

### Economic review

After another broad-based wave of infections at the beginning of the third quarter (Q3), cases and hospitalisations fell in the first weeks of September. The pace of vaccinations slowed, as expected, given the high vaccine coverage in most major economies. Global economic activity continued to recover in Q3, but momentum appears to be slowing, driven by a slowdown in consumption and intensifying global supply chain disruptions. These are contributing to very high inflation rates, in addition to surging energy prices, labour market imbalances and other factors. Despite accelerating inflation, central banks are slowing the rate of asset purchases, reiterating their view that price pressures will prove largely transitory.

In the UK, daily new confirmed cases of Covid-19 came down somewhat from their Q3 peak but remained elevated into mid-September. Hospitalisations and deaths declined and continued at low levels. All remaining domestic restrictions were lifted in July. UK GDP rose to 5.5% quarter-on-quarter (QoQ) in Q2 and remained about 4% below its pre-pandemic level. We expect growth of about 2% (QoQ) in Q3. Headline inflation jumped to 3.2% year-on-year (YoY) in August, while core inflation increased to 3.1% (YoY). Significant price pressures have been building, partially due to global supply-chain disruptions, higher prices and labour market shortages. The Bank of England has

signalled it will start to normalise its ultra-accommodative policy stance soon.

In the euro area, cases declined substantially from their Q3 peak, and hospitalisations and deaths fell to low levels in the second half of the quarter. Euro area GDP expanded by 2.2% (QoQ) in Q2 and remained about 3% below its pre-covid level. The latest survey data points to a modest softening in August and we expect growth of about 1.9% (QoQ) in Q3. Euro area headline inflation hit 3.4% (YoY) in September, which was driven by increasing energy prices due to ongoing natural gas shortages, as well as other factors. Core inflation also rose, to 1.9% (YoY), driven by an uptick in services price inflation. The European Central Bank reaffirmed its view that it sees these pressures as largely transitory. The central bank communicated that it will moderately slow the pace of its emergency asset purchase programme during Q4 from the current EUR 80bn a month.

In the US, daily new Covid-19 cases and hospitalisations declined from midway through Q3. In terms of vaccination efforts, the US has fallen behind other major developed regions, with only about 55% of its population fully vaccinated. US GDP grew at 6.7% (QoQ, seasonally adjusted annual rate) in Q2. We moved our GDP forecast down to 5.5% in Q3 reflecting both a slower growth recovery as well as the impact from the virus resurgence. Headline inflation increased to 5.2% (YoY) driven by food and energy prices, and core inflation eased to

4.0% (YoY). The US Federal Reserve opened the door for rate rises as early as 2022 and confirmed that it will likely start slowing down the pace of asset purchases from November. In terms of fiscal policy, the House of Representatives' vote on the infrastructure bill was postponed due to disagreement amongst the Democrats. In China, the recent Delta outbreak appeared to be under control at the time of writing, with daily new local cases averaging less than five over the first two weeks of September. Owing to health risks, alongside the lagged effects of previous policy tightening and increased regulatory uncertainty, we are likely to see continued below-trend growth of 0.5% (QoQ) in Q3, before growth rebounds to 1.8% in Q4.

#### Key takeaway

What should investors do in response to these developments?

Many investors change their portfolios in a bid to take advantage of the latest news. However, it's very difficult to time these changes effectively. In practice, shifting your portfolio in response to short-term events may lead to little more than increased trading costs.

At Vanguard, we believe that investors will usually be better served by taking a long-term view to their asset allocation and tuning out short term noise. See the back page for more on Vanguard's principles for investing success.

## Portfolio commentary

During Q3 2021, all three models posted modest gains ranging from 0.06% for LifeTarget Defensive model, 0.47% for LifeTarget Cautious model, and 0.69% for LifeTarget Moderate model on a net of fees basis (this includes the ongoing charges figure (OCF) of the underlying holdings and the 20bps portfolio management fee). Since inception, this places the models slightly above their respective long-term minimum returns targets which are 2%, 3% and 4%, respectively.

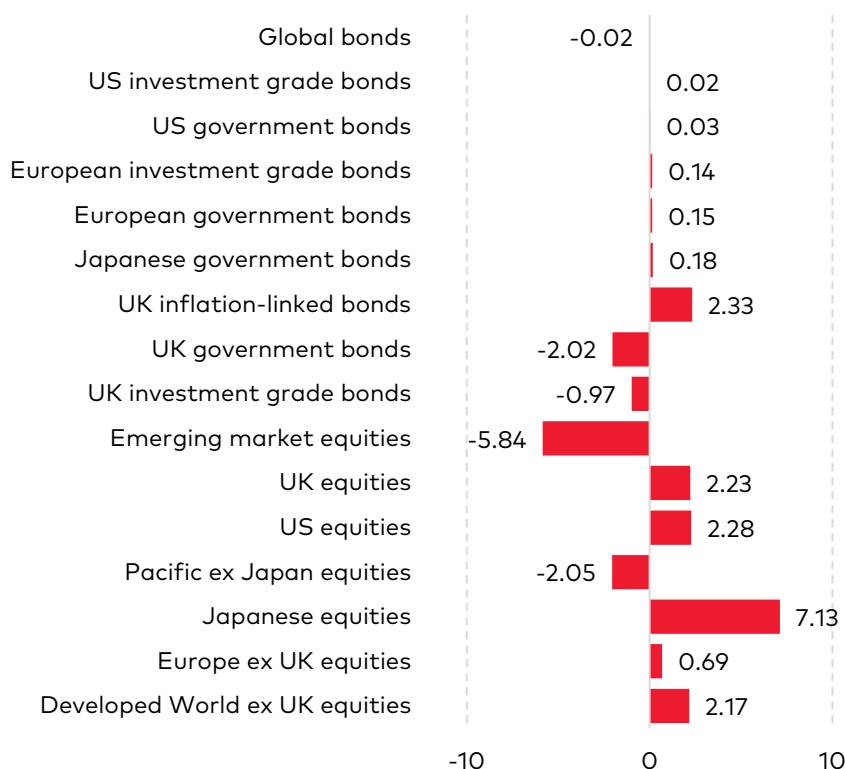
For the majority of the quarter, developed market equities had performed relatively strongly however growth and inflation

concerns towards the end of September led to developed equities giving back some of these gains over the period. Japanese equities were the best performer compared to the other developed markets over the quarter and the overweight to Japan provided the largest contribution to performance across all three models. The UK market provided the next largest contribution despite marginally underperforming the broader global equity market, with the position remaining an overweight based on our long-term valuations framework. Emerging market equities remains an underweight relative to the global portfolio and continued to underperform over the period as they were also impacted by supply chain disruptions as well

as a broader market sell off in Chinese stocks. Within fixed income, yields remained flat over the period after an initial decline reversed towards the end of the quarter amid continuing inflationary concerns. UK fixed income underperformed over the period based on increased expectations for the Bank of England to raise interest rates before the year end.

## Market performance

Equity and bond market total returns in Q3 2021 (%)



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

Source: Vanguard as at 31 August 2021.

Total returns in GBP. Indices used:

Bloomberg Barclays EUR Government Float Adjusted Bond Index Hedged; Bloomberg Barclays EUR Non Government Float Adjusted Bond Index Hedged; Bloomberg Barclays Global Aggregate Float Adjusted Index Hedged; Bloomberg Barclays Global Aggregate USD Credit Float Adjusted Bond Index Hedged; Bloomberg Barclays GBP Non Government Float Adjusted Bond Index; Bloomberg Barclays Japan Government Float Adjusted Bond Index Hedged; Bloomberg Barclays U.K. Government Float Adjusted Bond Index; Bloomberg Barclays U.K. Government Inflation Linked Float Adjusted Bond Index; Bloomberg Barclays U.S. Government Float Adjusted Bond Index Hedged; FTSE All Share Index; FTSE Developed Europe ex U.K. Index; FTSE Developed ex U.K. Index; MSCI Emerging Markets Index; MSCI Japan Index; MSCI Pacific ex Japan Index; S&P Total Market Index Net TR.



### Flexible

Aim to generate sufficient long-term return for advisers to draw on as part of a personalised spending or growth plan



### Targeted

Managed around realistic long-term minimum return<sup>1</sup>



### Intelligent

Allocations adapt each year or after major market events according to Vanguard's latest models



### Low-cost

An all-in cost of just 0.32% to 0.33% per year means investors keep more of their returns<sup>2</sup>

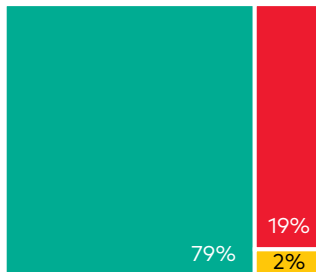
<sup>1</sup> Minimum long-term return targets are not guaranteed and are subject to the performance of the bonds and equities in which the model portfolio invest.

<sup>2</sup> Source: Vanguard. Data as at 31 August 2021. All-in costs include the weighted Ongoing Charges Figures (OCF) and an annual portfolio management fee that covers the discretionary management of the managed portfolio service, ongoing oversight, and regular rebalancing of the portfolios. The portfolio management fee is exclusive of VAT and any adviser, platform, or dealing charges. The OCF covers the fund manager's costs of managing the underlying funds. It does not include dealing costs or additional costs such as audit fees. Minimum long-term return targets are not guaranteed and are subject to the performance of the bonds and equities in which the model portfolio invests. For a full disclosure of all fund costs and charges, please visit our website: [global.vanguard.com/portal/site/portal/ucits](https://global.vanguard.com/portal/site/portal/ucits) mifid priips.

# LifeTarget Model Portfolios

## Defensive

### Target weighting



● Equities ● Bonds ● Cash

All in cost	0.33%
Number of holdings	21,332

### Credit rating breakdown bonds (%)

AAA	33.7%
AA	14.7%
A	24.1%
BBB	26.2%
Less than BBB	0.0%
NR	1.4%

### Underlying funds

Product	Weighting
Vanguard Global Bond Index Fund	53.3%
Vanguard U.K. Investment Grade Bond Index Fund	25.0%
Vanguard FTSE U.K. All Share Index Unit Trust	5.7%
Vanguard FTSE Developed Europe ex-U.K. Equity Index Fund	5.0%
Vanguard U.S. Equity Index Fund	3.8%
Vanguard Japan Stock Index Fund	2.1%
Cash	2.0%
Vanguard Emerging Markets Stock Index Fund	1.5%
Vanguard Pacific ex-Japan Stock Index Fund	1.0%
Vanguard U.K. Government Bond Index Fund	0.7%

### Underlying asset classes



Global Fixed Income	53.3%
UK Corporate Bonds	25.0%
U.K. Equity	5.7%
European ex U.K. Equity	5.0%
US Equity	3.8%
Japanese Equity	2.1%
Cash	2.0%
Emerging Markets Equity	1.5%
Asia ex Japan Equity	1.0%
UK Gilts	0.7%

### Sector breakdown (equities)



Financials	16.7%
Industrials	13.2%
Information Technology	12.4%
Consumer Discretionary	12.0%
Health Care	11.5%
Consumer Staples	9.5%
Materials	7.6%
Communication Services	6.2%
Energy	3.9%
Real Estate	3.2%
Utilities	3.1%
Other	0.8%

Past performance as at 31 August 2021\*

	P1	P2	P3	P4	P5	YTD	Since inception
LifeTarget Defensive Model Portfolio							

Past performance is not a reliable indicator of future results.

Source: Vanguard as at 31 August 2021.

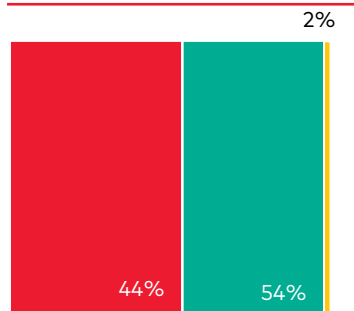
Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares. Basis of fund performance NAV to NAV with gross income reinvested. All performance is calculated in GBP. Numbers relating to rating, asset class or sector exposure may not add up to 100% due to rounding.

\*Performance data not available as model is less than 1 year old.

# LifeTarget Model Portfolios

## Cautious

### Target weighting



● Equities ● Bonds ● Cash

All in cost	0.33%
Number of holdings	21,332

### Credit rating breakdown bonds (%)

AAA	34.2%
AA	18.9%
A	22.5%
BBB	22.9%
Less than BBB	0.0%
NR	1.5%

### Underlying funds

Product	Weighting
Vanguard Global Bond Index Fund	40.2%
Vanguard FTSE U.K. All Share Index Unit Trust	13.1%
Vanguard FTSE Developed Europe ex-U.K. Equity Index Fund	11.7%
Vanguard U.K. Investment Grade Bond Index Fund	11.5%
Vanguard U.S. Equity Index Fund	8.7%
Vanguard Japan Stock Index Fund	4.8%
Vanguard Emerging Markets Stock Index Fund	3.1%
Vanguard U.K. Government Bond Index Fund	2.8%
Vanguard Pacific ex-Japan Stock Index Fund	2.2%
Cash	2.0%

### Underlying asset classes



Global Fixed Income	40.2%
U.K. Equity	13.1%
European ex U.K. Equity	11.7%
UK Corporate Bonds	11.5%
US Equity	8.7%
Japanese Equity	4.8%
Emerging Markets Equity	3.1%
UK Gilts	2.8%
Asia ex Japan Equity	2.2%
Cash	2.0%

### Sector breakdown (equities)



Financials	16.7%
Industrials	13.3%
Information Technology	12.3%
Consumer Discretionary	12.0%
Health Care	11.5%
Consumer Staples	9.5%
Materials	7.6%
Communication Services	6.2%
Energy	3.9%
Real Estate	3.2%
Utilities	3.1%
Other	0.8%

Past performance as at 31 August 2021\*

	P1	P2	P3	P4	P5	YTD	Since inception
LifeTarget Cautious Model Portfolio							

Past performance is not a reliable indicator of future results.

Source: Vanguard as at 31 August 2021.

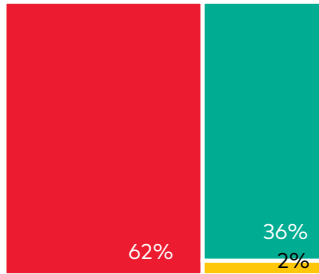
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\*Performance data not available as model is less than 1 year old.

# LifeTarget Model Portfolios

## Moderate

### Target weighting



● Equities ● Bonds ● Cash

All in cost	0.32%
Number of holdings	21,332

### Credit rating breakdown bonds (%)

AAA	34.9%
AA	14.9%
A	23.8%
BBB	24.9%
Less than BBB	0.0%
NR	1.5%

### Underlying funds

Product	Weighting
Vanguard Global Bond Index Fund	26.1%
Vanguard FTSE U.K. All Share Index Unit Trust	18.6%
Vanguard FTSE Developed Europe ex-U.K. Equity Index Fund	15.8%
Vanguard U.S. Equity Index Fund	12.5%
Vanguard U.K. Investment Grade Bond Index Fund	9.4%
Vanguard Japan Stock Index Fund	6.5%
Vanguard Emerging Markets Stock Index Fund	6.0%
Vanguard Pacific ex-Japan Stock Index Fund	3.0%
Cash	2.0%
Vanguard U.K. Government Bond Index Fund	0.3%

### Underlying asset classes



Global Fixed Income	26.1%
U.K. Equity	18.6%
European ex U.K. Equity	15.8%
US Equity	12.5%
UK Corporate Bonds	9.4%
Japanese Equity	6.5%
Emerging Markets Equity	6.0%
Asia ex Japan Equity	3.0%
Cash	2.0%
UK Gilts	0.3%

### Sector breakdown (equities)



Financials	16.7%
Industrials	12.9%
Information Technology	12.6%
Consumer Discretionary	12.1%
Health Care	11.3%
Consumer Staples	9.4%
Materials	7.7%
Communication Services	6.3%
Energy	4.0%
Real Estate	3.1%
Utilities	3.1%
Other	0.7%

Past performance as at 31 August 2021\*

	P1	P2	P3	P4	P5	YTD	Since inception
LifeTarget Moderate Model Portfolio							

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

Source: Vanguard as at 31 August 2021.

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. 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 with gross income reinvested. All performance is calculated in GBP. Numbers relating to rating, asset class or sector exposure may not add up to 100% due to rounding.

\*Performance data not available as model is less than 1 year old.

# Vanguard's principles for investing success

It's easy to be swayed by the latest developments in the markets or the economy, manager ratings or the performance of an individual security or strategy. However, instead of getting caught up in investment noise, we believe that investors stand a better chance of success if they remain focused on the things they can control. We believe there are four fundamental principles that can help investors stay on track. Vanguard's LifeTarget Model Portfolios embody these principles and have been carefully constructed to give investors of all risk appetites the best chance of investment success.

## Goals

### Create clear, appropriate investment goals

An appropriate investment goal should be measurable and attainable. Success should not depend upon outsized investment returns, nor upon impractical saving or spending requirements.

## Balance

### Develop a suitable asset allocation using broadly diversified funds

A sound investment strategy starts with an asset allocation suitable for the portfolio's objective. The allocation should be built upon reasonable expectations for risk and returns, and should use diversified investments to avoid exposure to unnecessary risks.

## Costs

### Minimise cost

You can't control the markets, but you can control the bite of costs and taxes. The lower your costs, the greater your share of an investment's return. In addition, Vanguard research suggests that lower cost investments have tended to outperform higher cost alternatives.

## Discipline

### Maintain perspective and long term discipline

Investing can provoke strong emotions. In the face of market turmoil, some investors may find themselves making impulsive decisions or, conversely, becoming paralysed, unable to implement an investment strategy or to rebalance a portfolio as needed. Discipline and perspective can help investors remain committed to their long term plans.

This quarterly newsletter is designed to give Vanguard LifeTarget Model Portfolio investors an insight into how the portfolios are constructed, how they have performed over the last quarter and to provide an overview of current market and economic conditions.



The Vanguard LifeTarget Model Portfolios are managed portfolio solutions designed to help investors achieve their retirement goals. The portfolios take a long-term approach to asset allocation based on research and forecasts for return, risk, income and correlation, both within and between asset classes. Each of the three portfolios (defensive, cautious, and moderate) has a different weighting of equities and bonds, with the aim of maximising their risk-adjusted return to deliver a minimum return target for investors.



The LifeTarget range utilises a "time-varying" approach to asset allocation, which means that as market conditions change, and with them, the long-term forecasts for bonds and equities, the portfolio allocation can be adjusted to take advantage of the new market conditions.



This involves recalibrating the portfolios at least annually, or after major market events, in order to ensure that the asset allocation remains on track with a view to giving investors the best chance of maximising their risk-adjusted return and achieving their minimum return target. The range is also rebalanced quarterly back to the equity/bond mix at the start of each 12-month period to ensure portfolios do not drift over time.

Vanguard believe that a a minimum long-term return, alongside appropriate asset allocation and broad diversification across sub-asset classes, allows advisers to more confidently help investors navigate their financial plan and assess if they are on track to meet their long-term portfolio objectives.

## Investment Risk Information

The model portfolio aims to achieve at least the minimum target return on an annualized basis over a rolling 5-year period. Achieving the minimum target return is not guaranteed and is subject to the performance of the underlying bonds and equities in which the model portfolio invests. In any given year the performance of the model portfolio may be higher, or lower than the minimum target return and an investor may not get back the full amount 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 risks relating to the underlying funds please see the "Risk Factors" section of the prospectus on our website at <https://global.vanguard.com>.

**IMPORTANT: The projections or other information generated by the Vanguard Capital Markets Model® regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. VCMM results will vary with each use and over time.**

## Important information

**This document is directed at professional investors and should not be distributed to, or relied upon by retail investors.**

This document is designed for use by, and is directed only at persons resident in the UK.

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 /or units of, 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.

The Authorised Corporate Director for Vanguard Investments Funds ICVC is Vanguard Investments UK, Limited. Vanguard Asset Management, Limited is a distributor of Vanguard Investments Funds ICVC.

The Manager of Vanguard FTSE U.K. All Share Index Unit Trust ('Trust') is Vanguard Investments UK, Limited. Vanguard Asset Management, Limited is a distributor of Vanguard FTSE U.K. All Share Index Unit Trust.

For further information on the underlying funds' investment policies, please refer to the Key Investor Information Document ("KIID"). The KIID for the underlying funds are available, alongside the prospectus via Vanguard's website <https://global.vanguard.com/>

The Key Investor Information Document ("KIID") and the Prospectus for Vanguard FTSE U.K. All Share Index Unit Trust is available, on request, via [uk\\_client\\_services@vanguard.co.uk](mailto:uk_client_services@vanguard.co.uk) or telephone 0800 032 3731.

The Central Bank of Ireland has granted authorisation for the Vanguard U.K. Government Bond Index Fund to invest up to 100% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EU Member State, its local authorities, non-EU Member States or public international bodies of which one or more EU Member States are members. The Vanguard U.K. Government Bond Index Fund invests more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by the UK.

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