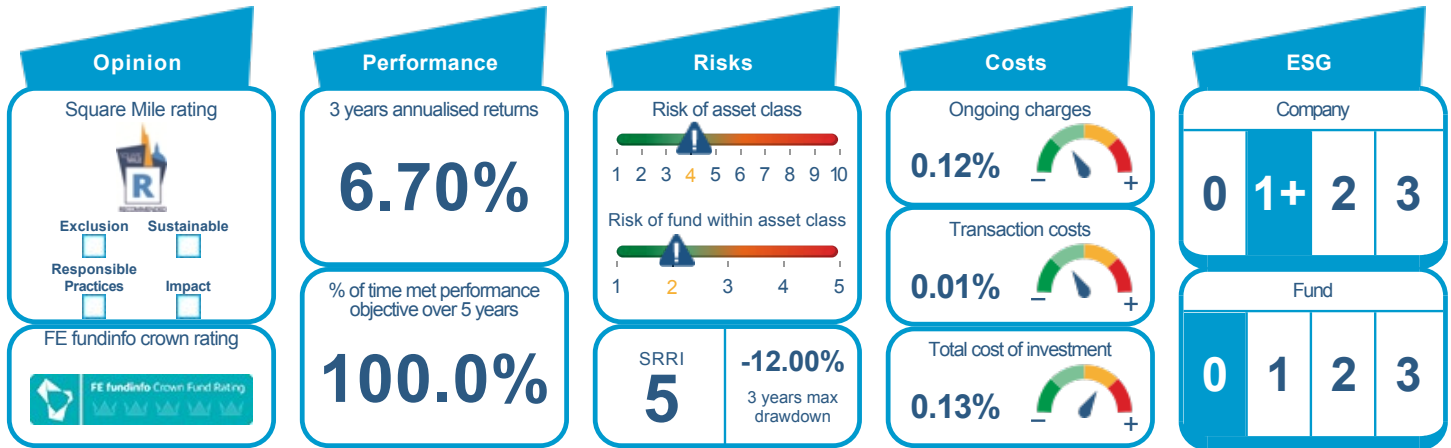


Vanguard UK Inflation-Linked Gilt Index Inc GBP

November 2021
Investment Research



Overview

The fund protects the value of both capital and income from the effects of inflation over the long term, providing returns which are linked to UK RPI (Retail Price Index), which is a measure of inflation. Historically UK government index linked bonds have proved to be a good hedge for UK inflation over the longer term due to the explicit link of the bonds' capital and income returns to the UK RPI index. Investors should note, however, that in the shorter term these bonds can be affected by market and sentiment factors and can trade away from their long-term fundamental value as defined by their inflation linkage.

| Capital Accumulation | Capital Preservation | Income | Inflation Protection |
|----------------------|----------------------|--------|----------------------|
| | | | ● |

Square Mile Expected Outcome

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

| | |
|--|--|
| Active/Passive: Passive | Domicile: United Kingdom |
| Asset Class: Fixed Income | IA Sector: IA UK Index Linked Gilts |
| Launch Date: 03/02/2011 | Fund Size (as at 12 Nov 2021): £2505.1m |
| Yield: 0.00% | Distribution Pay Date: Feb 01, May 01, Aug 01, Nov 01 (Final) |
| Fund Manager: Vanguard Fixed Income Group | Ongoing Charge Figure: 0.12% |
| | Transaction Cost ex Ante: 0.01% |



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.

The Barclays UK Government Inflation-Linked Float Adjusted Bond index consists of bonds issued by the UK government, whose principal value is linked to (i.e. increases or decreases in line with) UK inflation as measured by the Retail Price Index (RPI). The index only consists of free floating bonds, and excludes those held by private corporation or governments who have no intention of ever selling them. The nature of the market means that the index tends to have a long maturity profile and, as such, the fund may be volatile, particularly in the short term and more suited to long term investors.

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 a UK domiciled OEIC. The fund 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 that would be involved in purchasing every bond in the index which arise from the illiquid nature of the underlying market. The portfolio managers start by 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 and 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 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 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 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 which, in aggregate, will usually have an average maturity profile of over 20 years. Any rise in bond yields may have a negative impact on the fund's value over the shorter and medium term. Investors should note that, whilst in the longer term both capital and income returns should be highly correlated to UK inflation, in the shorter term the capital value of the fund is likely to be impacted by more technical market and sentiment factors. As a result, it may differ quite substantially from the longer term fundamental value of the underlying bonds as predicted by the inflation linkage. 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 therefore 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.

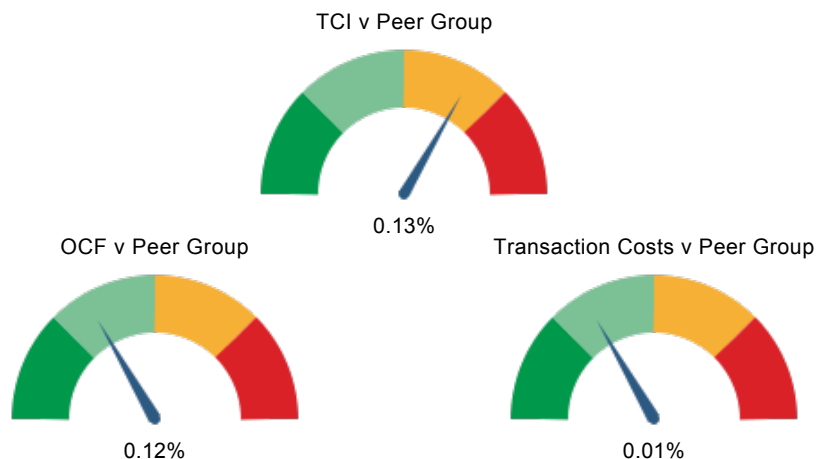
Because this is a passive fund that tracks its benchmark, the funds risk score is a nature of funds in the peer group and not the fund. The funds risk score of 2, shows that the peer group generally has more funds that are riskier than the benchmark.

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 Index Linked Gilts peer group and therefore 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 |
|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Additional Information

| | |
|------------------------------|---------|
| Annualised Return | 6.70% |
| Annualised Volatility | 14.34% |
| Max Drawdown | -12.00% |
| Max Gain | 9.71% |
| Max Loss | -10.49% |
| Sharpe Ratio | 0.46 |
| Sortino Ratio | 0.49 |

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

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

£236.8

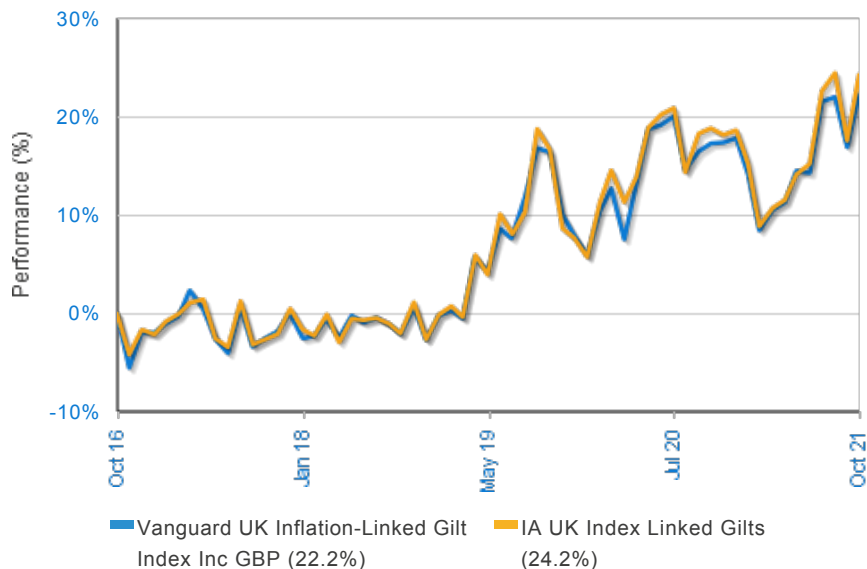
Benchmark

Bloomberg Barclays UK Government Inflation-Linked Float Adjusted Bond Index

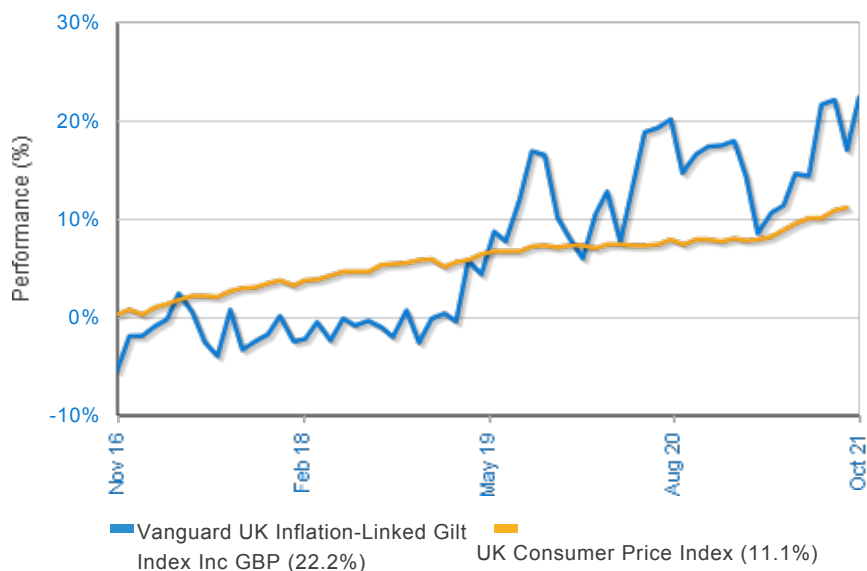
Discrete Annual Performance to Last Quarter End

| Period | Fund (%) | Sector (%) | Quartile Ranking |
|--------|----------|------------|------------------|
| 0-12m | 0.4 | -0.6 | 1 |
| 12-24m | 0.1 | 1.4 | 4 |
| 24-36m | 18.9 | 19.1 | 3 |
| 36-48m | 1.3 | 1.2 | 2 |
| 48-60m | -3.8 | -6.8 | 1 |

Capital Growth



Inflation Protection



Credit Rating (Data as at 30 Sep 2021)

| Name | % |
|--------------------|-------|
| AA | 100.0 |
| Non-Rated / Others | 0.0 |

Bond Maturity

(Data as at 30 Sep 2021)

| Name | % |
|----------------------------|------|
| Cash & Floating Rate Notes | - |
| 1-3 Years | 0.0 |
| 3-5 Years | 10.8 |
| 5-15 Years | 12.6 |
| 15+ Years | 76.5 |

Asset Allocation Positioning

| Name | % |
|-----------------------|-------|
| UK Index-Linked Gilts | 100.0 |
| Money Market | 0.0 |

(Data as at 30 Sep 2021)

Top Ten Holdings

(Data as at 30 Sep 2021)

| Company Name | % |
|---|-----|
| HM TREASURY UNITED KINGDOM DMO 1.25% IDX-LKD GILT 22/11/55 GBP0.01 | 52 |
| HM TREASURY UNITED KINGDOM DMO 0.125% GILT 22/03/68 GBP0.01 | 52 |
| HM TREASURY UNITED KINGDOM DMO 0.375% IDX-LKD GILT 22/03/62 GBP | 4.9 |
| HM TREASURY UNITED KINGDOM DMO 0.5% IDX LKD GILT 22/3/50 GBP0.01 | 4.3 |
| HM TREASURY UNITED KINGDOM DMO 0.75% IDX LKD GILT 22/11/47 GBP | 4.3 |
| HM TREASURY UNITED KINGDOM DMO 1.125% IDX GILT 22/11/37 GBP0.01 | 4.1 |
| HM TREASURY UNITED KINGDOM DMO 0.625% IDX LKD GILT 22/3/40 GBP0.01 | 4.1 |
| HM TREASURY UNITED KINGDOM DMO 0.125% IDX LKD GILT 22/3/44 GBP0.01 | 4.0 |
| HM TREASURY UNITED KINGDOM DMO 0.625% IDX LKD GILT 22/11/42 GBP0.01 | 3.9 |
| HM TREASURY UNITED KINGDOM DMO 0.25% IDX LKD GILT 22/3/52 GBP0.01 | 3.8 |

Sector Breakdown

(Data as at 30 Sep 2021)



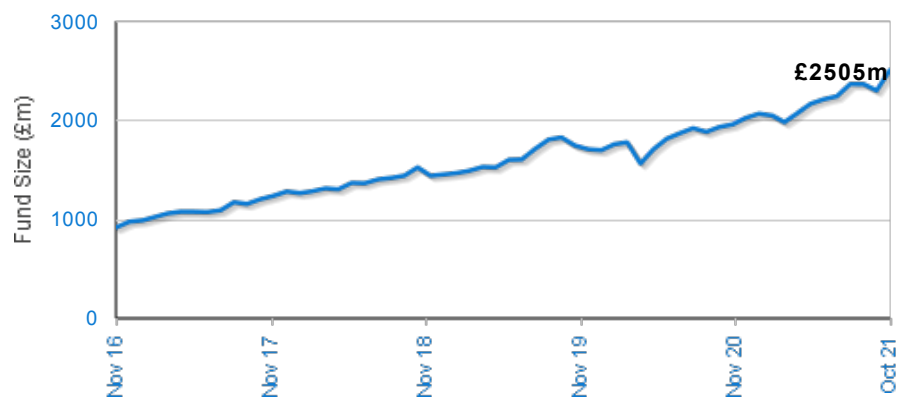
■ Government Bonds (100%)
 ■ Money Market (0%)

Geographic Breakdown

(Data as at 30 Sep 2021)



■ UK (100%)
 ■ Money Market (0%)

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: 76.00

SRRI: 5

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