonds of investment-grade credit quality, of the same maturity) have little further room to benefit from any unexpected credit deterioration.

With lower-quality bonds, we remain selective based on the view that generally bonds that appear cheap are likely to be priced so for good reason.

With government bonds specifically, we remain cautious overall and are taking a more opportunistic (as opposed to strategic) approach, although we believe there is value, notably in longer-dated South African government bonds and could also soon be in Russian government bonds.

Among opportunities in EM currencies, we continue to hold positions where we expect central banks to hike rates and where we are seeing economic recovery taking place, such as the Czech Republic and Hungary. We also hold currency positions in countries where the fundamentals are strong and central banks have already begun to raise interest rates, such as in Russia, and where momentum is strong, such as in Brazil.

Outlook

We have become gradually more cautious on the market given high valuations, the narrative of rising inflation and a likely Fed pivot towards tighter monetary policy, be that through the tapering of asset purchases or interest rate increases.

Nonetheless, the EM bond market offers pockets of value and while spreads remain compressed across the globe, EM debt still offers a relatively higher yield.

A strengthening US dollar makes the outlook for bonds issued in local EM currencies more challenging. However, over the last quarter we've also seen EM central banks turn more hawkish. Brazil, Russia, Mexico, Hungary and the Czech Republic all raised interest rates and as EM countries improve vaccination rates and economic growth picks up, further interest rate rises are possible.

This could present attractive opportunities in some EM currencies and government bonds denominated in select local currencies.

Conversely, opportunities could also emerge in the local currency government bonds of those countries for which the market appears to have priced in overly aggressive rate action by central banks.

In either scenario, in the relative lull of the summer months when price movements can be exaggerated, we are maintaining ample flexibility to take advantage of volatility should unexpected market dislocations arise.

³ Source: Vanguard and J.P. Morgan as at 30 June 2021. See page 3 for more performance information.

Key fund facts (as at 30 June 2021)

Investment manager: Vanguard Fixed Income Group

Inception date: 03 December 2019

Domicile: Ireland

Benchmark: JPM EMBI Global Diversified Index

Ongoing charges figure¹: 0.60%

Fund AUM: GBP 277m

Number of holdings: 214

Average coupon: 5.0%

Average maturity: 11.7 years

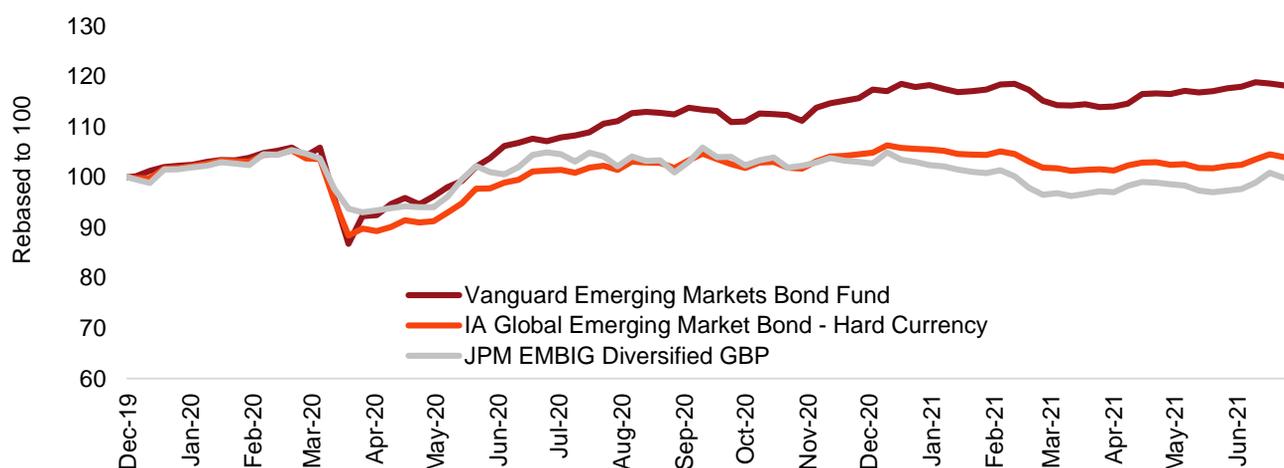
Average quality: BB+

Average duration: 7.0 years

Turnover rate: 335.2%

ISIN: IE00BKLWXP06

Fund performance (as at 30 June 2021)



Cumulative (%)	YTD	3m	1 year	3 yr (ann.)	5 yr (ann.)	Since inception
Fund	0.07	4.18	10.65	--	--	11.35
Peer Group	-2.64	3.62	0.46	3.90	3.21	1.39
Benchmark	-0.71	4.02	6.88	5.24	3.51	3.35

Year on year (%)	1 Jul 2016 - 30 Jun 2017	1 Jul 2017 - 30 Jun 2018	1 Jul 2018 - 30 Jun 2019	1 Jul 2019 - 30 Jun 2020	1 Jul 2020 - 30 Jun 2021
Fund	--	--	--	--	10.65
Peer Group	8.98	-3.89	11.50	0.59	0.46
Benchmark	5.16	-3.06	10.27	-1.11	6.88

Past performance is not a reliable indicator of future results.

Source: Vanguard and Morningstar, as at 30 June 2021. Peer group is IA Global Emerging Market Bond - Hard Currency. 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, and the return may increase or decrease as a result of currency fluctuations.

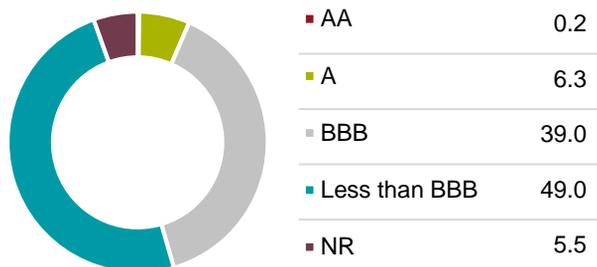
¹The Ongoing Charges Figure (OCF) covers the fund manager's costs of managing the fund. It does not include dealing costs or additional costs such as audit fees.

Fund breakdown (as at 30 June 2021)

Distribution by issuer (% of bonds)

Characteristics	Fund %
Sovereign	67.5
Agencies	19.2
Cash	5.5
Treasury/Federal	4.0
Industrials	1.6
Other	1.4
Supranational	0.6
Utilities	0.3

Distribution by issuer (% of bonds)



Credit quality ratings for each issue are obtained from Bloomberg Barclays using ratings derived from Moody's Investors Service, Fitch Ratings, and Standard & Poor's. When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

The allocations are subject to circumstances such as timing differences between trade and settlement dates of underlying securities, that may result in negative weightings. The fund may also employ certain derivative instruments for cash management or risk management purposes that may also result in negative weightings. Allocations are subject to change. Cash includes physical cash on the account, cash like instruments (such as ultra-short term treasury bonds) and derivative instruments.

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.

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.

The Vanguard Emerging Markets Bond Fund may use derivatives, including for investment purposes, in order to reduce risk or cost and/or generate extra income or growth. For all other funds they will be used 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 Funds 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

This is an advertising document. For professional investors only (as defined under the MiFID II Directive) investing for their own account (including management companies (fund of funds) and professional clients investing on behalf of their discretionary clients). In Switzerland for professional investors only. Not to be distributed to the public.

The information contained in this document is not to be regarded as an offer to buy or sell or the solicitation of any offer to buy or sell securities in any jurisdiction where such an offer or solicitation is against the law, or to anyone to whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so. The information in this document is general in nature and does not constitute legal, tax, or investment advice. Potential investors are urged to consult their professional advisers on the implications of making an investment in, holding or disposing of shares, and the receipt of distribution from any investment.

Vanguard Investment Series plc has been authorised by the Central Bank of Ireland as a UCITS and has been registered for public distribution in certain EEA countries and the UK. Prospective investors are referred to the Funds' prospectus for further information. Prospective investors are also urged to consult their own professional advisers on the implications of making an investment in, and holding or disposing shares of the Funds and the receipt of distributions with respect to such shares under the law of the countries in which they are liable to taxation.

The Manager of Vanguard Investment Series plc is Vanguard Group (Ireland) Limited. Vanguard Asset Management, Limited is a distributor of Vanguard Investment Series plc.

For further information on the fund's investment policies, please refer to the Key Investor Information Document ("KIIDs"). The KIID for this fund is available in local languages, alongside the prospectus via Vanguard's website <https://global.vanguard.com/>

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index referenced herein is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2016, J.P. Morgan Chase & Co. All rights reserved.

For Dutch investors only: The fund(s) referred to in this document are listed in the AFM register as defined in section 1:107 Dutch Financial Supervision Act (Wet op het financieel toezicht). For details of the Risk indicator for each fund listed in this document, please see the fact sheet(s) which are available from Vanguard via our website <https://www.vanguard.nl/portal/instl/nl/en/product.html>.

For Swiss professional investors: The Manager of Vanguard Investment Series plc is Vanguard Group (Ireland) Limited. Vanguard Investments Switzerland GmbH is a financial services provider, providing services in the form of purchase and sales according to Art. 3 (c)(1) FinSA. Vanguard Investments Switzerland GmbH will not perform any appropriateness or suitability assessment.

Furthermore, Vanguard Investments Switzerland GmbH does not provide any services in the form of advice. Vanguard Investment Series plc has been authorised by the Central Bank of Ireland as a UCITS. Prospective investors are referred to the Funds' prospectus for further information. Prospective investors are also urged to consult their own professional advisors on the implications of making an investment in, and holding or disposing shares of the Funds and the receipt of distributions with respect to such shares under the law of the countries in which they are liable to taxation. Vanguard Investment Series plc has been approved for offer in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The information provided herein does not constitute an offer of Vanguard Investment Series plc in Switzerland pursuant to FinSA and its implementing ordinance. This is solely an advertisement pursuant to FinSA and its implementing ordinance for [Vanguard Investment Series plc/Vanguard Funds plc]*. The Representative and the Paying Agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich. Copies of the Articles of Incorporation, KIID, Prospectus, Declaration of Trust, By-Laws, Annual Report and Semiannual Report for these funds can be obtained free of charge from the Swiss Representative or from Vanguard Investments Switzerland GmbH via our website <https://global.vanguard.com/>

Issued in EEA by Vanguard Group (Ireland) Limited which is regulated in Ireland by the Central Bank of Ireland. Issued in Switzerland by Vanguard Investments Switzerland GmbH. Issued by Vanguard Asset Management, Limited which is authorised and regulated in the UK by the Financial Conduct Authority.

© 2021 Vanguard Group (Ireland) Limited. All rights reserved. © 2021 Vanguard Investments Switzerland GmbH. All rights reserved. © 2021 Vanguard Asset Management, Limited. All rights reserved.