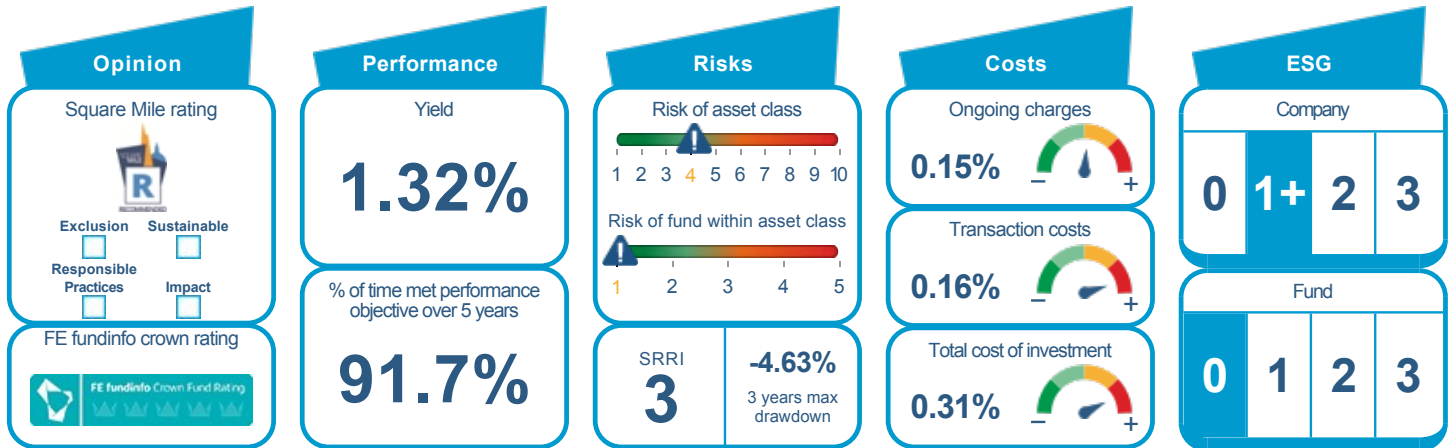


Vanguard Global Bond Index Hedged Inc GBP

November 2021
Investment Research



Overview

The fund is focused on generating a secure but variable level of income through investment into high quality investment grade bonds. The level of income on the fund is not guaranteed and will vary depending on prevailing interest rates and associated coupons (interest payments) available on these bonds. The current yield on the fund is relatively low, reflecting the low interest rate environment.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
		●	

Square Mile Expected Outcome

We believe a return that closely matches that of the Bloomberg Barclays Global Aggregate Float Adjusted Index Hedged in GBP Index is a reasonable expectation for this passive investment strategy.

Active/Passive: Passive	Domicile: Ireland
Asset Class: Fixed Income	IA Sector: IA Global Mixed Bond
Launch Date: 31/03/2008	Fund Size (as at 12 Nov 2021): £17235.1m
Yield: 1.32%	Distribution Pay Date: Mar 29, Jun 29, Sep 28, Dec 31 (Final)
Fund Manager: -	Ongoing Charge Figure: 0.15%
	Transaction Cost ex Ante: 0.16%



Fund Opinion

We believe that Vanguard have a very strong commitment towards managing passive strategies.

Our rating on this fund is based upon our opinion of the suitability of the index tracked, the management group's commitment to operating passive strategies, the size of the fund, the fund's cost and its good historic record of tracking the index.

Investors should note that they are unlikely to attain exact index performance in this fund due to the payment of fees as well as any small tracking errors brought about by inefficiencies in the fund's management process, such as not being fully invested at any one point.

The Bloomberg Barclays Global Aggregate Float Adjusted Bond index consists of investment grade bonds issued by governments, government related agencies and companies across the globe. Approximately 50% of this debt is issued by governments, 10% is held in securitised fixed income holdings and the balance is in corporates and government related agency bonds. From a country perspective approximately 40% of the debt is U.S. domiciled and 3-5% will be in emerging markets debt. The index is structured in such a way that the largest constituents will be the governments and companies with the highest absolute levels of debt. This could create a concern from a credit risk perspective, however its difficult to avoid given the size of the investment universe.

The maturity profile of the index also tends to be quite long and, as such, the fund may be more suitable for long-term investors, as in the shorter term the fund could be quite volatile.

Fund Description

Vanguard is one of the world's largest managers of passive strategies. The organisation is mutually owned by investors in its US domiciled funds and the company has a policy to return profits to all its clients through lower charges. The firm offers an extensive range of index funds to its international client base.

The fund is structured as an Irish domiciled OEIC with UK reporting status. The fund invests in physical securities and adopts a stratified sampling approach. A stratified sampling approach is commonly used when tracking a bond index with a large number of constituents due to the high costs that would be involved in purchasing every bond in the index because of the relatively illiquid nature of the underlying market. The portfolio managers start with identifying the main risks that drive the performance of the index, such as, credit risk, interest rate risk, time to maturity and sector, industry and geographical exposure. This is then used as a framework for selecting securities that will result in a portfolio with similar risk/return characteristics to the index. Investors should be aware that a stratified sampling approach will lead to a higher tracking error gross of fees compared to a full replication approach, but net of fees the results are generally similar.

The fund cut off for dealing is 12.00 GMT, however the funds are not priced until the following close of business in the underlying market. This means that from a reporting perspective the fund continues to closely track its index. This removes any need to apply a fair value adjustment to the fund to align its price with that of the tracked index. We believe that this represents good practice for index funds investing overseas although investors should be aware of the short time delay in obtaining full exposure to a market as a result.

This fund operates with a full swing pricing policy. This means that units in the fund are bought and sold at the same price. The fund's management will apply a small spread if there are net flows into or out of the fund. This involves adding (in the case of net inflows) or subtracting (in the case of net outflows) the costs of creating or cancelling units in the fund and means that the incoming or exiting investors will bear these costs rather than the current investor base. Because Vanguard consider total daily net flows, an existing investor may benefit if they exist when there are net inflows as they are selling at a slightly higher price. Conversely when there are net outflows, a buyer will be buying shares at a slightly lower price. We consider this policy to be good practise, as it protects the interests of those who continue to hold the fund.

The fund does not undertake any stock lending activity.

Risk Summary

The fund invests in global fixed interest instruments and the major risks are likely to be interest rate risk and credit risk. The nature of this market means that the average maturity of the securities in the fund is always likely to be high. Any rise in real bond yields may have a negative impact on the fund's value over the shorter and medium term. In addition, investors should be aware that investing in passive funds, whilst eliminating many of the biases and potential for misjudgements inherent in actively managed strategies, brings risks of its own. This is largely due to the fact that the managers of the fund have little to no discretion as to the timing of trades and the selection and sizing of holdings. Investors should also be aware that in a sharp sell off the fund will fall in line with the index and that there is no flexibility for the managers to mitigate this.

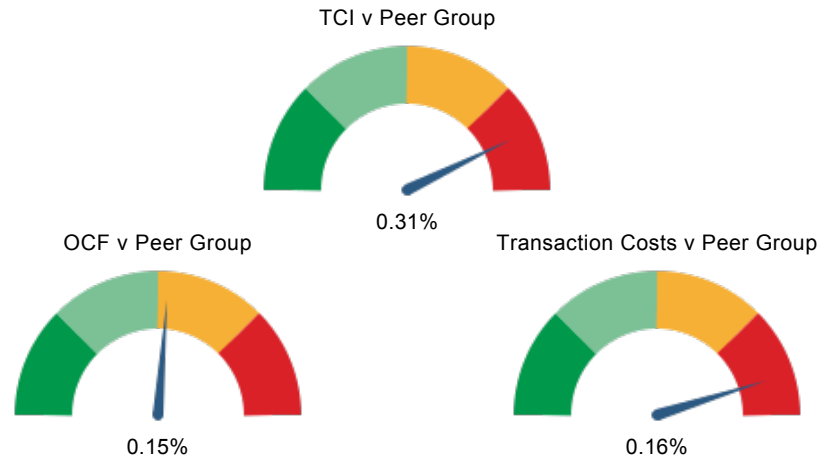
Because this is a passive fund that tracks its benchmark, the funds risk score is a nature of funds in the peer group and not the fund. The funds low risk score, shows that the peer group has a large number or risky funds relative to the benchmark.

The performance, all else equal, is likely to lag the index slightly over time because of the impact of fees, although the managers will try to regain some of this by taking small views, where allowed, on the timing of purchases and sales.

Value for Money

The fund's Total Cost of Investing (TCI) is in the fourth quartile of passive funds in the Global Bonds peer group and therefore above its peer group median. This fund is still significantly cheaper than active global bond funds and given that the fund has reasonably tracked its benchmark over the long term we believe its represents fair value for money.

Vanguard have adopted an all in fee structure, so the Annual Management Charge is equal to the OCF. The OCF will remain stagnant until reviewed by Vanguard, however the TCI will change depending on changes to the funds ex ante transaction costs.



ESG Integration

Company Assessment	0	1+	2	3
The company has made ESG factors available to the investment teams as an input to their analysis, but they are not compelled to consider that as a factor when making investment decisions.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
There is no discernible approach to, or consideration of ESG factors in the fund's investment process.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Information

Annualised Return	3.70%
Annualised Volatility	3.51%
Max Drawdown	-4.63%
Max Gain	3.27%
Max Loss	-4.63%
Sharpe Ratio	0.93
Sortino Ratio	0.73

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 11 Nov 2021)

£138.6

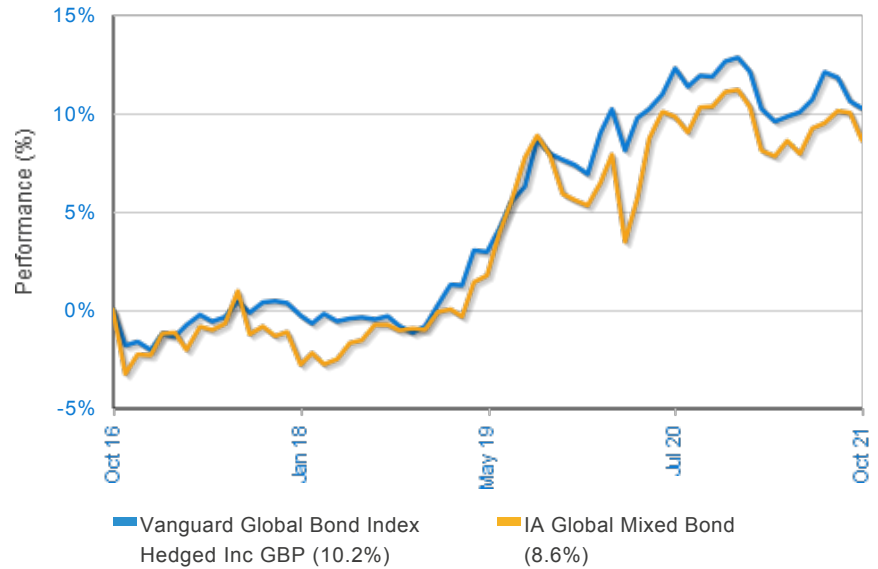
Benchmark

Bloomberg Barclays Global Aggregate Float Adjusted Bond Index

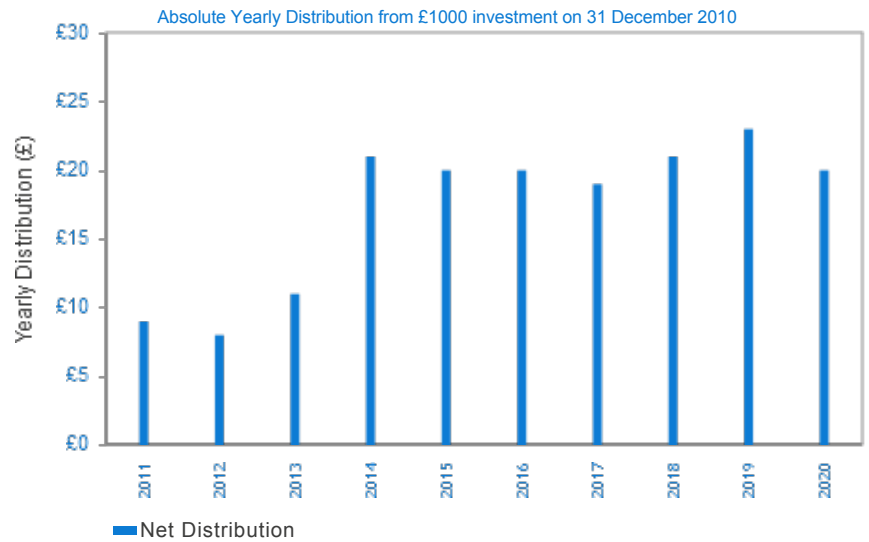
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	-1.2	-0.2	-
12-24m	3.7	2.3	-
24-36m	8.8	9.0	-
36-48m	-0.7	0.2	-
48-60m	-1.4	0.8	-

Capital Growth



Income



■ Net Distribution

This graph assumes that income is distributed to shareholders and not reinvested.

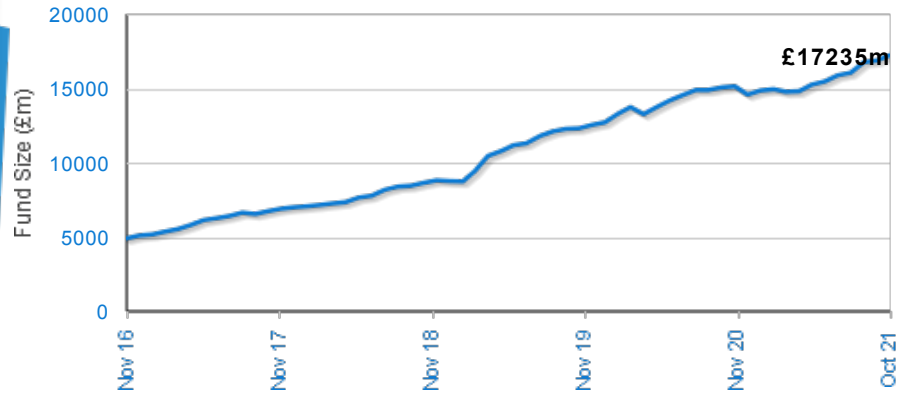
Credit Rating (Data as at 30 Sep 2021)

Name	%
AAA	41.2
AA	15.8
A	22.6
BBB	19.3
Non-Rated / Others	1.1

Bond Maturity

(Data as at 30 Sep 2021)

Name	%
Cash & Floating Rate Notes	-
1-3 Years	1.1
3-5 Years	41.6
5-15 Years	31.0
15+ Years	26.3

Assets Under Management

Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			●
Interest Rate Risk	●		
Credit Risk	●		
Exchange Rate Risk			●
Liquidity Risk		●	
Emerging Markets Risk			●
Derivative Risk		●	
Manager Risk			●

Equity Risk

The fund has no material direct exposure to shares.

Interest Rate Risk

The fund is predominately invested in high quality fixed interest markets. The fund price may fall if interest rates climb more rapidly than expected.

Credit Risk

The fund has significant exposure to high grade government and corporate debt. Widespread credit downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

Exchange Rate Risk

The fund has exposure to assets denominated in foreign currencies but the managers almost entirely hedge the foreign exchange risks away.

Liquidity Risk

The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

Emerging Markets Risk

The fund predominantly invests in the bonds of governments and companies operating in developed markets. That said the fund does have small exposures to some emerging market bonds.

Derivative Risk

The fund uses derivative strategies to mitigate currency risk within the fund. These are complex instruments and investors should be aware that there is a chance that they may not behave in a manner that the manager intends.

Manager Risk

The fund is managed using a team-based approach and no one individual is seen as a critical element in Square Mile's rating on the fund.

FE Risk Rating: 18.00

SRRI: 3

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