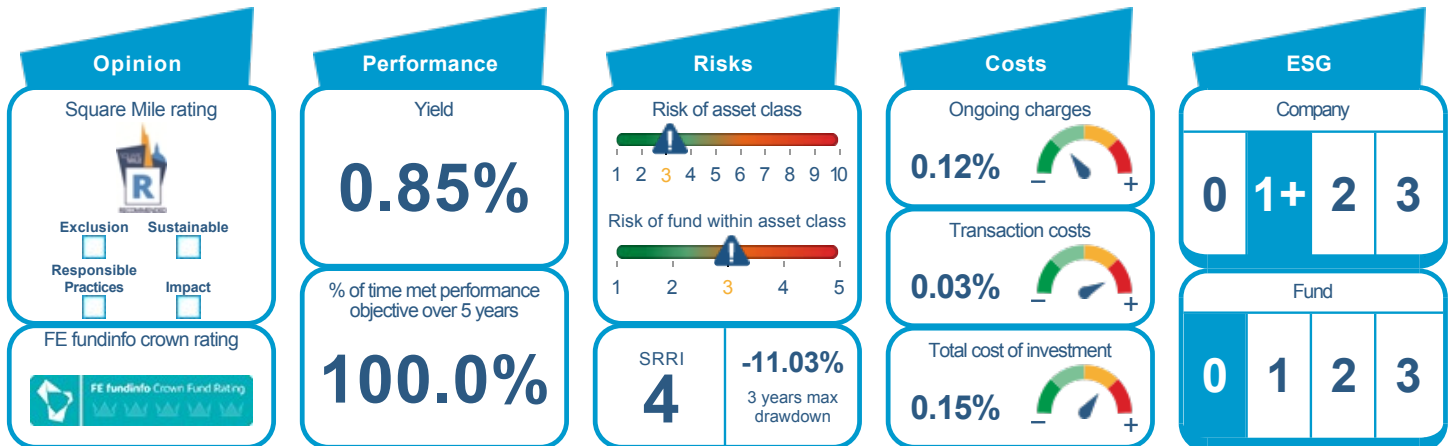


Vanguard UK Government Bond Index Inc GBP

November 2021
Investment Research



Overview

The manager of the fund aims to deliver a secure but variable income that is comparable to the UK Government Bond market. The current yield on the fund is low, reflecting the interest rate environment.



Square Mile Expected Outcome

We believe a return that closely matches that of the Bloomberg Barclays U.K. Government Float Adjusted Bond Index is a reasonable expectation for this passive investment strategy.

Active/Passive: Passive	Domicile: Ireland
Asset Class: Fixed Income	IA Sector: IA UK Gilts
Launch Date: 23/06/2009	Fund Size (as at 11 Nov 2021): £4576.2m
Yield: 0.85%	Distribution Pay Date: Mar 29, Jun 29, Sep 28, Dec 31 (Final)
Fund Manager: -	Ongoing Charge Figure: 0.12%
	Transaction Cost ex Ante: 0.03%



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 not being fully invested.

The Barclays U.K. Government Float Adjusted Bond index consists of bonds of any maturity, which are issued by the UK government. The index only consists of free floating bonds, and excludes those held by private corporations or governments who have no intention of ever selling them. The maturity profile of the index is likely to be quite long, and, as such, the fund may be more suitable for long-term investors. In the shorter term the fund could be relatively 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. It invests in physical securities and adopts a stratified sampling approach. This approach is commonly used when tracking a corporate bond index, due to the high costs involved in purchasing every bond in the index and the illiquid nature of the market. The portfolio managers start by identifying the main risks that drive the index's performance, such as credit and interest rate risk, sectors, length of maturity, industry and geographical exposure. This is then used as a framework for selecting securities that will result in a portfolio with similar risk and return characteristics as 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 12pm 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 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 existing investors. 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 UK government bonds. The nature of this market means that the average maturity of the securities in the fund is always likely to be high and can be in excess of 10 years. 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.

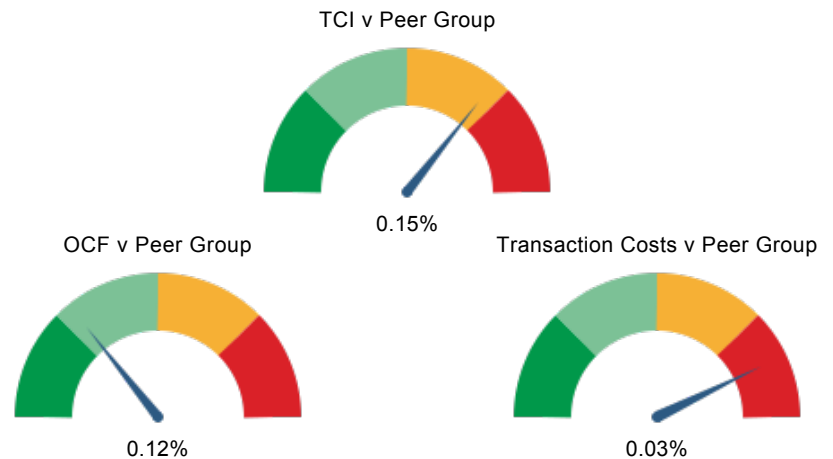
Because this is a passive fund that tracks its benchmark, the funds risk score is a nature of funds in the peer group and not the fund. The funds risk score of 3, shows that the peer group has broadly an equal number of funds that are more and less risky than the benchmark.

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 third quartile of passive funds in the UK Gilts peer group and therefore just above its peer group median. Over the long term the fund has reasonably tracked its benchmark, therefore we believe that the fund 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
☐	☐	☐	☐

Additional Information

Annualised Return	3.88%
Annualised Volatility	8.53%
Max Drawdown	-11.03%
Max Gain	6.28%
Max Loss	-7.07%
Sharpe Ratio	0.41
Sortino Ratio	0.41

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

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

£143.1

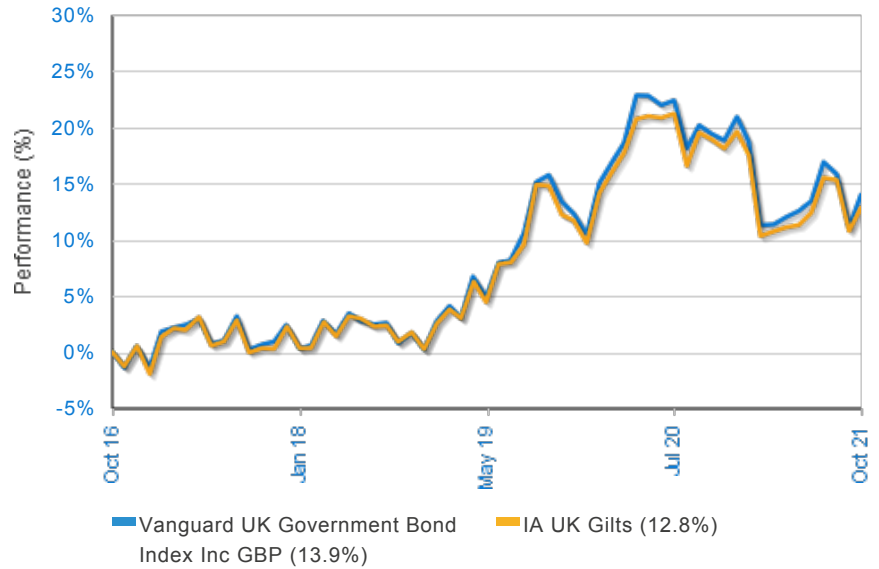
Benchmark

Bloomberg Barclays U.K. Government Float Adjusted Bond Index

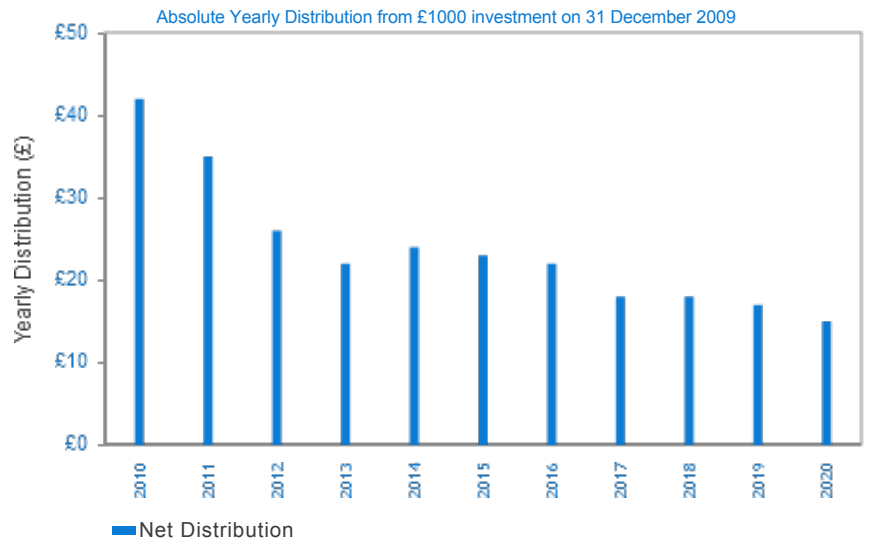
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	-7.5	-7.3	2
12-24m	3.8	4.1	1
24-36m	14.8	13.7	1
36-48m	0.6	0.9	1
48-60m	-4.1	-5.6	3

Capital Growth



Income



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

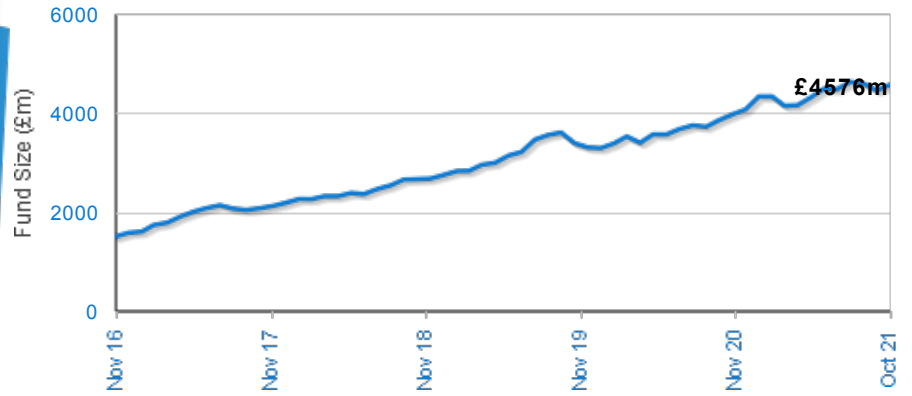
Credit Rating (Data as at 30 Sep 2021)

Name	%
AA	98.9
A	0.4
Non-Rated / Others	0.7

Bond Maturity

(Data as at 30 Sep 2021)

Name	%
Cash & Floating Rate Notes	-
1-3 Years	0.7
3-5 Years	21.8
5-15 Years	18.4
15+ Years	59.1

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

This fund does not have significant exposure to corporate debt.

Exchange Rate Risk

The fund is predominantly invested in domestic assets.

Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

Emerging Markets Risk

The fund predominantly invests in developed markets.

Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

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: 49.00

SRRI: 4

Disclaimer

This factsheet is aimed at professional advisers only and should only be relied upon by such persons. It is published by, and remains the copyright of, Square Mile Investment Consulting and Research Ltd ("SM"). Unless agreed by SM, this commentary may only be used by the permitted recipients and shall not be provided to any third parties. SM makes no warranties or representations regarding the accuracy or completeness of the information contained herein. This information represents the views of SM at the date of publication but may be subject to change without reference or notification to you.

The value of investment in funds can fall as well as rise, as can any income payment received from an investment. Any information relating to past performance is not a guide to future performance. If you are unsure of an investment decision you should seek professional financial advice.

SM does not offer investment advice or make recommendations regarding investments and nothing in this factsheet shall be deemed to constitute financial or investment advice in any way and shall not constitute a regulated activity for the purposes of the Financial Services and Markets Act 2000.

This factsheet shall not constitute or be deemed to constitute an invitation or inducement to any person to engage in investment activity. Should you undertake any investment activity based on information contained herein, you do so entirely at your own risk and SM shall have no liability whatsoever for any loss, damage, costs or expenses incurred or suffered by you as a result. The fund's prospectus provides a complete description of the risk factors. Unless indicated, all figures are sourced from FE fundinfo. The information in this factsheet is believed to be reliable but its completeness and accuracy is not guaranteed. SM does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.