defaqto

ESG Review

Vanguard

SustainableLife 80-90% Equity Fund

June 2023

Vanguard

For professional advisers only

ESG Review

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Key facts

- The SustainableLife range is managed by Wellington Management Company, Vanguard's oldest external advisory partner. Wellington had over 1 Trillion USD in client assets under management as of 31 March 2023.
- Wellington's aim is to invest 60% of the funds' shares and corporate bonds in companies with net-zero science-based targets by 2030, increasing to 90% by 2040.
- The fund aims to provide a range of exposures, from companies with a current sustainability focus to those that are making good progress in transitioning towards sustainability.
- Wellington have a well-resourced Sustainable Investment Team; a number of proprietary ESG resources; and a partnership with the Woodwell Climate Research Center, a leading climate research institute.

Fund information

Launch Date	08 December 2021
Manager	Wellington Management
Domicile	GBR
Assets	Active
Approach	Return Focused
Type	OEIC

PRI signatory[1]	A+
UK Stewardship Code signatory	Yes
Category	GBP Allocation 80+%
Defaqto Diamond Rating Type	n/a
Diamond Rating	n/a

[1]Principles for Responsible Investment (PRI)

ESG policy and alignment

Exclusions: Yes

The Vanguard SustainableLife range consists of three low-cost, actively managed funds with the goal of providing investors an all-in-one solution for sustainable long-term growth. The range is managed by Vanguard's oldest external advisory partner, Wellington Management Company.

The range has a number of exclusions, which include: companies with revenue from thermal coal power generation of more than 30% and thermal coal extraction of more than 10%, 0% exposure to controversial weapons or nuclear weapons, 0% to tobacco producers or companies than generate more than 25% of their revenue from the sale of tobacco, and companies that earn more than 5% of their revenue from oil sands.

Although the fund does have some exposure to the aforementioned areas (see p4 for details), we found none of the holdings to be in violation of the exclusions policy.

Levels of ESG investing

For full details, please refer to p5

Sustainable Development Goals (SDG) focus

While sustainability is a strategic priority for Wellington, they do not specifically target or align the portfolio to particular SDGs.

The team instead focuses on what they believe to be the drivers of a business's long-term profitability: strong returns on capital and superior stewardship characteristics.

ESG factors

Environmental

Less than 1%	Between 1% and 10%	More than 10%

Environmental Exposures	Product Involvement
Fossil Fuel	12.6%
GMO	-
Nuclear	5.2%
Oil Sands Extraction	2.7%
Palm Oil	-
Pesticides	-
Thermal Coal	2.0%

The fund's most notable exposure is to fossil fuels, but there is no specific exclusion against this.

A large portion of the fund's nuclear and thermal coal exposure comes from its holding in Duke Energy, a US utility company. When this was raised during our meeting, the team stated that although 27% of Duke Energy's power generation is currently from coal, they expect to reduce this to 5% by 2030 and plan to generate some of their energy using advanced nuclear (an emerging clean energy technology).

The oil sands extraction exposure predominantly comes from the fund's holding in TotalEnergies, however, this is less than the 5% revenue limit stated in the range's exclusion policy.

There is no exposure to nuclear weapons.

Source: Based on availability of Morningstar ESG data as at 30 April 2023

Social

Social Exposures	Product Involvement
Adult Entertainment	-
Alcohol	<1%
Animal Testing (Pharmaceutical)	11.7%
Animal Testing (Other)	8.2%
Controversial Weapons	-
Fur and Specialty Leather	-
Gambling	<1%
Military Contracting	2.8%
Small Arms	-
Tobacco	-

The fund has a high exposure to animal testing, however, this is a common feature across our ESG Reviews given exposure to the healthcare industry and the legal requirement to test new pharmaceuticals on animals. Non-pharmaceutical animal testing is from holdings such as Colgate-Palmolive, Unilever, Mondelez International, and Nestle. Wellington have stated that where a company in the portfolio is required to have its products tested on animals, they look to ensure they are incorporating best practices.

The military contracting exposure comes from the fund's holding in companies such as MTU Aero Engines, where a portion of their revenue comes from producing engines for military aircrafts; and Curtiss-Wright Corp, which provides technologies that are used in the defence industry.

There is a strict policy against controversial weapons. As a result, seven companies were removed from the fund when it moved to SustainableLife in December 2021.

Source: Based on availability of Morningstar ESG data as at 30 April 2023

Governance

Wellington are a member of the International Corporate Governance Network (ICGN), which aims for the highest standards of corporate governance and investor stewardship worldwide.

They assess a companies corporate governance through their engagements. The companies in which the fund invests must follow good governance practices as a precondition for investment. The manager considers good governance to be a standard of governance which is broadly reflective of industry-established norms and practices with regards to management structures and decision-making, accountability to shareholders, compensation structures, corporate culture, compliance with applicable law and absence of negative events which are likely to have a material adverse impact on the financial returns of the company.

Levels of ESG investing

Within this section, we look at the various levels of ESG across the portfolio. We use the IA responsible investment framework across three classifications: ESG integration, sustainability focus and impact (exclusions are covered on p3).

The dials represent zero, low, medium, or high exposure relative to Defaqto's ESG Review universe. The exposures are calculated through our internal assessment of the underlying funds or holdings in the portfolio. The exposure boundaries used within each level are non-linear, for example, it is common to see higher levels of ESG integration relative to impact focus, so our threshold for impact focus is lower. The dials are not mutually exclusive.

ESG integration

ESG integration can be seen as a form of risk mitigation, where ESG risks are considered as part of traditional financial analysis.

Wellington assess the ESG risks for all of their holdings with the exception of cash and sovereign debt.

Sustainability focus

Sustainability focus funds invest in assets with specific sustainability goals and/or themes.

Although the SustainableLife range currently has a low exposure to sustainability focus relative to our ESG Review universe, it was highlighted in our meeting that the team do not just invest in companies at a good sustainable starting point but also look for companies making good progress in transitioning towards sustainability. An example of this is the fund's holding in TotalEnergies, a multinational energy company that is decreasing the average carbon footprint of their energy mix with the aim of getting to net zero by 2050.

Wellington are a member of Climate Action 100+ and advocate the use of science-based targets. They aim to invest 60% of the fund's shares and corporate bonds in companies with net-zero science-based targets by 2030, increasing to 90% by 2040.

Impact focus

Impact investments are made with the intention of achieving a positive, measurable environmental or social impact.

Although a number of the fund's holdings will having a positive impact, the fund does not have a specific impact focus in the mandate. As such, the team do not explicitly track whether the companies they own have an impact agenda.

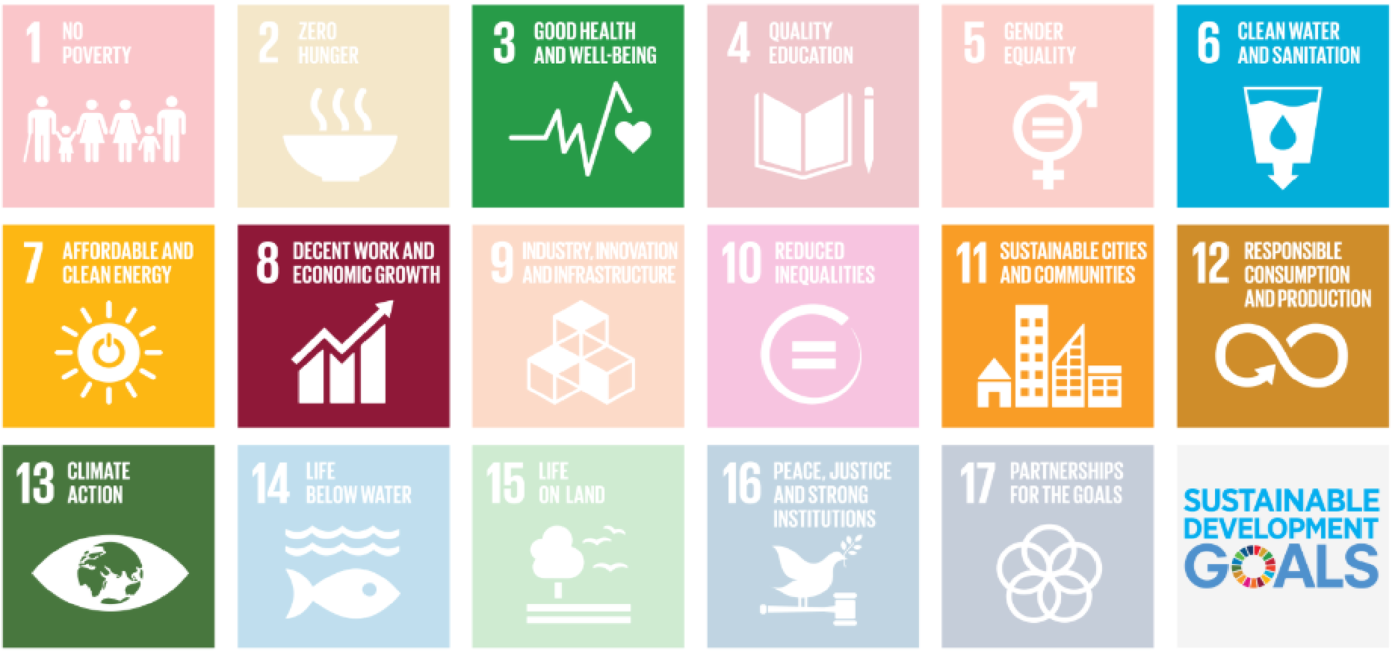
Wellington consider ESG factors more broadly and their impact on a company's ability to create value, for example through their engagements they will look for evidence of tangible improvements where ESG considerations are not yet best-in-class .

Top 10 holdings

Name	Sector	% of assets
Microsoft Corp	Technology	2.9
Johnson & Johnson	Healthcare	2.4
AstraZeneca PLC ADR	Healthcare	2.3
Cisco Systems Inc	Technology	2.0
Novartis AG Registered Shares	Healthcare	2.0
TotalEnergies SE	Energy	1.9
Chubb Ltd	Financial Services	1.7
UnitedHealth Group Inc	Healthcare	1.7
Alphabet Inc Class A	Technology	1.6
Duke Energy Corp	Energy	1.6

Source: Morningstar, June 2023

Sustainable Development Goal (SDG) focus



Source: Morningstar Direct, June 2023

Engagement with corporates and/or funds

Wellington has a strong engagement policy and during the course of 2022 the firm held over 18,500 meetings with more than 4,500 public-market issuers across 86 countries. Each meeting had an agenda, including the most material E,S, or G issues and progress was tracked using Wellington's proprietary engagement tracking tool. In 2022, Wellington prioritized climate change; diversity, equity, inclusion (DEI); director time commitments (overboarding); and board refreshment.

Resources

In 2018, Wellington began collaborating with the Woodwell Climate Research Center, who are a leading climate research institute. Woodwell provide Wellington with science-based climate data that they can apply to capital markets and bring to their engagement meetings, leading to more focused engagements.

As well as Woodwell, Wellington have previously partnered with the Massachusetts Institute of Technology (MIT) with a focus on climate transition risk. Wellington are also a founding member of the Net Zero Asset Managers Initiative and a member of the Climate Action 100+.

They have a well-resourced Sustainable Investment Team, comprising of 35 individuals as well as a Climate Research Team and an ESG Research Team, who provide proprietary ESG ratings on companies. As previously mentioned, the teams use an in-house Sustainable Investment/ESG reporting dashboard and an engagement tracking tool.

Vanguard's ESG policy

Given the large number of index-trackers managed by Vanguard, there are no blanket ESG policies that apply across the firm.

They are an advocate for responsible corporate governance as a driver of long-term value creation.

The firm is also a signatory of the Women in Finance Charter and have committed to reducing the gender pay gap, having made progress towards this by increasing the representation of women in senior roles across the organisation.

About Defaqto

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